

CONFORMED COPY

LOAN NUMBER 2857 BR

(FEPASA Railway Rehabilitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

FEPASA - FERROVIA PAULISTA S.A.

Dated July 27, 1987

LOAN NUMBER 2857 BR

LOAN AGREEMENT

AGREEMENT, dated July 27, 1987, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and FEPASA - FERROVIA PAULISTA S.A. (the Borrower).

WHEREAS (A) Federative Republic of Brazil (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) in a Shareholder Agreement of even date herewith (the Shareholder Agreement) between the Bank and the State of Sao Paulo (the State) a political subdivision of the Guarantor and a majority shareholder of the Borrower, the State has agreed to undertake such obligations toward the Bank as therein set forth;

(D) the Borrower represents and warrants that it intends to enter into one or more contracts with Banco Nacional de Desenvolvimento Economico e Social (BNDES) for the purpose of borrowing thereunder an amount or amounts equivalent to about \$110,000,000 in the aggregate and to utilize the proceeds thereof for the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth hereinafter, in the Guarantee Agreement and in the Shareholder Agreement.

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "CESA" means the cruzado expenditures special account to be opened pursuant to in Section 2.02 (b) of this Agreement, and "FESA" means the foreign exchange expenditures special account to be opened pursuant to Section 2.02 (c) of this Agreement;

(b) "Project Account" means the account referred to in Section 3.01 (b) of this Agreement;

(c) "CBTU" means Companhia Brasileira de Trens Urbanos, a corporation owned and controlled by the Guarantor, that owns and operates urban train systems in the Guarantor's territories;

(d) "State" means the State of Sao Paulo, a political subdivision of the Guarantor and the owner and holder of a majority of the issued and outstanding voting shares of stock of the Borrower;

(e) "Borrower's Statutes" means the Borrower's Estatutos Sociais approved by the Extraordinary Meeting of the Borrower's shareholders that took place on February 14, 1978, as amended up to April 29, 1986, as the same may be further amended from time to time;

(f) "Central Bank" means Banco Central do Brasil, the Guarantor's Central Bank, and "Account Bank" means the Central Bank in respect of CESA and the bank referred to in Section 2.02 (c) of this Agreement in respect of FESA;

(g) "cruzado" means the currency unit of the Guarantor;

(h) "Normalization" means the State's system under which the Borrower receives, within the framework of the State's Decree No. 26,772, published in the Diario Oficial do Estado de Sao Paulo on February 19, 1987, a special funds allocation from the State as compensation for the losses on commercially non-viable services that the Borrower performs at the State's request in respect of: (i) long-distance passenger transportation (Normalization One), or (ii) freight business (Normalization Two), or (iii) commuter passenger transportation within the Metropolitan area of the City of Sao Paulo (Normalization Three);

(i) "RFFSA" means Rede Ferroviaria Federal, S.A., a railway company owned and controlled by the Guarantor;

(j) "Prior Agreement" means the loan agreement between the Bank and the Borrower (Third Railway Project) dated November 12, 1975, as amended;

(k) "State - FEPASA Agreement" means the agreement between the State and FEPASA dated February 19, 1987 as published in the Diario Oficial do Estado de Sao Paulo, in respect of the treatment as contributions by the State to the Borrower's equity of all advances of funds made by the State to the Borrower earmarked for the servicing by the Borrower of all debt contracted by the Borrower prior to January 1,

1987 and guaranteed by the State;

(l) "Guarantor and State Protocolo" means the Protocolo de Intencoes executed between the Guarantor and the State, dated February 28, 1987, in respect of the Borrower's debt guaranteed by the Guarantor and the term includes the provisions of the Portaria No. 139, dated June 29, 1987 from the Guarantor's Minister Head of the Planning and Coordination of the Presidency of the Republic, Minister of Finance, and Minister of Transportation; and

(m) "metropolitan train operation" means the commuter passenger transportation services performed by the Borrower within the Metropolitan area of the City of Sao Paulo.

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 the Loan Agreement, an amount in various currencies equivalent to one hundred million dollars (\$100,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and thereafter maintain in the Central Bank an account in dollars on terms and conditions satisfactory to the Bank. Disbursements out of this account (hereinafter called CESA) shall be made exclusively to meet expenditures in cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(c) The Borrower shall, for the purposes of the Project, open and thereafter maintain in a bank, acceptable to the Bank, an account in dollars on terms and conditions satisfactory to the Bank. Disbursements out of this account (hereinafter called FESA) shall be made exclusively to meet expenditures in currencies other than cruzados incurred in respect of the reasonable cost of goods and services required to carry out the Project and to be financed by the Bank pursuant to paragraph (a) above.

(d) Deposits into, and payments out of, CESA and FESA shall be made in accordance with the provisions of Schedule 7 to this Agreement. The Borrower shall cause the Account Bank to furnish to the Bank each month certified statements of the CESA and FESA.

Section 2.03. The Closing Date shall be June 30, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each

date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial and railway practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction to the provisions of paragraph (a) of this Section, the Borrower shall: (i) for purposes of the Project, establish, and thereafter maintain in accordance with appropriate banking practices and in an official commercial bank, a revolving account in cruzados; (ii) make payments out of such account exclusively to meet expenditures incurred in carrying out the Project; and (iii) cause the Project Account to be credited, if warranted, with the amounts that will be required to meet in a timely manner the financial requirements for carrying out the Project in accordance with the respective work and procurement schedules, provided, however, that the amounts that will be made available at all times to the Project Account, shall not be less than the equivalent of \$1,000,000.

Section 3.02. 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 4 to this Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. (a) The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and railway practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) The Borrower shall establish and thereafter maintain, for purposes of the management and coordination of the various activities included in the Project: (i) organizational arrangements, agreed from time to time between the Bank and the Borrower, and shall maintain, in the management positions provided under such arrangements, officials with adequate qualifications and experience; and (ii) a Project monitoring system agreed from time to time between the Bank and the Borrower.

(c) The Borrower shall in carrying out its operations take all actions necessary to carry out the Action Programs set forth in Schedule 5 to this Agreement and to achieve the operational performance targets set forth in Schedule 6 to this Agreement.

(d) The Borrower shall take the first action under each of the Action Programs set forth in paragraphs 4 and 5 of Schedule 5 to this Agreement not later than December 1, 1987.

(e) To the extent the targets referred to in paragraph (c) of this Section are incompatible with the quantitative targets referred to in Section 4.06 of the Prior Agreement, the provisions of such Section 4.06 shall be deemed superseded by the provisions of paragraph (c) of this Section.

Section 4.02. The Borrower shall at all times operate and maintain its plants, 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 railway practices.

Section 4.03. The Borrower 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 V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

(i) have its records, accounts (including CESA, FESA and the Project Account) and financial statements (balance sheets, statements of income and expenses and related statements) and the supporting records and documents for the aforesaid accounts 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 five 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, the Borrower shall:

(i) maintain, in accordance with paragraph (a) of this Section, 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, 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 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain for each of its fiscal years 1987, 1988, 1989, 1990, 1991, 1992 and 1993 a ratio of total working expenses to total operating revenues not higher than 0.93 in

fiscal year 1987, 0.84 in fiscal year 1988, 0.77 in fiscal year 1989, 0.75 in fiscal year 1990, 0.73 in fiscal year 1991, 0.71 in fiscal year 1992 and 0.69 in fiscal year 1993.

(b) Before October 1 in each of the aforementioned fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of the year in question 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 the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs, or requests for such adjustments, if warranted, and requests for Normalization payments) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "total working expenses" means the aggregate of all expenses related to every one of the Borrower's operations, including administration and adequate maintenance, but excluding taxes and payments in lieu of taxes and provision for depreciation and interest and other charges on debt.

(ii) The term "total operating revenues" means revenues from all sources related to any of the Borrower's operations and, subject to the limits stipulated in Section 2.04 of the Shareholder Agreement, the term shall also include all amounts received, or to be received, as the case may be, by the Borrower during the period in question on account of Normalization payments.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years 1987, 1988, 1989, 1990, 1991, 1992 and 1993, a ratio of freight business working expenses to freight business operating revenues not higher than 0.93 in fiscal year 1987, 0.84 in fiscal year 1988, 0.75 in fiscal year 1989, 0.70 in fiscal year 1990, 0.67 in fiscal year 1991, 0.64 in fiscal year 1992 and 0.61 in fiscal year 1993.

(b) Before October 1 in each of the aforementioned fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of the year in question 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 the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs, or requests for such adjustments, if warranted, and requests for Normalization Two payments) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "freight business working expenses" means all expenses, reasonably related to the Borrower's freight business, including administration and adequate maintenance, but excluding taxes and payments in lieu of taxes and provision for depreciation and interest and other charges on debt; and

(ii) The term "freight business operating revenues" means revenues from all sources reasonably related to freight business operations of the Borrower, and subject to the limits stipulated in Section 2.04 of the Shareholder Agreement, the term shall also include all amounts received, or to be received, as the case may be, by the Borrower during the period in question on account of Normalization Two payments.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years 1987, 1988, 1989, 1990, 1991, 1992 and 1993, a ratio of long-distance passenger working expenses to long-distance passenger operating revenues not higher than 1.6 in fiscal year 1987, 1.5 in fiscal year 1988, 1.4 in fiscal year 1989, 1.3 in fiscal year 1990, 1.2 in fiscal year 1991, 1.1 in fiscal year 1992 and 1 in fiscal year 1993.

(b) Before October 1 in each of the aforementioned fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of the year in question 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 the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs, or requests for such adjustments, if warranted, and requests for Normalization One payments) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "long-distance working expenses" means all expenses reasonably related to the Borrower's long-distance passenger transportation operations, including administration and adequate maintenance, but excluding taxes and payments in lieu of taxes and provision for depreciation and interest and other charges on debt.

(ii) The term "long distance passenger operating revenues" means revenues from all sources reasonably related to the Borrower's long-distance passenger transportation operations and, subject to the limits stipulated in Section 2.04 of the Shareholder Agreement, the term shall also include all amounts received, or to be received, as the case may be, by the Borrower during the period in question on account of Normalization One payments.

Section 5.05. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years 1987, 1988, 1989, 1990, 1991, 1992 and 1993, a ratio of metropolitan train working expenses to metropolitan train operating revenues not higher than 1.4 in fiscal year 1987 and 1 in each of the following fiscal years up to and including 1993.

(b) Before October 1 in each of the aforementioned fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of the year in question 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 the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs or requests for such adjustments, if warranted, and requests for Normalization Three payments) in order to meet such Requirements.

(d) For the purposes of this Section:

(i) The term "metropolitan train working expenses" means all expenses reasonably related to the Borrower's commuter passenger transportation operations within the metropolitan area of the City of Sao Paulo, including administration and adequate maintenance, but excluding taxes and payments in lieu of taxes and provision for depreciation and interest and other charges on debt.

(ii) The term "metropolitan train operating revenues" means revenues

from all sources reasonably related to the Borrower's commuter passenger transportation operations within the Metropolitan area of the City of Sao Paulo, and the term includes all payments received, or to be received, as the case may be, by the Borrower during the period in question on account of Normalization Three payments.

Section 5.06. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to the projected internal cash generation of the Borrower during the Period in which the debt is proposed to be incurred shall be greater than 3.40 in respect of fiscal years 1987 and 1988, 0.80 in respect of fiscal year 1989, 0.45 in respect of fiscal year 1990 and 0.40 in respect of fiscal year 1991 and each fiscal year thereafter until and including 1993.

(b) Before October 1 in each of its fiscal years, the Borrower shall on the basis of forecasts prepared by the Borrower in accordance with methods and criteria acceptable to the Bank, establish the level of projected internal cash generation of the Borrower for the following fiscal year.

(c) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Borrower maturing by its terms on demand or more than one year after the date on which it is originally incurred, other than: (A) the Loan; or (B) any liability of the Borrower in respect of the Guarantor (or any agency thereof) resulting from any payment made by the Guarantor (or such agency), or by the Borrower with funds advanced by the Guarantor (or such agency), on account of amounts due in respect of any indebtedness of the Borrower guaranteed by the Guarantor (or such agency) and incurred before January 1, 1987, and to the extent no claim is being pressed, or may be reasonably expected not to be pressed, against the Borrower in respect of the liability in question; or (C) any liability of the Borrower (or any agency thereof) resulting from any payment made by the State (or agency), or by the Borrower with funds advanced by the State (or such agency), on account of amounts due in respect of any indebtedness of the Borrower guaranteed by the State (or such agency) and incurred before January 1, 1987, and to the extent it may be reasonably expected that such liability may be converted into a capital contribution to the Borrower's equity pursuant to the State-FEPASA Agreement.

(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 the agreement providing for such guarantee has been entered into.

(iii) The term "internal cash generation of the Borrower" means the revenues from all sources related to operations generated by the Borrower during the Period in which the debt is proposed to be incurred (including, subject to the limits stipulated in Section 2.04 of the Shareholder Agreement, Normalization payments), less total working expenses for such Period, the term "total working expenses" having the meaning defined in subparagraph (d) (i) of Section 5.02 of this Agreement.

(iv) The term "Period" means the period corresponding to the Borrower's fiscal years 1987 and 1988, and thereafter, the period corresponding to each of the Borrower's fiscal years until and including 1993.

Section 5.07. The Borrower shall take all appropriate actions as shall be necessary or convenient to ensure that, at all times, the services rendered will be promptly billed and that its accounts receivable shall not remain outstanding for more than 60 days from the date the respective services are rendered by the Borrower.

Section 5.08. (a) Except as the Bank shall otherwise agree, the Borrower shall take, or cause to be taken, all such measures (including, without limitation, adjustments of the structure or level of its tariffs or requests for such adjustments, if warranted, and requests for Normalization payments) as shall be required to produce for each of its fiscal years after its fiscal year ending on December 31, 1993, total operating revenues sufficient to cover total operating costs for such fiscal year.

(b) For purposes of this Section:

(i) the term "total operating revenues" means the revenues from all sources related to operations generated by the Borrower, including Normalization payments subject to the limits stipulated in Section 2.04 of the Shareholder Agreement; and

(ii) the term "total operating costs" means all expenses related to operations, including adequate maintenance, administration, taxes and payments in lieu of taxes, provision for depreciation on a basis acceptable to the Bank, and payments due in the year in question in respect of interest and other charges on debt; and

(iii) the term "debt" means any indebtedness of the Borrower maturing by its terms on demand or, more than one year after the date of the loan contract or agreement (including a guarantee agreement in the case of guarantees given by the Borrower) or other instrument providing for such debt or for the modification of its terms of payment; provided, however, that, to the extent that the contract or agreement or other instrument providing for that debt has been entered into by the Borrower before January 1, 1987, and to the extent the service payments for the year in question have been made by the Guarantor or the State as guarantors of such debt and the amounts in question have been or are committed to be converted, into equity contributions to the Borrower's equity, or grants or donations made to the Borrower, then the debt in question shall not count for purposes of this Section.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Borrower's Statutes or the Decree mentioned in paragraph (h) of Section 1.02 of this Agreement shall have been amended, suspended, abrogated, repealed or waived or the corporate structure of the Borrower shall have been changed, so as to affect the ability of the Borrower to perform any of its obligations under this Agreement or to achieve the objectives of the Project;

(b) the State shall have failed to perform any of its obligations under the Shareholder Agreement;

(c) the contract or contracts referred to in clause (D) of the Preamble to this Agreement shall have not been executed and delivered by November 30, 1987 or, the obligations of the parties thereunder shall have not been complied with; and

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan made to the Borrower by BNDES for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the contract or contracts; providing therefor, or

(B) any such loan shall have become due and payable prior to the maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of The Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such contract or contracts; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) or paragraph (b) or paragraph (c) of Section 6.01 of this Agreement shall occur and shall continue for the period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (d) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Project Account shall have been established in form and substance satisfactory to the Bank;

(b) the organizational arrangements and monitoring system referred to in Section 4.01 (b) of this Agreement shall have been put into effect and the Borrower shall have appointed the qualified and experienced officials as provided for in such Section;

(c) the Loan Agreement shall have been duly registered by the Central Bank; and

(d) that all necessary acts, consents and approvals to be performed or given by the Guarantor, its agencies or political subdivisions, including the State, by any agency thereof, or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Guarantor, the State and the Borrower to perform their obligations pursuant to the Guarantee Agreement, the Shareholder Agreement and this Agreement, respectively, together with all necessary powers and rights in connection therewith, have been performed or given.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Loan Agreement has been duly registered by the Central Bank;

(b) that the Shareholder Agreement has been duly authorized or ratified by and executed and delivered on behalf of the State and is legally binding upon the State in accordance with its terms; and

(c) that all necessary acts, consents and approvals to be performed or given by the Guarantor, the State, their political subdivisions or agencies, or by any agency thereof or otherwise to be performed or given in order to authorize the carrying out of the Project and to enable the Guarantor, the Borrower and the State to perform their respective obligations pursuant to the Guarantee Agreement, this Agreement and to the Shareholder Agreement, together with all necessary powers and rights in connection therewith, have been performed or given.

Section 7.03. The date October 27, 1987 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Addresses

Section 8.01. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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 the Borrower:

FEPASA - Ferrovia Paulista S.A.
Praça Julio Prestes, 148
Sao Paulo SP 01218
Brazil

Cable address:

FEPASA
Sao Paulo

Telex:

1122724/1123799
FEPA-BR

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/ S. Shahid Husain

Regional Vice President
Latin America and Caribbean

FEPASA - FERROVIA PAULISTA S.A.

By /s/ Antonio Carlos Rios Corral

Authorized Representative

By /s/ Norberto Stensen

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works	15,700,000	60%
(2) Goods	67,700,000	100% of foreign expenditures and 100% of local expenditures (ex-factory costs)
(3) Consultants' services and training	6,300,000	
(a) training abroad		100% of foreign expenditures
(b) training in Brazil		50% of local expenditures
(c) consultants		50% of local expenditures for services of con- sultants residing within the terri- tory of the Guarantor and 100% of foreign expenditures for services of other consultants
(4) Unallocated	10,300,000	
TOTAL	100,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals may be made, in respect of Category 3 of the table in paragraph 1 above and payments made for expenditures to be financed thereunder, prior to that date but after May 1, 1987 and in an aggregate amount of not more than \$1,000,000 equivalent.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to assist the Borrower in the carrying out of a program aimed to improve its commercial performance, including its financial rehabilitation; and (b) to increase transport efficiency in the main corridors leading to the Sao Paulo Metropolitan Region and to the Port of Santos.

The Project consists of the following parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Investment Component

A rehabilitation program consisting of:

1. infrastructure rehabilitation works, including: earthworks (about 2.0 million cubic meters) for the stabilization of cuts and embankments, the improvement of the drainage systems on about 70 line-kilometers, construction of retaining structures (about 9,000 cubic meters), and construction of about 6.5 kilometers of track-bed for sidings to facilitate train crossings;
2. superstructure rehabilitation works, including: acquisition and installation of rails, sleepers, fastenings and/or ballast on about 580 line-kilometers in the Araguari-Santos corridor, about 916 line-kilometers in the broad-gauge corridor, and about 494 line-kilometers in the meter-gauge corridor, including on-sidings for these three corridors;
3. rehabilitation or improvement of yard facilities, including: rehabilitation or improvement of about 50 kilometers of yard track and yard utilities, and construction or expansion of four intermodal terminals at the Borrower's main railheads, including construction of silos of static capacities ranging from 6,000 to 17,000 tons to facilitate intermodal transfers of grains and grain products;
4. acquisition and installation of: radio (UHF and VHF) and microwave (SHF) telecommunication systems to cover about 1,067 line-kilometers of the Araguari-Santos, broad-gauge and meter-gauge corridors; and a fiber optic telecommunication system to cover about 246 kilometers of the Sao Paulo-Sorocaba-Campinas trunk route;
5. acquisition and utilization of track maintenance machinery, equipment, spare parts for these or other maintenance machinery and equipment, and materials for the overall network; and
6. workshops improvement, including: rehabilitation or improvement of workshop buildings, general overhaul of about 51 diesel locomotives, re-engining of about 15 diesel locomotives, rehabilitation of about 5 diesel locomotives and of traction motors and generators, acquisition of locomotive spare parts of about 230 specialized wagons, and acquisition and installation of workshop machinery and equipment.

Part B: Policy and Institutional Development

(i) Preparation of the plans referred to in paragraphs 2 (b) and (c) of Schedule 5 to this Agreement; (ii) development of the Borrower's tariff structure and of a sales planning and control system, and upgrading the Borrower's accounting system, all as referred to in paragraphs 3 (a), (b) and (c), respectively, of Schedule 5 to this Agreement; (iii) development of the systems referred to in paragraph 4 of Schedule 5 to this Agreement; (iv) development of the system described in paragraph 5 of Schedule 5 to this Agreement and of effective training programs for the Borrower, including Part C of the Project; and (v) procurement and utilization of technical assistance services for all of the above.

Part C: Training

Execution of a training program for the Borrower's staff which will include the following components: (i) organization and methods training program for about 470 managers; (ii) operational training program for about 10,000 operational and administrative staff; (iii) management training program for about 470 managers and about 800 operations and administration supervisory staff; and (iv) systems-specific

training programs specially geared to the implementation and operation of the operations information and control system, the maintenance management information systems and the personnel management systems to be developed under Part B above.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 1991 through September 15, 2000	4,760,000
On March 15, 2001	4,800,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.22

More than three years but not more than six years before maturity	0.43
More than six years but not more than 10 years before maturity	0.72
More than 10 years but not more than 12 years before maturity	0.86
More than 12 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and civil works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in Brazil may be granted a margin of preference in accordance with, and subject to, the following provisions:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.
2. After evaluation, responsive bids will be classified in one of the following two groups:
 - (1) Group A: bids offering goods manufactured in Brazil if the bidder shall have established to the satisfaction of the Borrower and the Bank that such goods contain components manufactured in Brazil equal to at least 50% of the value of the complete goods.
 - (2) Group B: bids offering any other goods.
3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other imports taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A is the lowest, it shall be selected for the award.
4. If, as a result of the comparison under paragraph 3 above, the lowest evaluated bid is a bid from group B, all group B bids shall be further compared with the lowest evaluated bid from group A after adding: (i) to the c.i.f. bid price of goods to be imported in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other imports taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group B bid; or (B) 15% of the c.i.f. bid price of such goods, and (ii) to the ex-factory bid price of goods supplied domestically offered in each group B bid an amount equal to the smaller of: (A) the amount of customs duties and other import taxes which would be levied on the goods offered in such group B if they originated from the same foreign country as the bid

included in group B which enjoys the lowest customs duties and other import taxes, or (B) 15% of the ex-factory bid price of such goods. If, as a result of this comparison, the bid from group A is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from group B, as determined under paragraph 3 above, shall be selected for the award.

Part C: Other Procurement Procedures

(a) Civil works estimated to cost less than the equivalent of \$3,000,000, and (b) goods estimated to cost the equivalent of \$400,000 or less up to an aggregate not to exceed \$5,000,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank; provided, however, that in case the disbursement percentage for Category 2 of the table in paragraph 1 of Schedule 1 to this Agreement is reduced, the aggregate limit of \$5,000,000 equivalent shall be deemed applicable to the amounts actually disbursed from the Loan Account in respect of goods procured under this Part C rather than to the aggregate of the contracts awarded in respect of such goods.

Part D: Review by the Bank of Procurement Decisions

(a) With respect to each contract for civil works estimated to cost the equivalent of \$2,000,000 or more, and contracts for goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of CESA or FESA, as the case may be, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 7 to the Loan Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditures. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

3. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank and the Borrower. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Programs of actions to be taken by
the Borrower in its management and operation

1. Organizational and financial restructuring action program

(a) The accounts and operating and capital budgets for the metropolitan train operation will be maintained separated from the other Borrower's accounts and budgets maintained for its freight and long-distance passenger transportation businesses;

(b) the system that is being implemented to permit relating items of the Borrower's balance sheet, or portions thereof, to the metropolitan train operation or

to either the freight or long-distance passenger transportation business, as the case may be, will be completed and fully in place by December 31, 1987;

(c) the transfer of funds to the metropolitan train operation from the revenues generated by the freight or long-distance passenger transportation businesses or utilization for said operation of assets related to any such business will not be made without an express decision of the Borrower's higher management that will also determine means and ways of compensating the business or businesses affected; and

(d) all action required by the Borrower under the State FEPASA Agreement and under the Guarantor and State Protocol will be taken in a timely fashion.

2. Normalization and planning action program

(a) by September 30 in each year, the Normalization arrangements for the following year will be submitted to the Bank for its review and comments;

(b) (i) not later than December 31, 1987, a pluriannual plan for the metropolitan train operations prepared in coordination with the Guarantor's Ministry of Transport and CBTU, and agreed with the State, and a pluriannual plan agreed with the State for the Borrower's long-distance passenger services, will be submitted to the Bank for review; and (ii) promptly thereafter, each of such pluriannual plans will be put into effect taking into account Bank comments;

(c) (i) not later than June 30, 1988, a corporate plan will be submitted to the Bank for review and (ii) promptly thereafter, such corporate plan will be put into effect taking into account Bank comments;

(d) any capital expenditures (other than the Project) will be analyzed to determine its justification in accordance with technical and economic criteria satisfactory to the Bank, the State and the Borrower, or its unviability if it cannot be so justified; and

(e) by November 10, in each year, the Borrower's pluriannual investment program and the financing plan therefor will be discussed with the Bank, and updated on the basis of such discussion.

3. Tariff, marketing and cost-control action program

(a) (i) not later than December 31, 1988, a cost-related market-based tariff structure will be developed in coordination with RFFSA, and the Bank will be given an opportunity to comment thereon; and (ii) promptly thereafter a new market-based tariff structure will be implemented;

(b) (i) not later than July 31, 1988 a sales planning and control system will be developed and the Bank will be given an opportunity to comment thereon; and (ii) promptly thereafter a new sales planning and control system will be implemented;

(c) (i) the cost accounting system will be upgraded, including fixed assets revaluation based on criteria satisfactory to the Bank, in accordance with terms of reference satisfactory to the Bank; and (ii) not later than December 31, 1988, such upgraded system will be put into effect; and

(d) (i) not later than July 31, 1988, draft joint-venture arrangements for the construction and operation of grain terminals at FEPASA's main railhead will be finalized and the Bank will be given an opportunity to comment thereon; and (ii) promptly thereafter the joint-venture arrangements for the said purpose will be finalized and put into effect.

4. Operations and maintenance action program

(a) (i) a computerized operations information and control system to improve locomotive and empty wagon distribution, train formation, billing and invoicing and the management of wagon interchanges with RFFSA and the Santos port will be developed and implemented; (ii) locomotive and wagon maintenance schedules and plans will be revised, workshop facilities consolidated and a computerized maintenance management

information and control system developed and implemented; and (iii) by not later than June 30, 1989, the putting into effect of such systems will be completed, including all organizational changes pertaining thereto; and

(b) (i) a computerized track maintenance management information and control system will be developed and implemented; and (ii) by not later than June 30, 1989, the putting into effect of such system will be completed, including all organizational changes pertaining to such system.

5. Personnel management and training action program

(a) the consolidation of the Borrower's personnel management system will be developed, and implemented not later than December 31, 1990, including: (i) procedures for organizational dimensioning and job description; (ii) career plans and access plans; (iii) procedures and criteria for performance and potential evaluation; (iv) personnel data base and information system; and (v) a pluriannual plan for restructuring and reformulation of the Borrower's institutional training program; and

(b) the training program under Part C of the Project will be completed by not later than December 31, 1990.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "Category" means a category of items to be financed out of the proceeds of the loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,500,000 and \$1,500,000 to be withdrawn from the Loan Account and deposited in the CESA and FESA, respectively, pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the CESA or FESA, as the case may be, shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule. The Account Bank shall authorize withdrawals from the CESA or FESA, as the case may be, on the basis of the evidence that the Bank shall have reasonably determined and provided that: (i) in the case of CESA, payment of the corresponding eligible expenditures has been made out of the Project Account; or (ii) funds for such payment are readily available in the Project Account. For each such withdrawal so authorized, the Account Bank shall debit or cause to be debited CESA or FESA, as the case may be, with the dollar equivalent of the amount of the eligible expenditures in question in cruzados, in the case of FESA, or with the actual dollar amount or the dollar equivalent of the eligible expenditures in currencies other than dollars or cruzados, in the case of FESA.

3. After the Bank has received evidence satisfactory to it that CESA or FESA, as the case may be, has been duly opened, withdrawals of the corresponding Authorized Allocation and subsequent withdrawals to replenish CESA or FESA, as the case may be, may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in CESA or FESA, as the case may be, such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of CESA

or FESA, as the case may be, at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into CESA and FESA, such amounts as shall be required to replenish CESA and FESA, respectively, with amounts not exceeding the amount of payments made out of CESA or FESA, as the case may be, for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of CESA or FESA for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank may deny any request for further deposits into CESA or FESA when either of the following situations arises:

(i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in CESA or FESA, as the case may be, as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of CESA or FESA: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into CESA or FESA, as the case may be, (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into CESA or FESA, as the case may be, shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in CESA or FESA will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account and immediate cancellation.

