Loan Agreement

(OSE Modernization & Systems Rehabilitation Project– APL 2)

between

ADMINISTRACIÓN DE LAS OBRAS SANITARIAS DEL ESTADO (OSE)

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 4, 2007
LOAN AGREEMENT

Agreement dated October 4, 2007, between ADMINISTRACIÓN DE LAS OBRAS SANITARIAS DEL ESTADO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million Dollars ($50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower selects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time
to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

2.06. The Payment Dates are April 15 and October 15 in each year.

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

2.08. (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) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project, all in accordance with the provisions of Article V of the General Conditions. The Borrower shall carry out Part 3 (a) of the Project in coordination with the Gobiernos Departamentales and Eligible Communities.
3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, that Law No. 11907 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced so as to affect materially and adversely the ability of the Borrower to carry out the Project.

4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS

5.01 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Bank’s approval of the Loan which expire on December 29, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representatives are, jointly, its President of the Board of Directors and its Secretary General.

6.02. The Borrower’s Address is:

Administración de las Obras Sanitarias del Estado
Carlos Roxlo 1275
Montevideo, Uruguay

Cable: OSE
Facsimile: (598-2) 4000135

Montevideo, Uruguay
6.03. The Bank’s Address is:

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

Cable address: INTBAFRAD  Telex: 248423(MCI) or 1-202-477-6391
Facsimile: Washington, D.C. 64145(MCI)

AGREED at Montevideo, Uruguay, as of the day and year first above written.

ADMINISTRACIÓN DE LAS OBRAS
SANITARIAS DEL ESTADO

By /s/ Daoiz G. Uriarte
Authorized Representative

ADMINISTRACIÓN DE LAS OBRAS
SANITARIAS DEL ESTADO

By /s/ Carlos Colacce
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pedro Alba
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to increase the efficiency, coverage and sustainability of water supply and sanitation services in Uruguay through: (a) the improvement of the Borrowers’ efficiency and effectiveness; (b) maintaining the reliability and enhancing the coverage of water supply infrastructure in Montevideo and in cities outside Montevideo; and (c) increasing the number of household connections to new and existing sewerage systems.

The Project constitutes the second phase of the Program and consists of the following parts:

Part 1: Institutional Renewal

(a) Strengthen incentives to enhance the Borrower’s efficiency through, *inter alia*: (i) improvement and expansion of the Borrower’s internal and external benchmarking system; (ii) design and implementation of the Borrower’s code of ethics and business conduct; (iii) compliance with any water and sanitation national norms and standards aimed at improving the quality of the services provided by the Borrower; and (iv) compliance with the Guarantor’s national regulatory accounting standards applicable to the water and sanitation sector.

(b) Support to the implementation of the Borrower’s Program VECTOR, including the design, modernization and implementation of operational systems for the Borrower in the areas of, *inter alia*: (i) customer service improvement; (ii) management of human resources; (iii) integration of operational and commercial systems; (iv) financial management and procurement; (v) geographic information systems; (vi) the design and implementation of a formal change in management communication strategy; and (vii) staff training.

(c) Strengthening of the Borrower’s regional decentralization process through, *inter alia*: (i) training of the Borrower’s management at the regional level; (ii) construction of 10 regional laboratories; (iii) construction of 4 regional electro-mechanic maintenance workshops; and (iv) construction of 4 regional supply warehouses.

(d) Strengthening of the UGA, through, *inter alia*: (i) appointment of key technical staff; and (ii) implementation of environmental management systems in selected sewerage treatment plants (including a system to manage residuals).
Part 2: Water Supply

(a) Carrying out of rehabilitation activities of the Aguas Corrientes’ treatment plant, including, *inter alia*: (i) the construction of 8 rapid gravity filters; and (ii) adaptation of tank accelerators (including flocculation units and high-rate sedimentation basins).

(b) Implementation of the Borrower’s Plan of Action for Unaccounted-for-Water Reduction Program through, *inter alia*: (i) the carrying out of pilot operations in selected cities of the Guarantor; (ii) formulation of a UFW management indicators system; (iii) improvement of the Borrower’s metering systems (through a national water meter replacement program and operational control centers); (iv) replacement of distribution pipes, valves and household connections; (v) detection and repair of leaks; (vi) carrying out of consumer awareness campaigns; and (vii) the regularization of commercial anomalies and the control of water use in informal settlements.

Part 3: Expansion of Sewerage Systems

(a) Carrying out of demand-driven sub-projects consisting of, *inter alia*: (i) the construction or expansion of sewerage systems; (ii) in-house plumbing installations; and (iii) pilot programs evaluating the impact of incentives for individual connections to the sewerage systems, all in Eligible Communities located in selected cities of the Guarantor, in accordance with the criteria set forth in the Operational Manual.

(b) Carrying out of a program seeking to increase in-house sewerage connections in selected cities of the Guarantor through, *inter alia*, the provision of financing to support individual connection costs (including in-house reconfiguration costs), in accordance with the criteria set forth in the Operational Manual.

Part 4. Project Administration and Coordination

(a) Provision of technical assistance to the Borrower, promotion of staff exchanges and presentation of seminars to assist in the carrying out of the supervision of works under the Project.

(b) Carrying out of bi-annual technical audits with respect to Project investments in accordance with auditing standards acceptable to the Bank.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. At all times during the execution of the Project, the Borrower shall maintain, until completion of the Project, a unit to be responsible for the overall coordination and management of the Project (PFE), such unit to maintain staffing, functions and responsibilities satisfactory to the Bank, including, inter alia, the following responsibilities:

(a) overall responsibility for implementing, planning, coordinating and monitoring of Project activities, at the national and regional level;

(b) orientation and coordination of the Project staff at the national and regional levels;

(c) carrying out of the Project’s dissemination and communication strategy;

(d) revision and updating of the Project’s Operational Manual;

(e) elaboration of the annual operational plans;

(f) management of Project procurement and contracting of the required goods, works, non-consultant services and consultant’s services;

(g) review and clearance of all the contracts necessary for Project execution;

(h) carrying out of the financial management of the Project, including without limitation, the issuance of financial statements and reports as per Section II of this Schedule and the preparation and maintenance of administrative, procurement and financial records;

(i) preparation and submission to the Bank of: (i) disbursement requests; and (ii) Project information and Project management reports in accordance with the formats established in the Operational Manual;

(j) preparation and submission to the Bank of customized Performance Indicators’ monitoring reports, in accordance with the formats established for that purpose in the Operational Manual; and
(k) provision of assistance and documentation to external independent auditors.

2. At all times during the implementation of the Project, the Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, engineering, financial, public utility, technical and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;

(b) 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, public utility, technical and environmental practices; and

(c) take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

3. The Borrower, shall review and adjust annually to the satisfaction of the Bank, the costs of inputs used to produce the in-house sewerage connections referred to in Part 3 (b) of the Project. Such adjustment shall be unnecessary if the Bank is satisfied that said review reveals no change in such costs.

4. Not later than six months after the Effective Date, the Borrower shall select and appoint the following additional members of the UGA team, consisting of: (i) two specialists on environmental management issues; and (ii) three executive assistants on environmental management issues, all with adequate academic and professional credentials acceptable to the Bank. Such team, so staffed, shall thereafter be maintained by the Borrower throughout Project implementation.

B. Implementation Arrangements

1. The Borrower shall:

(a) carry out the Project, and ensure that the Subprojects are carried out, in accordance with: (i) the Operational Manual; (ii) the EA; and (iii) the Procurement Plan. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of these documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail; and
(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objective thereof.

C. Operational Manual

1. The Borrower shall maintain, throughout the course of Project implementation, the operational manual, satisfactory to the Bank (the Operational Manual), such manual to include, *inter alia*:

   (a) the procedures for the carrying out, reporting, monitoring and evaluation of the Project (including the Borrower’s performance, procurement, disbursement, financial, social and environmental requirements thereof);

   (b) the functions and responsibilities of PFE, UGA and the RANC Unit;

   (c) the administrative rules, criteria and procedures for planning, preparing, proposing, contracting, financing, selecting, carrying out and supervising the Subprojects, as well as the terms and conditions of the *Convenios*;

   (d) the criteria to select the cities, areas or localities referred to in Part 3 (a) of the Project;

   (e) the standards to be followed by the Borrower in the preparation of the Project’s progress reports;

   (f) the EA (including provisions for the adequate treatment of cultural property) and the Procurement Plan;

   (g) the Project monitoring and evaluating guidelines; and

   (h) the reporting requirements for the internal performance benchmarking system referred to in Part 1 (a) of the Project.

D. Subprojects

1. For purposes of carrying out each Subproject, the Borrower shall, upon approval of a Subproject and prior to the initiation of the bidding process for the Subproject’s works, enter into an agreement (*Convenio*) with the corresponding *Gobierno Departamental* (which has municipal jurisdiction over the corresponding Eligible Community) and Eligible Community under terms and conditions satisfactory to the Bank.
2. The Borrower shall exercise its rights under each Convenio in such a manner as to protect the interest of the Borrower and the Bank and to accomplish the objective of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, terminate, abrogate, waive or fail to enforce a Convenio or any provision thereof.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports and Technical Audits

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Performance Indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than three months after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

3. The Borrower shall: (a) at least twice a year, starting on the date of this Agreement and on every subsequent March 31 and September 30 of each year of Project implementation, provide certified information to its staff and customers, in a manner satisfactory to the Bank, with respect to the Performance Indicators relative to, inter alia, access to services, quality of service, operational efficiency, financial efficiency and environmental management, as measured by the Borrower’s internal performance benchmarking system referred to in Part 1 (a) of the Project; and (b) for purposes of certifying the information referred to herein, the Borrower shall hire independent auditors on a biannual basis, acceptable to the Bank.

4. Without limitation to the provisions of paragraph A.1 herein, the Borrower shall, not later than March 31, 2010, carry out a comprehensive mid-term review assessment of the Project in form and substance acceptable the Bank, such assessment to include, inter alia: (a) an evaluation of the Project as measured against the Performance Indicators; (b) the latest technical audit of the Project (in accordance with paragraph 6 below), which shall have taken place within the six months preceding March 31, 2010; (c) a description of all the investments and disbursements carried out by the Borrower up to the date of the assessment; and (d) any technical, commercial and environmental studies carried out by the Borrower under the Project. The Borrower shall prepare and furnish to the Bank a report, in form and substance acceptable to the Bank, reflecting the results, suggested course of action and the Borrower’s conclusions of said mid-term review assessment.
5. The Borrower shall ensure that, as soon as the customized Performance Indicators’ monitoring reports referred to in Section I.A.1 (j) of this Schedule are produced, these are permanently published in the Borrower’s website and accessible to its customers.

6. For purposes of carrying out the bi-annual technical audits referred to in Part 4 (b) of the Project, the Borrower shall: (a) not later than November 30 of each two-year term during Project implementation, starting in the year 2008, hire independent auditors under terms of reference substantially equivalent as those included in the Operational Manual; and (b) not later than six months after the end of each such two-year term, furnish to the Bank a report of the audit by said auditors for the corresponding two years, of such scope and in such detail as the Bank shall have reasonably requested including, *inter alia*, an analysis of: (i) the Performance Indicators; (ii) the pilot operations referred to in Part 2 (b) (i) of the Project; (iii) the pilot programs referred to in Part 3 (a) of the Project; and (iv) the fiduciary and technical arrangements for the carrying out of Part 3 (b) of the Project; provided, however that the first audit report to be furnished to the Bank as provided herein shall also include the results of the technical audit with respect to the Project’s investments carried out by the Borrower during the year 2007.

B. **Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than fifty days after the end of each calendar semester, interim unaudited financial reports for the Project covering each such semester, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. **Procurement**

A. **General**

1. **Goods, Works and Non-consultant Services.** All goods, works and non-consultant services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or
referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the additional provisions set forth in Part E of this Section III</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
</tbody>
</table>

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
### Procurement Method

<table>
<thead>
<tr>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection of Individual Consultants</td>
</tr>
<tr>
<td>(c) Single-Source selection</td>
</tr>
</tbody>
</table>

#### D. Review by the Bank of Procurement Decisions

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

#### E. Special Provisions

1. In addition and without limitation to any other provisions set forth in this Section III or in the Procurement Guidelines, the following principles and rules of procurement shall expressly govern all procurement of works under National Competitive Bidding. The principle and rule of procurement referred to in paragraph (c) below shall also govern all procurement of goods, works and non-consultant services referred to in Part B herein:

   (a) The time allowed for the preparation and submission of bids shall be at least 30 days.

   (b) The Borrower shall open all bids at the stipulated time and place. The name of the bidder and total amount of each bid, and of any alternative bids, if they have been requested or permitted, shall be read aloud and recorded when opened and a copy of this record shall be promptly sent to the Bank.

   (c) The disclosure of information related to the contents of each bid, other than as set out in paragraph (b) above, shall not be permitted.

   (d) The lowest evaluated bid which has been determined by the Borrower to be substantially responsive to the bidding documents shall be selected for contract award.

   (e) There will be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.

   (f) After the public opening of bids, information relating to the examination, clarification and evaluation of bids and recommendations concerning awards shall not be disclosed to bidders or other persons not officially
concerned with this process until the successful bidder is notified of the award.

(g) Foreign bidders shall not be required to authenticate (legalizar) their bidding documents or any documentation related to such bidding documents with the Guarantor’s authorities as a prerequisite of bidding.

(h) The Borrower shall award the contract, within the period of validity of bids, to the bidder who meets the appropriate standards of capability and resources and whose bid has been determined: (i) to be substantially responsive to the bidding documents; and (ii) to offer the lowest evaluated cost. A bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

2. In addition and without limitation to any other provisions set forth in this Section III or in the Consultant Guidelines, the following principles and rules of procurement shall expressly govern all procurement of consultants' services referred to in Part C herein:

(a) Foreign consultants shall not be required to authenticate (legalizar) their proposals or any documentation related to such proposals with the Guarantor’s authorities as a prerequisite for participating in the selection procedure.

(b) The prices of contracts over one year duration may be adjusted.

Section IV. Withdrawal of Loan Proceeds

A. General

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

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, with the exception of goods for Part 3 (b) of the Project</td>
<td>14,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Works, with the exception of works for Part 3 (b) of the Project</td>
<td>26,000,000</td>
<td>85%</td>
</tr>
<tr>
<td>(3) Consultant and non-consultant services, with the exception of consultant and non-consultant services for Part 3 (b) of the Project</td>
<td>3,600,000</td>
<td>80%</td>
</tr>
<tr>
<td>(4) Goods, works and services incurred under Part 3 (b) of the Project</td>
<td>1,000,000</td>
<td>60% of Unit Costs A; 60% of Unit Costs B; and 60% of Unit Costs C; all percentages as adjustable pursuant to Section I.A.3 of this Schedule</td>
</tr>
<tr>
<td>(5) Operating Costs</td>
<td>200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Training</td>
<td>700,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>4,200,000</td>
<td></td>
</tr>
<tr>
<td>(8) Front-end Fee</td>
<td>0</td>
<td>Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(9) Premia for Interest Rate Caps and Collars</td>
<td>0</td>
<td>Amounts payable under Section 2.08 (c) of this Agreement</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>50,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
3. For the purposes of this Schedule, the terms:

(a) “Operating Costs” means the reasonable incremental expenses incurred on account of Project implementation, management and monitoring, including, *inter alia*, office supplies, insurance, communication expenses, equipment, computer operation and maintenance, supervision costs, travel and *per diem*, as well as reasonable costs of Project promotional campaigning at the regional and local levels; and

(b) “Training” means the reasonable expenditures incurred by the Borrower for the carrying out of training activities under the Project, including, *inter alia*, reasonable costs of travel, subsistence, rental of training facilities, and *per diem* for trainers and trainees, registration fees and training materials.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) from the Loan Account until the Bank has received payment in full of the Front-end Fee, if the Borrower selects not to capitalize the Front-end Fee; and

(b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed four million Dollars ($4,000,000) equivalent may be made for payments made within the twelve months prior to the date of this Agreement, for Eligible Expenditures under Categories (1) to (6) above.

2. The Closing Date is March 31, 2013.

Section V. Financial Covenants

1. The Borrower shall, each year, starting in the year 2008, spend an amount equivalent to at least 2% (two percent) of its annual investment budget or not less than $1,000,000, whichever amount is higher, to replace water distribution pipes and valves and connection piping in its water supply system.
SCHEDULE 3

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 have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15 Beginning October 15, 2012 through April 15, 2022</td>
<td>5 %</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

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

   (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as
withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

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

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Definitions

(1) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


(3) “Convenio” means an agreement referred to in Section I.D.1 of Schedule 2 to this Agreement.

(4) “EA” or “Environmental Assessment” means the document dated April 9, 2007, as published and available to the public on the website www.ose.com.uy, which contains the environmental and cultural protection measures in respect of the Project, including identification of existing environmental conditions and potential direct and indirect environmental impacts from the carrying out of the Project, recommendation of mitigation measures for each negative impact identified, as well as measures for enhancing each identified positive impact.

(5) “Eligible Community” means an organized group of individuals which meet the criteria set forth in the Operational Manual to benefit from a Subproject.


(7) “Gobierno Departamental” means the government of a Departamento, a political subdivision of the Guarantor.

(8) “Guarantor” means the República Oriental del Uruguay.

(9) “Law No. 11907” means the Guarantor’s Ley No. 11907 of December 19, 1952 which established the Borrower, and such term also includes the regulations to such law, as such law and regulations have been amended to the date of this Agreement.

(10) “Operational Manual” means the manual, dated May 18, 2007, referred to in Section I.C.1 of Schedule 2 to this Agreement.

(11) “Performance Indicators” means the indicators set forth in the letter of even date of this Agreement and in the Operational Manual, as agreed between the Borrower and the Bank.
“PFE” means Gerencia de Programas con Financiamiento Externo, the Borrower’s Office for the Administration of Programs with External Funding, as established pursuant to the Borrower’s Resolutions No. 1196/90 of May 16, 1990, No. 272/01 of March 7, 2001 and No. 428/07 of April 18, 2007.

“Plan of Action for Unaccounted-for-Water Reduction Program” means Plan de Acción para el Control de las Pérdidas de Agua, the Borrower’s program for the reduction of UFW, as set forth in the Borrower’s Resolution No. 1547/05 of October 13, 2005.

“Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

“Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 7, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

“Program” means the program designed to increase the efficiency, coverage and sustainability of water supply and sanitation services in Uruguay through: (a) the improvement of the Borrowers’ efficiency and effectiveness; (b) the increase of treated water pumping capacity in the city of Montevideo and UFW reductions in cities outside Montevideo; and (c) the increase of sewage treatment and the design of a strategy for sewerage expansion.

“Program VECTOR” means the Borrower’s institutional modernization program, as set forth in the Borrower’s Resolution No. 1794/05 dated November 30, 2005, as well as in the Borrower’s document entitled Resumen Ejecutivo del Programa Vector, Mejora de Gestión y Actualización Tecnológica, dated March, 2007.

“RANC Unit” means Unidad de Reducción de Agua No Contabilizada, the Borrower’s internal unit for the reduction of UFW, established pursuant to the Borrower’s Resolutions No. 118/00 dated February 2, 2000 and No. 1304/05 of August 31, 2005.

“Subproject” means any of the activities referred to in Part 3 (a) of the Project.

“UFW” means unaccounted-for water.

“UGA” means Unidad de Gestión Ambiental, the Borrower’s Environmental Management Unit, as established pursuant to the Borrower’s Resolutions No. 117/2000 of February 2, 2000, No. 1661/05 of November 1, 2005 and No. 578/06 of May 17, 2006.
“Unit Costs A” means the amount of two hundred and thirty five Dollars ($235) per in-house sewerage connection under Part 3 (b) of the Project, where the length of the pipeline connection is shorter than five meters long (Obra Corta).

“Unit Costs B” means the amount of six hundred and eight Dollars ($608) per in-house sewerage connection under Part 3 (b) of the Project, where the length of the pipeline connection is between five to fifteen meters long (Obra Media).

“Unit Costs C” means the amount of eight hundred and seventy seven Dollars ($877) per in-house sewerage connection under Part 3 (b) of the Project, where the length of the connection exceeds fifteen meters long (Obra Larga).