

CONFORMED COPY

LOAN NUMBER 2857 BR

(FEPASA Railway Rehabilitation Project)

between

STATE OF SAO PAULO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Date July 27, 1987

LOAN NUMBER 2857 BR

SHAREHOLDER AGREEMENT

AGREEMENT, dated July 27, 1987, between STATE OF SAO PAULO (hereinafter called the State) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) by a Loan Agreement of even date herewith (hereinafter called the Loan Agreement) between the Bank and FEPASA - Ferrovias Paulista S.A. (hereinafter called the Borrower), the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to one hundred million dollars (\$100,000,000) on the terms and conditions set forth in the Loan Agreement, and in a Guarantee Agreement of even date herewith between the Federative Republic of Brazil (hereinafter called the Guarantor) and the Bank;

(B) the Bank has agreed to make the Loan only on condition that the State agrees to undertake such obligations toward the Bank as are herein set forth;

(C) the State is the owner and holder of about 99% of the issued and outstanding voting shares of stock of the Borrower;

(D) the State warrants and represents that it is authorized, under the laws of the State, to undertake the obligations contained in this Agreement; and

(E) the State, in consideration of the Bank's entering into the Loan Agreement with the Borrower, and into the Guarantee Agreement with the Guarantor has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Whenever used in this Agreement, unless the context shall otherwise require, 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. The State declares its commitment to the objectives of the Project, and covenants and warrants that the Project is of paramount importance to the transportation development plans of the State and that, consequently, the State shall: (a) take all such action as shall be necessary to enable the Borrower to carry out the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial, engineering and railway practices; and (b) not take or cause or permit any of its agencies to take any action which would prevent or interfere with the performance by the Borrower of its covenants, agreements and obligations contained in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the State specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

Section 2.03. Without limitation or restriction upon the provision of Sections 2.01 and 2.02 of this Agreement, the State covenants that it shall take all such action on its part as shall be necessary: (i) to maintain and ensure full compliance with the State's undertakings in respect of the Borrower as expressed in the State - FEPASA Agreement and in the Guarantor and State Protocol, to the extent said undertakings are consistent with the Borrower's obligations under the Loan Agreement; and (ii) to ensure that all amounts due to the Borrower on account of Normalization will be paid promptly, subject, however, to the provisions of Section 2.04 of this Agreement.

Section 2.04. (a) The State shall take all such action on its part as shall be necessary: (A) to enable it to reduce its Normalization payments, during the Borrower's fiscal years 1987 up to and including 1993, according to the limits set forth below in this Section; and (B) without adversely affecting the Borrower's financial condition or ability, to comply with its obligations under the Loan Agreement.

(b) The limits for aggregate payments to be made by the State during each of the Borrower's fiscal years 1987, 1988, 1989, 1990, 1991, 1992, 1993 and each fiscal year thereafter, in respect of Normalization Two and Normalization One, expressed as a percentage of the sum, for the year in question, of the freight business operating revenues and the long-distance passenger operating revenues (as such terms are defined in Sections 5.03 (d) (ii) and 5.04 (d) (ii) of the Loan Agreement), shall be 12%, 12%, 10%, 8%, 7%, 5%, 3% and 3%, respectively; provided, however, that without restriction or limitation of the aforesaid, the Normalization payments in the Borrower's fiscal year 1993 and each fiscal year thereafter in respect of Normalization One shall also be limited to 25% of the aforesaid long-distance passenger operating revenues.

Section 2.05. (a) The State shall take all such action on its part so as to

enable the Borrower to submit to the Bank for review, in a timely fashion, the pluriannual plans provided for in paragraph 2 (b) of Schedule 5 to the Loan Agreement.

Section 2.06. (a) The Bank and the State shall, at the request of either of them, exchange views with regard to the progress of the Project, the performance by the State of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) The State shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by the State of its obligations under this Agreement.

ARTICLE III

Effective Date; Termination Cancellation and Suspension

Section 3.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 3.02. This Agreement and all obligations of the Bank and of the State thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the State thereof.

Section 3.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE IV

Miscellaneous Provisions

Section 4.01. 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 the State:

Governo do Estado de Sao Paulo
Palacio Bandeirantes
Av. Morumbi S/N
05598 Sao Paulo, SP
Brazil

Cable address:

CELESPA

Telex:

011 21992
011 31911

Section 4.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the State may be taken or executed by the Secretary of Planning of the State or such other person or persons as such Secretary shall designate in writing.

Section 4.03. The State shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of the State, take any action or execute any documents required or permitted to be taken or executed by the State pursuant to any of the provisions of this Agreement.

Section 4.04. 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.

STATE OF SAO PAULO

By /s/ Jose Machado de Campos Filho

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Authorized Representative

