

EXECUTION VERSION

LOAN NO. 1983AB/OC-BR

Dated as of May 27, 2008

Between

COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP

and

INTER-AMERICAN DEVELOPMENT BANK

Loan Agreement

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LOAN AGREEMENT

LOAN AGREEMENT, dated as of May 27, 2008, between:

- (1) **COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP**, a *sociedade anônima* organized and existing under the laws of the Federative Republic of Brazil, with its head offices in the city of São Paulo, State of São Paulo, at Rua Costa Carvalho 300, enrolled with the General Taxpayers' Register (CNPJ/MF) under No. 43.776.517/0001-80 (the **Borrower**); and
- (2) **INTER-AMERICAN DEVELOPMENT BANK**, an international organization established by the Agreement Establishing the Inter-American Development Bank among its member countries (**IDB**).

WHEREAS:

- A. The Borrower is a concessionaire of municipal sanitary services operating in 368 cities of the State of São Paulo, Federative Republic of Brazil; and
- B. IDB has agreed to lend, and the Borrower has agreed to borrow, subject to the terms and conditions set forth herein, a loan in an aggregate principal amount of up to two hundred fifty million Dollars (\$250,000,000).

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and IDB agree as follows:

ARTICLE 1

Definitions; Interpretation

Section 1.1 Definitions.

In this Agreement the following terms shall have the following meanings:

A Loan means the loan specified in Section 3.1.1 (*The Loan Amount*) or, as the context may require, the principal amount thereof from time to time outstanding.

A Loan Disbursement means any amount of the A Loan that is disbursed pursuant to Section 3.2 (*Disbursement Procedure*).

A Loan Fixed Interest Rate means the fixed rate of interest payable on the outstanding principal amount of the A Loan from time to time following a Rate Basis Conversion determined in accordance with Section 3.22.8 (*A Loan Interest*).

A Loan Interest Rate means the A Loan Fixed Interest Rate or the A Loan Variable Interest Rate, as relevant.

A Loan Variable Interest Rate means the variable rate of interest payable on the outstanding principal amount of the A Loan from time to time prior to any Rate Basis Conversion determined in accordance with Section 3.22.3 (*A Loan Interest*).

ABN means ABN AMRO Bank N.V., a *Naamloze Vennootschap* organized and existing under the laws of the Kingdom of the Netherlands.

Accounting Principles means Brazilian Generally Accepted Accounting Principles in effect from time to time, together with its pronouncements thereon from time to time, and applied on a consistent basis during a relevant period.

Adjusted EBITDA means net income before net financial expenses, income tax and social contribution tax (Brazilian federal Taxes on income), depreciation and amortization, non-operating income (expenses) and extraordinary item(s) (net of income tax and social contribution), each as set forth in the Borrower's Financial Statements.

Affiliate means, with respect to any Person, any other Person (including directors and officers of such Person) directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with such Person and, with respect to the Borrower, such term means any Shareholder that owns more than ten percent (10%) of the Share Capital of the Borrower and any Affiliate of such Shareholder.

Affiliate Transaction has the meaning assigned to that term in Section 6.2.7 (*Affiliate Transactions*).

Agreement means this Loan Agreement including all Schedules and Exhibits attached hereto.

Applicable LIBOR means the interest rate corresponding to:

- (a) the prevailing one-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is between one (1) and forty-five (45) days;
- (b) the prevailing two-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is between forty-six (46) and seventy-five (75) days;
- (c) the prevailing three-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is between seventy-six (76) and one hundred and five (105) days;
- (d) the prevailing four-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is between one hundred and six (106) and one hundred and thirty-five (135) days;

- (e) the prevailing five-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is between one hundred and thirty-six (136) and one hundred and sixty-five (165) days; and
- (f) the prevailing six-month LIBOR if the period from and including the relevant Interest Rate Determination Date to but excluding the next Interest Rate Determination Date is more than one hundred and sixty-five (165) days;

provided always that in the case of the last Interest Period before the final maturity of the Loan, the relevant period in paragraphs (a) through (f) above shall end on the final maturity date of the Loan.

Applicable Spread means (a) with respect to the A Loan, 2.375% per annum; (b) with respect to the Tranche I of the B Loan, 2.075% per annum; and (c) with respect to Tranche II of the B Loan, 1.875% per annum.

Arranger Agreement means the agreement, dated March 14, 2008, among the Borrower, ABN, BBVA, DEPFA, Dexia and IDB.

Auditors means Deloitte Touche Tohmatsu or PricewaterhouseCoopers, or such other firm of internationally recognized independent public accountants as the Borrower may, with IDB's consent, from time to time appoint as auditors of the Borrower.

Authority means (i) any supranational body, (ii) any national, regional or local government or any other political subdivision thereof, (iii) any governmental, administrative, arbitral, regulatory, fiscal, judicial or government-owned body, (iv) any governmental department, commission, authority, tribunal or agency, (v) any central bank (or any Person, whether or not government owned and howsoever constituted or called, that exercises the functions of a central bank) or (vi) any other entity of any kind exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, in each case having jurisdiction over the matter or matters in question.

Authorization means any consent, registration, filing, agreement, enrollment, recording, notarization, certificate, license, approval, permit, authorization or exemption from, by or with any Authority, whether given or withheld by express action or deemed given or withheld by failure to act within any specified time period and all corporate, shareholders', quotaholders', creditors' and any other third party approvals or consents.

Authorized Representatives means, as to the Borrower, any two (2) natural persons who are duly authorized by the Borrower to act for it, or with respect to financial matters, the chief financial officer and the treasurer of the Borrower and, in addition to complying with the foregoing requirements, are officers and/or attorneys-in-fact duly appointed to act on the Borrower's behalf under corporate documents duly registered with the competent Authority in Brazil, whose names and specimen signatures appear on the Certificate of Incumbency and Authority most recently delivered to IDB.

B Loan means the loan specified in Section 3.1.2 (*The Loan Amount*) or, as the context may require, the principal amount thereof from time to time outstanding.

B Loan Disbursement means any amount of the B Loan that is disbursed pursuant to Section 3.2 (*Disbursement Procedure*).

B Loan Interest Rate means the Tranche I Interest Rate or the Tranche II Interest Rate, as applicable.

BBVA means Banco Bilbao Vizcaya Argentaria, S.A., a *sociedad anónima* organized and existing under the laws of the Kingdom of Spain.

Borrower has the meaning assigned to that term in the introductory paragraph.

Borrower's Information has the meaning assigned to that term in Section 8.6.1 (*Confidential Information*).

Brazil means the Federative Republic of Brazil.

Business Day means a day when banks are open for business in the City of New York, New York, and, for the purpose of determining the Swap Market Fixed Rate or LIBOR (other than pursuant to subclause (b) of the definition of LIBOR), in London, England as well.

Capital Lease Obligation means, with respect to any Person, any obligation of such Person under any lease for real or personal Property which, in accordance with the Accounting Principles, is required to be recorded as a capitalized lease obligation; and, for the purpose of this Agreement, the amount of such obligation at any date shall be the capitalized amount thereof at such date, determined in accordance with the Accounting Principles.

Certificate of Incumbency and Authority means a certificate provided to IDB by the Borrower in the form of Exhibit 3 (*Form of Certificate of Incumbency and Authority*).

Commitment Fee has the meaning assigned to that term in Section 3.8.3 (*Charges and Fees*).

Commitment Termination Date means the earliest to occur of:

- (a) the date falling twenty-four (24) months after the Effective Date;
- (b) the date specified in a notice issued by the Borrower to IDB pursuant to Section 3.16 (*Cancellation by the Borrower*), provided that the terms of Section 3.16.2 (*Cancellation by the Borrower*) are fully satisfied; and
- (c) any other date on which the obligation of IDB to make, or the right of Borrower to request, Disbursements of the Loan is terminated in accordance with the terms of this Agreement.

Consolidated or Consolidated Basis means (with respect to any Financial Statements to be provided, or any financial calculation to be made, under or for purposes of this Agreement and

any other Financing Document) the method referred to in Section 1.5.4 (*Financial Calculations*) and the entities whose accounts are to be consolidated with the accounts of the Borrower are all the Subsidiaries of the Borrower.

Control means, with respect to any Person, any other Person having the power, directly or indirectly, (a) to appoint the majority of the administrators of such Person, (b) to approve the corporate matters of such Person; or (c) to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise (**Controlling** and **Controlled** have corresponding meanings).

Conversion Notice means the notice, substantially in the form of Exhibit 11 (*Form of Conversion Notice*), issued by the Borrower to IDB.

Corrective Action Plan means a plan, in form and substance acceptable to IDB, to correct, and to remedy, all damage and adverse consequences caused by any failure by any Environmental Party to comply with any Environmental and Social Requirement, which plan shall include:

- (a) a brief description of such non-compliance, including the extent, magnitude, impact and cause thereof;
- (b) the proposed actions to correct, and to remedy, all damage and adverse consequences caused by the non-compliance;
- (c) the assignment of responsibility for implementing such proposed actions;
- (d) a time schedule for implementing such proposed actions, including the start date, the end date and key milestones;
- (e) an estimated cost of such proposed actions; and
- (f) the proposed actions to prevent similar such non-compliance from occurring in the future.

Default means any event or condition that constitutes an Event of Default or which, upon notice, lapse of time, the making of a determination under the Financing Documents or any combination thereof, would become an Event of Default.

DEPFA means DEPFA BANK plc, a public limited company organized and existing under the laws of the Republic of Ireland.

Dexia means Dexia Crédit Local, a corporation (*société anonyme*) organized and existing under the laws of the Republic of France, acting through its New York State licensed branch.

Derivatives Transaction means any swap agreement, cap agreement, collar agreement, futures contract, forward contract or similar arrangement with respect to interest rates or currencies.

Disbursement means an A Loan Disbursement or a B Loan Disbursement, or both, as the context requires.

Disbursement Date means the date the proceeds of a Disbursement are released to the Borrower by the Paying Agent directly by IDB or through an agent in accordance with the terms of this Agreement.

Disbursement Request means a request for Disbursement substantially in the form of Exhibit 1 (*Form of Disbursement Request*).

Disqualified Share Capital means any Share Capital which, by its terms (or by the terms of any security into which it is convertible or exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to, or is exchangeable for debt securities of the Borrower or its Subsidiaries prior to, the final maturity of the Loan; provided always that only the amount of such Share Capital that is redeemable prior to the final maturity of the Loan shall be deemed Disqualified Share Capital.

Dollars and the sign \$ mean the lawful currency of the United States of America.

Effective Date means the date of this Agreement.

Environmental and Social Compliance Report means a report prepared by the Borrower, in form and substance satisfactory to IDB, as described in Section 6.4.3.1 (*Environmental Information Covenants*) to provide the necessary information required to assess compliance with the Environmental and Social Provisions, including compliance with Environmental and Social Requirements and the implementation status and results of programs in any Corrective Action Plan.

Environmental and Social Provisions means Sections 4.1.20 (*Environmental Matters*), 5.2.8 (*Environmental and Social*), 6.4 (*Environmental and Social*) and 7.2.12 (*Environmental and Social*).

Environmental and Social Requirements means all requirements, conditions, standards, protections, obligations and performance with respect to Environmental or Social Matters required by:

- (a) any Environmental Law;
- (b) any Authorization issued by any Authority or otherwise under any Environmental Law;
- (c) any Environmental Plan; and
- (d) any Fundamental Principles and Rights at Work.

Environmental Claim means, with respect to any Environmental Party, any written notice, claim, administrative, regulatory or judicial or equitable action, suit, Lien, judgment or demand by any Person or any written communication by any Authority, in either case, alleging or asserting such Environmental Party's liability for investigatory costs, cleanup costs, consultants' fees, governmental response costs, damage to natural resources (including wetlands, wildlife,

aquatic and terrestrial species and vegetation) or other Property, personal injuries, fines or penalties or any other damages arising out of, based on or resulting from:

- (a) the presence or Release of any Hazardous Substance at any location, whether or not owned by such Environmental Party;
- (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law or any Authorization issued by any Authority or otherwise under any Environmental Law; or
- (c) any other Environmental or Social Matter.

Environmental Laws means all applicable laws relating to Environmental or Social Matters.

Environmental or Social Matter means any:

- (a) Release into the air including the air within buildings and other natural or man-made structures above ground;
- (b) Release into water including into any river, watercourse, lake, or pond (whether natural or artificial, above ground or that joins or flows into any such water outlet above ground) or reservoir, or onto the surface of the riverbed or of other land supporting such waters, or into ground waters, sewer or the sea;
- (c) deposit, disposal, keeping, storage, treatment, importation, exportation, production, transportation, handling, processing, carrying, manufacture, collection, sorting or presence of any Hazardous Substance or any waste or substance that constitutes a scrap material or an effluent or other unwanted surplus substance arising from the application of any process or activity (including making it reusable or reclaiming substances from it) and any substance or article that is required to be disposed of as being broken, worn out, contaminated or otherwise spoiled;
- (d) nuisance, noise, defective premises, health and safety at work, industrial illness, industrial injury due to environmental factors, environmental health problems (including asbestosis or any other illness or injury caused by exposure to asbestos) or genetically modified organisms;
- (e) conservation, preservation or protection of the natural or man-made environment or any living organisms supported by the natural or man-made environment;
- (f) conservation of archaeological and historical sites, rights-of-way, resettlement, expropriation and indemnification, indigenous groups, traffic, or any other matters whatsoever affecting social conditions;
- (g) labor rights, worker rights, or human rights; or

- (h) any other matter whatsoever relating to human health, environment, social issues or health and safety.

Environmental Party means the Borrower and any Subsidiary of the Borrower and any officer, director, employee or agent of any such Person or any subcontractor of the Borrower engaged by the Borrower to work on its operations and activities.

Environmental Plans means:

- (a) each Corrective Action Plan, if any;
- (b) the Health and Safety Management System (*Servicios Especializados de Segurança e em Medicina do Trabalho* e *Sistema de Gestão Integrado de Segurança e Saúde Ocupacional*) of the Borrower presented to IDB on May 9, 2008; and
- (c) the Sabesp Corporate Environmental Management System.

Equity Rights means, in respect of a Person (other than a natural person) any subscriptions, options, warrants, commitments, subscription bonuses, preemptive rights or agreements of any kind (including any shareholders' or voting trust agreements) for the issuance, subscription, sale, registration or voting of, or securities convertible into, any Share Capital of such Person.

Event of Default means any one of the events specified in Section 7.2 (*Events of Default*).

Financial Quarter means each period commencing on the day after a Financial Quarter Date and ending on the next succeeding Financial Quarter Date.

Financial Quarter Date means each March 31, June 30, September 30 and December 31 of any calendar year.

Financial Ratios means the Interest Coverage Ratio and the Net Debt to Adjusted EBITDA Ratio.

Financial Statements means, with respect to any Person, as of any relevant date and for the relevant period, as applicable, such Person's balance sheet, income statement, cash flow statement, statement of sources and uses of funds and statement showing changes in equity and any exhibits and notes thereto, which shall be prepared in Reais, all prepared on a consistent basis in accordance with the Accounting Principles.

Financial Year means the accounting year of the Borrower commencing each year on January 1 and ending on the following December 31 or such other period as the Borrower, with IDB's consent, from time to time designates as its accounting year.

Financing Documents means:

- (a) this Agreement;

- (b) the Notes;
- (c) the Paying Agency Agreement;
- (d) all other documents (if any) evidencing the Obligations, which are entered into after the Effective Date ; and
- (e) all other documents (including, but not limited to, the Mandate Letter and the Arranger Agreement) relating to the payment of fees and expenses by the Borrower.

First Disbursement Date means the first Disbursement Date.

Fixed Rate Prepayment Costs has the meaning assigned to that term in Section 3.19.1 (*Fixed Rate Prepayment Costs for Prepayment of A Loan*).

Foreign Asset Control and Anti-money Laundering Regulations means, collectively, the following: (a) the regulations of the Office of Foreign Assets Control (***OFAC***) of the United States of America Department of Treasury; (b) the U.S.A. Patriot Act of the United States of America; and (c) each of the lists of persons suspected of involvement in terrorist activities maintained by OFAC, the United Kingdom of Great Britain and Northern Ireland and the United Nations.

Fundamental Principles and Rights at Work means:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) prohibition of all forms of forced or compulsory labor;
- (c) prohibition of child labor, including the prohibition of persons under eighteen (18) years of age from working in hazardous conditions (which includes construction activities), persons under eighteen (18) years of age from working at night, and that persons under eighteen (18) years of age be found fit to work via medical examinations;
- (d) elimination of discrimination in respect of employment and occupation, where discrimination is defined as any distinction, exclusion or preference based on race, color, sex, religion, political opinion, national extraction or social origin;
- (e) compliance with all applicable laws relating to labor; and
- (f) compliance with all International Labor Organization conventions and treaties that have been ratified by Brazil.

Guaranteed Indebtedness means, with respect to any Person, without duplication, all Indebtedness of any other Person guaranteed, directly or indirectly, in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to

pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) Property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to, or in any other manner invest in, the debtor (including any agreement to pay for Property or services without requiring that such Property be received or such services be rendered), (iv) to maintain working capital or equity capital of the debtor, or otherwise to maintain the net worth, solvency or other financial condition of the debtor, or (v) otherwise to assure a creditor with respect to Indebtedness against loss, provided, that such term shall not include endorsements of instruments for collection or deposit in the ordinary course of business.

Hazardous Substance means any hazardous or toxic substances, materials or wastes defined, listed, classified or regulated as such in or under any applicable Environmental Law, including:

- (a) any petroleum or petroleum products (including gasoline or crude or any fraction thereof, but excluding small quantities of lubricating greases), flammable explosives, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and polychlorinated biphenyl;
- (b) any chemicals, materials or substances defined as or included in the definition of “hazardous substances”, “hazardous wastes”, “hazardous materials”, “extremely hazardous wastes”, “restricted hazardous wastes”, “toxic substances”, “toxic pollutants,” “contaminants” or “pollutants”, or words of similar import, under any applicable Environmental Law; or
- (c) any other chemical, material or substance, exposure to or Release of which is prohibited, limited or regulated by any Authority.

IDB has the meaning assigned to that term in the introductory paragraph hereto.

IDB Members means the member countries of IDB listed in Schedule 1 (*Member Countries of IDB*).

Increased Costs means the amount certified in an Increased Costs Certificate to be the net incremental costs of, or reduction of return to, IDB or, as the case may be, any Participant in connection with making or maintaining the Loan or its Participation, as applicable, that result from:

- (a) any change in applicable law or in the interpretation thereof by any Authority charged with the administration or interpretation thereof, whether or not having the force of law; or
- (b) any compliance with any request from, or requirement of, any central bank or other monetary or other Authority;

which in either case, subsequent to the Effective Date:

- (i) imposes, modifies or makes applicable any reserve, special deposit or similar requirements against Property held by, or deposits with or for the account of, or loans made by, IDB or that Participant;
- (ii) imposes a cost on IDB or that Participant as a result of its having made or committed to make the Loan (or in the case of a Participant, acquired or committed to acquire its Participation) or reduces the rate of return on the overall capital of IDB or that Participant that it would have been able to achieve had IDB not made or committed to make the Loan (or in the case of a Participant, had the Participant not acquired or committed to acquire its Participation);
- (iii) changes the basis of taxation on payments received by IDB in respect of the Loan or by that Participant with respect to its Participation (other than a change in taxation of the overall net income of IDB or that Participant imposed by the jurisdiction of its incorporation or in which it books its Participation or in any political subdivision of any such jurisdiction); or
- (iv) imposes on IDB or any Participant any other condition regarding the making or maintaining of the Loan or, as the case may be, its Participation;

but excluding any incremental costs of a Participant having or maintaining a permanent office or establishment in Brazil, if and to the extent that permanent office or establishment acquires that Participation.

Increased Costs Certificate means a certificate furnished from time to time by IDB certifying:

- (a) the circumstances giving rise to the Increased Costs;
- (b) that the costs of IDB or, as the case may be, a Participant, have increased or the rate of return of either of them has been reduced;
- (c) the Increased Costs; and
- (d) that IDB or the Participant has exercised reasonable efforts to minimize or eliminate the relevant increase or reduction, as the case may be;

provided that IDB shall not be obliged to disclose any information that it or the Participant considers to be confidential in providing such certificate.

Indebtedness means, with respect to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of Property or services, excluding any trade payables and other accrued current liabilities arising in the ordinary course of business, but including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit issued under letter of credit facilities which are outstanding for more than thirty (30) days, and in connection with any agreement by such Person to purchase, redeem, exchange, convert or otherwise acquire for value any Share Capital of such Person now

or hereafter outstanding, (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments, (iii) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to Property acquired by such Person, but excluding trade payables arising in the ordinary course of business, (iv) all Capital Lease Obligations of such Person, (v) all indebtedness referred to in clauses (i) through (iv) above of other Persons and all dividends payable by other Persons, the payment of which is, in each case, secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien, upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness (the amount of such obligations being deemed to be the lesser of the value of such property or asset or the amount of the obligations being deemed to be the lesser of the value of such property or asset or the amount of the obligations so secured), provided, however, that Indebtedness shall not include any such indebtedness of any such other Person if the only such Lien is upon the Share Capital of such other Person, (vi) all guarantees by such Person of Guaranteed Indebtedness, (vii) all Disqualified Share Capital (valued at the greater of book value and voluntary or involuntary maximum fixed repurchase price plus accrued and unpaid dividends) of such Person, and (viii) any amendment, supplement, modification, deferral, renewal, extension, refunding or refinancing of any liability of the types referred to in clauses (i) through (vii) above. For purposes hereof, (x) the “maximum fixed repurchase price” of any Disqualified Share Capital which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Share Capital as if such Disqualified Share Capital were purchased on any date on which Indebtedness shall be required to be determined pursuant to this Agreement, and if such price is based upon, or measured by, the fair market value of such Disqualified Share Capital, such fair market value is to be determined in good faith by the board of directors (or any duly authorized committee thereof) of the issuer of such Disqualified Share Capital, and (y) Indebtedness is deemed to be incurred pursuant to a revolving credit facility each time an advance is made thereunder.

Indemnified Liabilities has the meaning assigned to that term in Section 8.3 (*Indemnity*).

Indemnified Persons has the meaning assigned to that term in Section 8.3 (*Indemnity*).

Interest Expense means, with respect to any Person, as of any date of determination, the sum of the following items for the four (4) most recent consecutive Financial Quarters ending on or prior to such date of determination, without duplication: (i) consolidated paid and accrued interest expense of such Person for such period and (ii) any other expenses related to the Net Debt of such Person for such period.

Interest Payment Date means May 15 and November 15 of each year or, in the case of any Interest Period of less than six (6) months as provided under Section 3.24 (*Change in Interest Period*), the fifteenth (15th) day of the month in which the relevant Interest Period ends.

Interest Coverage Ratio means, with respect to any Person, and as of any date of determination, the ratio of Adjusted EBITDA for such Person to the Interest Expense for such Person, in each case for the four (4) most recent consecutive Financial Quarters ending on or prior to such date of determination.

Interest Period means (i) each six (6) month period beginning on an Interest Payment Date and ending on the next following Interest Payment Date, except in the case of the first period applicable to each Disbursement, when it shall mean the period beginning on the date on which such Disbursement is made and ending on the next following Interest Payment Date; or (ii) in the circumstances referred to in Section 3.24 (*Change in Interest Period*), such period as determined in accordance with Section 3.24 (*Change in Interest Period*).

Interest Rate Determination Date means the second (2nd) Business Day prior to a Disbursement Date or Interest Payment Date, as applicable.

Interest Rate Reset Date means the second (2nd) Business Day prior to the Rate Basis Conversion Date.

Investment means, with respect to any Person, any direct or indirect advance, loan, account receivable (other than an account receivable arising in the ordinary course of business), deposit or other extension of credit (including by means of any guarantee, indemnity or similar arrangement) or any capital contribution to (by means of transfers of Property to others, payments for Property or services for the account or use of others, or otherwise), or any purchase or ownership of any stocks, shares, quotas, bonds, notes, debentures or other securities of, any other Person or any Equity Rights in respect of such Person.

LIBOR means the British Bankers' Association interbank offered rates as of 11:00 a.m. London time for deposits in Dollars that appear on the relevant page of the Reuters Service (currently Reuters Screen LIBOR01 page) or, if not available, on the relevant pages of any other service (such as Bloomberg Financial Markets Service) that displays such British Bankers' Association rates; provided that if, for any Interest Period, IDB concludes in its discretion that it cannot determine LIBOR by reference to any service that displays British Bankers' Association interbank offered rates for deposits in Dollars, IDB shall notify the Borrower and shall instead determine LIBOR:

- (a) on the Interest Rate Determination Date by calculating the arithmetic mean of the offered rates advised to IDB on or around 11:00 a.m. London time, for deposits in Dollars by any three (3) major banks active in Dollars in the London interbank market, selected by IDB; provided that if fewer than three (3) quotations are received, IDB may rely on the quotations so received if not less than two (2); or
- (b) if fewer than two (2) quotations are received from the banks in London in accordance with subclause (a) above, on the first day of the relevant Interest Period, by calculating the arithmetic mean of the offered rates advised to IDB on or around 11:00 a.m. New York time, for loans in Dollars, by a major bank or banks in New York, New York selected by IDB.

Lien means any mortgage, pledge, usufruct, fiduciary sale (*alienação fiduciária*), charge, assignment, hypothecation, lien, security interest, title retention, preferential right (arising by operation of law or otherwise), trust arrangement, privilege or priority of any kind, in each case having the effect of security, including any designation of loss payees or beneficiaries or any

similar arrangement under or with respect to any insurance policy and any promise or undertaking to do any of the foregoing.

Loan means, collectively, the A Loan and the B Loan or, as the context requires, the principal amount of the A Loan and the B Loan outstanding from time to time.

Mandate Letter means the letter agreement, dated January 11, 2008, between the Borrower and IDB.

Material Adverse Effect means a material adverse effect on:

- (a) the business, Property, liabilities, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries (taken as a whole);
- (b) the rights or remedies of IDB under the Financing Documents; or
- (c) the validity or enforceability of any material provision of any Financing Document.

Net Debt means, in respect of any Person and as of any date of determination, (a) such Person's total (i) indebtedness for borrowed money or for the deferred purchase price of Property or services, excluding trade payables and other accrued current liabilities arising in the ordinary course of business; (ii) obligations evidenced by bonds, notes, debentures, letters of credit or similar instruments; and (iii) guarantees of the types of indebtedness set forth in (i) and (ii) above, (b) less accrued interest and finance charges related to the current period (which period shall not exceed twelve (12) months (except that such limitation shall not apply with respect to any *Fundo de Investimento em Direitos Creditórios (FIDC)* which exists as of the relevant date of determination)) under such other Indebtedness.

Net Debt to Adjusted EBITDA Ratio means, with respect to any Person and as of any date of determination, the ratio of Net Debt of such Person as of such date of determination to Adjusted EBITDA of such Person for the four (4) most recent consecutive Financial Quarters ending on or prior to such date of determination.

Notes has the meaning assigned to that term in Section 3.25 (*Notes*).

Obligations means the collective reference to:

- (a) the unpaid amount of principal of and interest on the Loan (including interest accruing at the then applicable rate provided in this Agreement after the maturity of the Loan and interest accruing at the then applicable rate after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding); and
- (b) all other obligations and liabilities of the Borrower to IDB or the Paying Agent under this Agreement or any other Financing Document, whether direct or indirect, absolute or contingent, due or to become due, or now existing or

hereafter incurred, which may arise under, out of, or in connection with, this Agreement or the other Financing Documents or any other document made, delivered or given in connection herewith or therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, charges, expenses or otherwise (including all fees and expenses that are required to be paid by the Borrower pursuant to the terms of this Agreement or any other Financing Document).

Obstructive Practice means, in connection with any investigation by IDB or any Authority into allegations of Prohibited Practices committed or engaged in by the Borrower, or any of its Affiliates or any other Person acting on behalf of the Borrower or any of its Affiliates: (a) deliberately destroying, falsifying, altering or concealing evidence material to such investigation or making false statements to investigators in order to materially impede such investigation; (b) threatening, harassing or intimidating any Person to prevent such Person from disclosing knowledge of matters relevant to such investigation or from pursuing such investigation; or (c) taking any action intended to materially impede the exercise of the rights to access, information and inspection provided to IDB under this Agreement.

Organizational Documents means, with respect to any Person (other than a natural person), the memorandum and articles of incorporation, articles of association (*contrato social*), bylaws (*estatuto*), charter or other constitutive documents, however called, of such Person.

Other Taxes has the meaning assigned to that term in Section 3.13.4 (*Taxes*).

Participant means at any time, any Person that has acquired and maintains a Participation at such time and is a party to a Participation Agreement.

Participation means the investment of a Participant in the B Loan or, as the context may require, the B Loan Disbursements.

Participation Agreement means the Participation Agreement, in IDB's customary form, entered into between IDB and a Participant from time to time pursuant to which each Participant acquires a Participation.

Paying Agency Agreement means an agreement entered into, or to be entered into, in the agreed form, between IDB and the Paying Agent relating to the paying agency arrangements regarding the Loan.

Paying Agent means Union Bank of California, N.A., in its capacity as agent under the Paying Agency Agreement, or any successor agent appointed pursuant to the terms of the Paying Agency Agreement.

Permitted Liens means and includes the following:

- (a) any Lien on an asset in respect of Indebtedness incurred solely for the purpose of financing all or any part of the cost of acquiring, developing, improving or constructing such asset (including Share Capital of any Person); provided that any such Lien may attach only to such asset and may not exceed the cost of acquiring,

developing or constructing such asset; and provided, further, that such Lien will attach concurrently or within one hundred eighty (180) days of the acquisition, development, improvement or construction of such asset or any promise to acquire such asset;

- (b) any Lien securing Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with a Project Financing; provided that the Property over which such Lien is granted consists solely of assets or revenues of the project for which the Project Financing was incurred;
- (c) any Lien on current and future accounts receivable due to the Borrower or any of its Subsidiaries securing Indebtedness owed to, directly or indirectly, (A) any multilateral development bank, (B) FEHIDRO (*Fundo Estadual de Recursos Hídricos*), FESAN (*Fundo Estadual de Saneamento*) or any successor(s) thereto or any similar Brazilian entities that provide funds for similar purposes on similar terms and conditions or (C) any Brazilian federal governmental lender;
- (d) any Lien securing the obligations of the Borrower owed to a counterparty under or pursuant to any contract entered into between the Borrower and such counterparty in connection with any PPP Project;
- (e) any Lien securing Taxes, to the extent any such Taxes are not delinquent or remain payable without penalty or are being diligently contested by appropriate proceedings or other actions in good faith and with respect to which adequate reserves have been established on the books of the Borrower in accordance with the Accounting Principles;
- (f) any order of attachment or similar legal process arising in connection with appropriate proceedings; provided that the execution or other enforcement thereof has effectively been stayed and the claims secured thereby are being contested at the time in good faith by appropriate proceedings;
- (g) any Lien securing claims of mechanics, laborers, workmen, repairmen, materialmen, suppliers, carriers, warehousemen, landlords, mortgagees of landlords or vendors or other claims provided for by mandatory provisions of the laws of Brazil which are not yet due and delinquent, or are being contested in good faith by appropriate proceedings;
- (h) any Lien existing on the Effective Date;
- (i) any Lien on property existing prior to the acquisition of such property by the Borrower; provided that no such Lien was created in connection with or in contemplation of such acquisition;
- (j) any Lien arising solely by operation of law;
- (k) any Lien on any assets or Property owned by any Subsidiary of the Borrower, which Lien existed at the time of acquisition of the interest in such Subsidiary by

the Borrower or any of its Subsidiaries (including by way of merger, consolidation or otherwise) and which Lien was not created in connection with or in anticipation of such acquisition;

- (l) any Lien arising out of the title retention provision in connection with the purchase of goods and equipment in the ordinary course of business;
- (m) any Lien (x) on deposits to secure, or any Lien otherwise securing, the performance of bids, trade contracts, commercial or equipment leases, statutory obligations, surety bonds, performance bonds and other obligations of like nature incurred in the ordinary course of business or (y) securing the performance of bids or proposals for the acquisition of assets by the Borrower or any of its Subsidiaries;
- (n) any Lien securing reimbursement obligations under letters of credit, guarantees and other forms of credit enhancement given in connection with the purchase of goods and equipment in the ordinary course of business;
- (o) any Lien granted in respect of Indebtedness that is exchangeable or convertible into shares of the Borrower or any of its Subsidiaries; provided that such Lien is only granted over the shares into which such Indebtedness is exchangeable or convertible;
- (p) any Lien on any property resulting solely from the granting, performance or termination of a concession or similar right, arrangement or agreement;
- (q) easements, rights-of-way restrictions, minor defects or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the business of the Borrower or any of its Subsidiaries;
- (r) any interest or title of a lessor in property subject to any Capital Lease Obligation or operating lease;
- (s) any Lien on current and future accounts receivable due to the Borrower or any of its Subsidiaries securing Indebtedness incurred by the Borrower or such Subsidiaries to finance working capital;
- (t) any Lien securing an extension, renewal or financing of Indebtedness secured by the Liens described in clauses (c), (g), (h) and (j) secured by a Lien in a principal amount not greater than the original principal amount thereof; and
- (u) any other Lien not described in clauses (a) through (t), provided that at the time such Lien is created, incurred or granted, the principal amount of Indebtedness secured by all Liens created, incurred or granted in reliance on this clause (u) shall not exceed the greater of (x) one hundred million Dollars (\$100,000,000) (or its equivalent in other currencies) and (y) one percent (1.00%) of adjusted shareholders' equity, as reflected in the Borrower's Financial Statements.

Person means any natural person or any company, partnership, joint venture, firm, corporation, voluntary association, trust, enterprise, unincorporated organization or other body corporate or any Authority or any other entity whether acting in an individual, fiduciary or other capacity.

PPP Project means a transaction entered under Brazilian federal law n.º11.079, of December 30, 2004 and/or state law n.º11.688, of May 19, 2004 (so-called public-private partnerships, **PPP**) that is (x) in accordance with the Borrower's investment budget, (y) solely for the purpose of operating assets which are closely related to the performance of the Borrower's main corporate purpose and investments in developing, improving or constructing, which are related to the services rendered in connection with the project; and (z) providing for economic benefits for the Borrower, which will be appraised by a well-known third-party appraiser and approved by the Borrower prior to its commitment with the transaction.

Prohibited Practice means any of the following:

- (a) impairing or harming, or threatening to impair or harm, directly or indirectly, any Person or the property of such Person to influence improperly the actions of such Person or any other Person including, without limitation, bid-rigging or any such other actions undertaken with respect to the granting of contracts or government concessions or otherwise in furtherance of a Corrupt Practice or a Fraudulent Practice, as such terms are defined below (a **Coercive Practice**);
- (b) an arrangement between two or more Persons designed to influence improperly the actions of another Person or to otherwise achieve an improper purpose including, without limitation, bid-rigging or any such other actions undertaken with respect to the granting of contracts or government concessions or otherwise in furtherance of a Corrupt Practice or a Fraudulent Practice, as such terms are defined below (a **Collusive Practice**);
- (c) offering, giving, receiving or soliciting, directly or indirectly, anything of value to influence improperly the actions of any official of any Authority or any other Person including, without limitation, bribery and practices commonly referred to as "kickbacks" (a **Corrupt Practice**);
- (d) any action, misrepresentation or omission that knowingly or recklessly misleads or attempts to mislead any other Person in order to obtain a financial benefit or avoid an obligation (a **Fraudulent Practice**); or
- (e) an Obstructive Practice.

Project Financing means any financing of all or part of the costs of the acquisition, construction or development of any project; provided, that the Person or Persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the only source of repayment for the monies advanced.

Property means any right or interest in or to assets or property of any kind whatsoever, whether real, personal or mixed and whether movable or immovable, tangible or intangible.

Rate Basis Conversion has the meaning assigned to that term in Section 3.22.6 (*A Loan Interest*).

Rate Basis Conversion Date means the first day of the Interest Period immediately following the date of delivery of the Conversion Notice; provided that for any Conversion Notice delivered less than thirty (30) days before the first day of the next Interest Period, the Rate Basis Conversion Date shall be the first day of the second Interest Period immediately following the date of delivery of the Conversion Notice.

Reais or BRL means the lawful currency of Brazil.

Release means, with respect to any chemical, material or substance any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing or other introduction into the environment of such chemical, material or substance, including the abandonment or discarding of barrels, containers, and other closed receptacles containing any Hazardous Substance.

Relevant Change has the meaning assigned to that term in Section 3.20 (*Illegality*).

Relevant Permit means each Authorization that is, or may be at any time, necessary under any applicable law, rule or regulation:

- (a) for the Loan;
- (b) for the Borrower to conduct its business as it is presently carried on and is contemplated to be carried on;
- (c) in connection with the execution, delivery, validity and enforceability of the Financing Documents and the performance by each party thereto of its obligations thereunder;
- (d) for the enforcement by IDB of its rights and remedies under the Financing Documents; and
- (e) for the remittance to IDB or its assigns in Dollars of all monies payable under or with respect to the Financing Documents.

Restricted Payment means:

- (a) all distributions (whether in cash, Property or obligations) on, other payments on account of, the setting apart of money for a sinking or other fund for, and the purchase, redemption, retirement or other acquisition of any portion of the Borrower's Share Capital or any Equity Rights in respect of the Borrower, including any payments to be made by the Borrower to its Shareholders and other Affiliates, including payments in respect of dividends (including, without limitation, *juros sobre capital*), capital reductions, distributions, repurchases or redemptions of outstanding stock (including options or warrants), and Investments

in, capital contributions, loans, advances and other payments to any Shareholder or other Persons; or

- (b) any payment, purchase, retirement or other acquisition of any subordinated loans made to the Borrower by its Shareholders or Affiliates, any debt other than the Loan or any deposit or similar transaction made to secure any loan or other financial obligation of any Affiliate of the Borrower.

ROF Registration means the electronic registration of the financial terms and conditions of the Loan with the Registry of Financial Operations (“ROF”) module of the Electronic Declaratory Registry (“RDE”) of SISBACEN, including without limitation the registration of the relevant payment schedules after each Disbursement and the entry of the respective proceeds into Brazil as required under the Central Bank of Brazil’s applicable regulations.

Sabesp Corporate Environmental Management System means the corporate environmental management system of the Borrower presented to IDB during IDB’s due diligence.

Second Currency has the meaning assigned to that term in Section 3.10.1 (*Judgment Currency*).

Share Capital means, as to any Person (other than a natural Person), all shares of capital stock (*capital acionário*) of any class that have been issued (regardless of whether such shares are actually subscribed and/or paid-up) or other ownership interests of any kind, however called, in such Person, and any and all warrants, options, subscription bonuses or other rights to purchase, subscribe or acquire any title to any of the foregoing.

Shareholder means any Person who from time to time owns Share Capital of the Borrower.

SISBACEN means the *Sistema de Informações do Banco Central*, the information recording system of the Brazilian Central Bank.

Subsidiary means, with respect to any Person, any entity:

- (a) over fifty percent (50%) of whose Share Capital with ordinary voting power is owned, directly or indirectly, by that Person;
- (b) for which that Person may nominate or appoint a majority of the members of the Board of Directors, Board of Officers, administrators or such other body or group of Persons performing similar functions; or
- (c) which is otherwise effectively Controlled by that Person.

Swap Market Fixed Rate means the fixed rate quoted in the Dollar swap market as being payable in respect of interest at LIBOR, for all or any portion of the A Loan, as relevant, as determined by IDB on the basis of the most favorable rate to the Borrower out of three (3) firm quotations from dealers in the Dollar swap market selected by IDB in good faith, taking into consideration the repayment schedule set forth in Section 3.3.1 (*Repayment*), the Term Date and the final maturity date for the A Loan (with any necessary determinations being made by IDB).

Tax Returns means all returns, declarations, reports, estimates, information returns, statements and other documents of, relating to, or required to be filed with any Authority in respect of Taxes.

Taxes means all present and future taxes, imposts, contributions (including social contributions and *contribuições de melhoria*), charges, fees, duties, withholding obligations or other assessments of whatsoever nature levied by any Authority, together with any interest, penalties, additions to tax or other liabilities imposed thereon by any Authority.

Term Date means the date that is the first scheduled A Loan Repayment Date.

Tranche I means such portion of the B Loan, in an aggregate principal amount of up to one hundred million Dollars (\$100,000,000).

Tranche I Interest Rate means the rate of interest payable on the outstanding principal amount of Tranche I from time to time, determined in accordance with Section 3.23.3 (*B Loan Interest*) and, if applicable, Section 3.24 (*Change in Interest Period*).

Tranche II means such portion of the B Loan, in an aggregate principal amount of up to fifty million Dollars (\$50,000,000).

Tranche II Interest Rate means the rate of interest payable on the outstanding principal amount of Tranche II from time to time, determined in accordance with Section 3.23.3 (*B Loan Interest*) and, if applicable, Section 3.24 (*Change in Interest Period*).

Transaction Taxes has the meaning assigned to that term in Section 3.13.2 (*Taxes*).

Section 1.2 Interpretation.

In this Agreement, unless the context otherwise requires:

1.2.1 headings and the rendering of text in bold and italics are for convenience only and do not affect the interpretation of this Agreement;

1.2.2 words importing the singular include the plural and *vice versa* and the masculine, feminine and neuter genders include all genders;

1.2.3 the words “hereof”, “herein”, and “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement;

1.2.4 a reference to a Section, paragraph, party, Exhibit or Schedule is a reference to that Section or paragraph of, or that party, Exhibit or Schedule to, this Agreement unless otherwise specified;

1.2.5 a reference to this Agreement or any other Financing Document shall mean such document including any amendment or supplement to, or replacement, novation or modification of, that document but disregarding any amendment, supplement, replacement, novation or modification made in breach of this Agreement or such Financing Document;

1.2.6 a reference to a Person includes that Person's successors and permitted assigns;

1.2.7 all terms defined in this Agreement shall have the meanings ascribed thereto in Section 1.1 (*Definitions*) when used in any certificate or other document made or delivered pursuant hereto;

1.2.8 the term "including" means "including without limitation" and any list of examples following such term shall in no way restrict or limit the generality of the word or provision in respect of which such examples are provided;

1.2.9 phrases such as "satisfactory to IDB", "approved by IDB", "acceptable to IDB", "as determined by IDB", "in IDB's discretion", and phrases of similar import authorize and permit IDB to approve, disapprove, determine, act or decline to act in its sole discretion, unless expressly provided to the contrary herein;

1.2.10 references to any law, statute, code or statutory provision are to be construed as a reference to the same as it may from time to time be amended, modified or re-enacted, and include references to all bylaws, instruments, orders and regulations for the time being made thereunder or deriving validity therefrom unless the context otherwise requires;

1.2.11 for purposes of this Agreement, any term that is used in this Agreement and is defined by reference to any Financing Document shall continue to have the original definition notwithstanding any termination, expiration or modification of any such Financing Document, except to the extent the parties hereto may otherwise agree; and

1.2.12 references to "knowledge", "know" and "known" shall mean knowledge after due inquiry.

Section 1.3 Business Day Adjustment.

Except as otherwise expressly provided herein, where the day on or by which a payment is due to be made is not a Business Day, that payment shall be made on or by the next succeeding Business Day. Interest, fees and charges (if any) thereon shall continue to accrue for the period from the due date that is not a Business Day to that next succeeding Business Day.

Section 1.4 Conflicts.

In the case of any conflict between the terms and conditions of this Agreement and the terms and conditions of any other Financing Document, the terms and conditions of this Agreement shall prevail.

Section 1.5 Financial Calculations.

1.5.1 All financial calculations to be made under, or for the purposes of, this Agreement and any other Financing Document or in any certificate or other document made or delivered pursuant hereto or thereto shall be determined in accordance with the Accounting Principles.

1.5.2 Except as otherwise required to conform to any provision of this Agreement, all financial calculations shall be made from the then most recently issued quarterly Financial Statements, which the Borrower is obligated to furnish to IDB under Section 6.3.2 (*Unaudited Quarterly Consolidated Financial Statements*).

1.5.3 Where quarterly Financial Statements are used for the purpose of making financial calculations and those statements are with respect to the last Financial Quarter, then, at IDB's option, those calculations may instead be made from the audited Financial Statements for the relevant Financial Year.

1.5.4 If a financial calculation is to be made under or for the purposes of this Agreement or any other Transaction Document on a Consolidated Basis, that calculation shall be made by reference to the sum of all amounts of similar nature reported in the relevant financial statements of each of the entities whose accounts are to be consolidated with the accounts of the Borrower plus or minus the consolidation adjustments customarily applied to avoid double counting of transactions among any of those entities, including the Borrower.

ARTICLE 2

Purpose of the Loan

The Borrower will use the Loan (i) for refinancing, including the outstanding Eurobond issuance due to mature in June 2008 (the **Refinancing**) and (ii) to support 2007-2010 capital expenditures in water, sewage and other programs.

ARTICLE 3

Agreement for the Loan

Part 1: The Loan

Section 3.1 The Loan Amount.

Subject to the terms and conditions of this Agreement, IDB shall lend to the Borrower, and the Borrower may borrow from IDB, an aggregate principal amount of up to two hundred fifty million Dollars (\$250,000,000). The Loan shall consist of:

3.1.1 the A Loan, in an aggregate principal amount of up to one hundred million Dollars (\$100,000,000); and

3.1.2 the B Loan, in an aggregate principal amount of up to one hundred fifty million Dollars (\$150,000,000), to be made in two (2) tranches, Tranche I and Tranche II, with such amount to be funded by the Participants pursuant to this Agreement and the Participation Agreements.

Section 3.2 Disbursement Procedure.

3.2.1 Subject to the satisfaction of the conditions set forth in Article 5, the Borrower may request Disbursements by delivering to IDB, at least fifteen (15) Business Days prior to the proposed First Disbursement Date and at least ten (10) Business Days prior to each subsequent proposed Disbursement Date, a Disbursement Request and a receipt substantially in the form of Exhibit 2 (*Form of Disbursement Receipt*).

3.2.2 On each Disbursement Date, IDB shall, subject to the satisfaction of the conditions in Article 5 (*Conditions Precedent to Disbursement*), make the proceeds of the relevant Disbursement available to the Borrower in accordance with this Section 3.2 (*Disbursement Procedure*), provided that IDB is not obligated to make:

3.2.2.1 any B Loan Disbursement unless and until all Participants shall have made available to IDB, in immediately available funds, their proportionate share of such Disbursement in accordance with the Participation Agreements;

3.2.2.2 any Disbursement except *pro rata* from the A Loan and the B Loan; or

3.2.2.3 any B Loan Disbursement except *pro rata* from Tranche I and Tranche II.

3.2.3 Each Disbursement of the Loan shall be made in Dollars at a bank in the City of New York, New York for further credit to the Borrower's account at a bank in Brazil, or any other place acceptable to IDB, all as specified by the Borrower in the relevant Disbursement Request.

3.2.4 The Borrower shall not request more than one (1) Disbursement of the Loan per calendar month and no more than ten (10) Disbursements total. Each Disbursement of the Loan (except the last Disbursement) shall be made in an amount of not less than twenty-five million Dollars (\$25,000,000).

3.2.5 A Disbursement Request shall be irrevocable.

3.2.6 The Borrower shall not be entitled to make any Disbursement Requests after the Commitment Termination Date.

Section 3.3 Repayment.

3.3.1 The Borrower shall repay the A Loan in the amounts and on the dates set out in the table below:

A Loan Principal Repayment Date	Amount of Principal to be Repaid
May 15, 2011	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2012	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2013	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2014	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date

A Loan Principal Repayment Date	Amount of Principal to be Repaid
May 15, 2015	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2016	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2017	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2018	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2019	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2020	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2021	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2022	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date
May 15, 2023	1/13 of the total amount of the A Loan disbursed as of the Commitment Termination Date

3.3.2 The Borrower shall repay the B Loan:

3.3.2.1 with respect to Tranche I, in the amounts and on the dates set out in the table below:

Tranche I Principal Repayment Date	Amount of Principal to be Repaid
May 15, 2011	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2012	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2013	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2014	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2015	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2016	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2017	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2018	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2019	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date
May 15, 2020	1/10 of the total amount of Tranche I of the B Loan disbursed as of the Commitment Termination Date

3.3.2.2 with respect to Tranche II, in the amounts and on the dates set out in the table below:

Tranche II Principal Repayment Date	Amount of Principal to be Repaid
May 15, 2011	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2012	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2013	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2014	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2015	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2016	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2017	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date
May 15, 2018	1/8 of the total amount of Tranche II of the B Loan disbursed as of the Commitment Termination Date

3.3.3 Principal amounts repaid pursuant to this Section 3.3 (*Repayment*) may not be reborrowed.

Section 3.4 IDB's Determination Final.

IDB's internal records regarding payments made on account of the Obligations shall be final and conclusive and bind the Borrower unless the Borrower proves to IDB's satisfaction that the determination involved manifest error; provided, that the failure of IDB to maintain such accounts or any error therein shall not in any manner reduce or limit the obligation of the Borrower to repay the Loan in accordance with the terms of this Agreement.

Section 3.5 Voluntary Prepayments.

3.5.1 The Borrower may prepay all or any portion of the Loan on not less than thirty (30) days' prior notice to IDB, but only if:

- 3.5.1.1 the Borrower concurrently pays (a) all accrued interest on the Loan; (b) all accrued Increased Costs (if any) on the Loan; (c) the amount payable (if any) in respect of such prepayment pursuant to Section 3.14.1.2 (*Costs, Expenses and Losses*); (d) the Fixed Rate Prepayment Costs (if any) in respect of such prepayment; and (e) all other Obligations then due and payable;
- 3.5.1.2 for a partial prepayment of the Loan, the principal amount of the Loan prepaid is an amount not less than ten million Dollars (\$10,000,000) or a whole multiple of ten million Dollars (\$10,000,000) in excess thereof; and
- 3.5.1.3 upon request by IDB, the Borrower delivers to IDB, no later than thirty (30) days before the date of prepayment, evidence satisfactory to IDB that any Authorizations necessary with respect to the prepayment have been

obtained and that it has timely notified the Central Bank of its intention to prepay.

3.5.2 A prepayment notice is irrevocable. Upon delivery of a prepayment notice in accordance with Section 3.5.1 (*Voluntary Prepayments*), the Borrower shall be obligated to make the prepayment in accordance with the terms of that notice.

Section 3.6 Mandatory Prepayments.

The Borrower's right to request, and any obligation of IDB to make, Disbursements shall automatically terminate *de pleno iure* (*cláusula resolutoria expresa*), and the Borrower shall immediately prepay the Loan and concurrently pay (i) all accrued interest on the Loan; (ii) the Increased Costs (if any) on the Loan; (iii) the amount payable (if any) in respect of such prepayment pursuant to Section 3.14.1.2 (*Costs, Expenses and Losses*); (iv) the Fixed Rate Prepayment Costs (if any) in respect of such prepayment; and (v) all other Obligations then due and payable, if:

3.6.1 the State of São Paulo (i) reduces its equity interest in the Borrower below fifty per cent (50%) plus one (1) share of the voting stock; or (ii) loses the ability to direct or cause the direction of the management and policies of the Borrower or otherwise ceases to Control the Borrower;

3.6.2 the State of São Paulo transfers Share Capital in the Borrower, or the Borrower issues new Share Capital, and the recipient of such transfer or issuance is a Person:

3.6.2.1 who, as a result of such transfer or issuance, would hold more than ten percent (10%) in aggregate of the outstanding shares of Share Capital of the Borrower; and

3.6.2.2 to whom IDB does not consent due to integrity or corporate governance matters pertaining to such Person (which consent by IDB shall not be unreasonably withheld, rejected or conditioned);

it being acknowledged and agreed that no mandatory prepayment obligation shall apply to transfers of shares involving only Persons other than the State of São Paulo on the New York Stock Exchange or the Novo Mercado Bovespa Brasil or to listings or to new issuances of shares on such exchanges; or

3.6.3 Brazil ceases to be an IDB Member.

Section 3.7 Application of Prepayments.

3.7.1 Amounts of principal prepaid under Section 3.5 (*Voluntary Prepayments*) or Section 3.6 (*Mandatory Prepayments*) shall:

3.7.1.1 first, be allocated by IDB *pro rata* between the A Loan and the B Loan in proportion to their respective principal amounts outstanding;

3.7.1.2 with respect to the B Loan, be applied by IDB *pro rata* between Tranche I and Tranche II in proportion to their respective principal amounts outstanding; and

3.7.1.3 then, following the allocations in Sections 3.7.1.1 and 3.7.1.2 (*Application of Prepayments*), be applied by IDB to all the respective outstanding installments of principal of the A Loan, Tranche I and Tranche II in inverse order of maturity.

3.7.2 Any principal amount of the Loan prepaid under Section 3.5 (*Voluntary Prepayments*) or Section 3.6 (*Mandatory Prepayments*) may not be reborrowed.

Section 3.8 Charges and Fees.

The Borrower shall pay to IDB the following fees (and without duplication to the extent that such fees are expressed to be payable, or already have been paid, pursuant to the Arranger Agreement or the Mandate Letter):

3.8.1 an analysis fee of one hundred thousand Dollars (\$100,000), payable no later than the First Disbursement Date;

3.8.2 a front-end fee of five hundred thousand Dollars (\$500,000) in respect of the A Loan and one million one hundred twenty-five thousand Dollars (\$1,125,000) in respect of the B Loan, in each case payable upon the earlier of (a) the date that is thirty (30) days after the Effective Date; and (b) the First Disbursement Date; provided always that any amounts paid to IDB in respect of the Front-End Fee before the Effective Date shall be deducted from the amount due and payable on the earlier of such dates;

3.8.3 a commitment fee (the ***Commitment Fee***) at the rate of three fifths of one percent (0.60%) per annum of the undisbursed and uncanceled portion of the Loan. The Commitment Fee shall:

3.8.3.1 begin to accrue on the earlier of (a) thirty (30) days after the Effective Date and (b) the First Disbursement Date;

3.8.3.2 be calculated on the basis of a 360-day year for the actual number of days elapsed; and

3.8.3.3 be payable in arrears on the Interest Payment Dates in each year, the first such payment to be due on the first Interest Payment Date occurring after the date on which the Commitment Fee begins to accrue pursuant to Section 3.8.3.1 (*Charges and Fees*);

3.8.4 a structuring and syndication fee of three hundred seventy-five thousand Dollars (\$375,000), payable upon the earlier of (a) the date that is thirty (30) days after the Effective Date; and (b) the First Disbursement Date; and

3.8.5 an annual administration fee of five thousand Dollars (\$5,000) per Participant (but in no event more than twenty thousand Dollars (\$20,000) per annum in the aggregate), payable on the Effective Date; and (b) thereafter, on each anniversary of the first Interest Payment Date following the Effective Date.

Section 3.9 Currency and Place of Payment.

Payments of all Obligations due to IDB shall be made in Dollars, in immediately available funds to IDB at the New York office of Union Bank of California, N.A., Account No. 37130196431 (ABA #122000496), Swift BOFCUS33MPK, for further credit to Receipt Account 6711848701, no later than 11:00 a.m. New York City time on the due date for payment, or at IDB's account at such other bank or banks, in such place or places, as IDB shall from time to time designate. IDB may deem any payment, or part thereof, relating to the Loan that is received after that time as made on the next Business Day and, accordingly, interest shall accrue on any Participant's *pro rata* share of that payment with respect to which IDB is unable to make same day remittance to that Participant.

Section 3.10 Judgment Currency

3.10.1 The payment obligations of the Borrower under this Agreement shall not be discharged by an amount paid in a currency or place other than as set forth in Section 3.9 (*Currency and Place of Payment*), whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to Dollars and transfer to the account set forth in Section 3.9 (*Currency and Place of Payment*) under normal banking procedures does not yield the amount of Dollars due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency (the ***Second Currency***), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures IDB could purchase Dollars with the Second Currency on the Business Day next preceding the date on which such judgment is rendered. Notwithstanding the rate of exchange actually applied in rendering such judgment, the Borrower shall, as a separate obligation, pay to IDB on demand in Dollars, such additional amount as is necessary to enable IDB to receive, after conversion of the amount received in the Second Currency to Dollars and transfer to the account set forth in Section 3.9 (*Currency and Place of Payment*) in accordance with normal banking procedures, the full amount due to IDB under this Agreement.

3.10.2 Notwithstanding the terms of Section 3.10.1 (*Judgment Currency*), IDB may require the Borrower to pay (or reimburse IDB) in any currency other than Dollars for:

3.10.2.1 any Taxes and other amounts payable under Section 3.13 (*Taxes*); and

3.10.2.2 any fees, costs and expenses payable under Section 3.8 (*Charges and Fees*) or Section 3.14 (*Costs, Expenses and Losses*); and

in each case to the extent such amounts are payable in such other currency.

Section 3.11 Allocation of Partial Payments.

If IDB at any time receives less than the full amount then due and payable to it in respect of the Obligations, IDB shall have the right (as between IDB and the Borrower) to allocate and apply such payment in any way or manner and for such purpose or purposes under this Agreement or any other Financing Document as IDB in its discretion determines, notwithstanding any instruction that the Borrower may give to the contrary.

Section 3.12 Late Charges.

3.12.1 Without limiting the remedies available to IDB under this Agreement, any other Financing Agreement or otherwise, if the Borrower:

3.12.1.1 fails to make any payment of principal or interest (including interest payable pursuant to this Section) when due hereunder (whether at stated maturity or upon acceleration), the Borrower shall pay interest on the amount of that payment due and unpaid at the rate that shall be the sum of two percent (2.00%) per annum plus the then applicable A Loan Interest Rate (with respect to amounts relating to the A Loan) or the B Loan Interest Rate (with respect to amounts relating to the B Loan) then in effect; or

3.12.1.2 fails to pay any Obligations (other than principal of, and interest on, the A Loan and the B Loan), when due (whether at stated maturity or upon acceleration), the Borrower shall pay interest on such overdue and unpaid amounts at a rate per annum equal to the sum of two percent (2.00%) per annum plus the higher of: (a) the A Loan Interest Rate then in effect; (b) the Tranche I Interest Rate then in effect; and (c) the Tranche II Interest Rate then in effect.

3.12.2 Interest at the rates referred to in Sections 3.12.1.1 and 3.12.1.2 (*Late Charges*) shall accrue from the date the payment was due until the date on which such payment is made in full but excluding the date on which IDB actually receives the payment (as well after as before judgment), and shall be payable on demand, or, if not demanded, on each Interest Payment Date falling after any such overdue amount became due.

Section 3.13 Taxes.

3.13.1 The Borrower acknowledges that under the Agreement Establishing the Inter-American Development Bank dated December 30, 1959, IDB and its Property, income and transactions are immune from all Taxes imposed by IDB Members.

3.13.2 Notwithstanding the foregoing, the Borrower shall pay or cause to be paid all Taxes and other liabilities of whatsoever nature (other than any Taxes imposed on or measured by net income) imposed on or in connection with the payment of any Obligation by any Authority of Brazil or any Authority of any other jurisdiction from or through which any such payment is made, including payments made by IDB to the Participants under the respective Participation Agreements (all such Taxes and liabilities, collectively, *Transaction Taxes*).

3.13.3 All payments by the Borrower under this Agreement or under any other Financing Document shall be made free and clear of and without deduction or withholding for or on account of any Transaction Taxes. If the Borrower is required by applicable law or otherwise to deduct or withhold any Transaction Taxes from any such payment (a) the amount payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional amounts payable under this Section) IDB receives the full amount it would have received had no such deduction or withholding been required, and (b) the Borrower shall make such deduction or withholding and shall pay the full amount deducted or withheld to the relevant Authority in accordance with applicable law.

3.13.4 The Borrower shall pay any stamp, recording, documentary or similar taxes and all other charges or levies payable on or in connection with the execution, delivery, registration, consularization, translation, notarization or enforcement of this Agreement and the other Financing Documents (collectively, *Other Taxes*).

3.13.5 The Borrower shall indemnify IDB and the Paying Agent for the full amount of Transaction Taxes and Other Taxes arising in connection with payments made under any Financing Document (including any Transaction Taxes or Other Taxes imposed by any Authority on amounts payable under this Section 3.13 (*Taxes*)) and paid by IDB or the Paying Agent and any liability (including penalties, additions to tax, interest and expenses) arising therefrom or with respect thereto, whether or not such Transaction Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnity shall be made within thirty (30) days from the date the indemnitee makes written demand therefor.

3.13.6 The Borrower shall furnish to IDB, within thirty (30) days after the date the payment of any Transaction Taxes or Other Taxes is due, certified copies of receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower satisfactory to IDB.

Section 3.14 Costs, Expenses and Losses.

3.14.1 If IDB or any Participant shall incur any cost, expense or loss (other than loss of anticipated profits from investments unrelated to the Loan) under the Paying Agency Agreement or as a result of the Borrower:

3.14.1.1 failing to (a) pay any Obligations on the due date therefor; (b) borrow in accordance with any Disbursement Request; (c) make any prepayment in accordance with a notice of prepayment pursuant to Section 3.5 (*Voluntary Prepayments*) or Section 3.6 (*Mandatory Prepayments*); or (d) make any repayment or prepayment required pursuant to Section 3.3 (*Repayments*) or Section 3.20 (*Illegality*), as the case may be;

3.14.1.2 prepaying all or any portion of the Loan on a date other than an Interest Payment Date;

then the Borrower shall pay, within thirty (30) days of IDB's demand therefor, in Dollars, to IDB the amount that IDB shall notify to the Borrower from time to time as being the aggregate of such actual costs, expenses and losses.

3.14.2 For the purposes of this Section 3.14 (*Costs, Expenses and Losses*), “costs, expenses or losses” include any interest paid or payable to cover any unpaid amount, any “broken funding” or hedge liquidation costs and any loss, premium, penalty or expense that may be incurred in liquidating or employing deposits of or borrowings from third parties in order to make, maintain or fund all or any part of the Loan or a Participation (but, in each case, after taking into account any Fixed Rate Prepayment Costs received by IDB under Section 3.19 (*Fixed Rate Prepayment Costs for Prepayment of A Loan*)), and, in the case of a late payment, after taking into account any late payment interest received by IDB under Section 3.12 (*Late Charges*)).

3.14.3 In the case of the Borrower’s repayment of any part of the Loan that bears a variable interest rate on any date other than an Interest Payment Date, the “costs, expenses or losses” incurred by IDB shall include, and the Borrower shall pay to IDB, in addition to any other amounts payable by the Borrower under the preceding clause, the amount determined by IDB or the relevant Participant, as the case may be, to be equal to the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of the A Loan or the B Loan, as the case may be, had such repayment not occurred, at the rate of interest then in effect under Section 3.22 (*A Loan Interest*) or Section 3.23 (*B Loan Interest*), as the case may be, for the remainder of the Interest Period during which the relevant repayment is made over (ii) the amount of interest that IDB or the relevant Participant, as the case may be, would earn on such principal amount repaid for the remainder of such Interest Period if such principal amount were invested for such remaining period at the interest rate that would be bid to IDB from banks in the London interbank market at the time repayment occurs.

Section 3.15 Suspension or Cancellation by IDB.

3.15.1 IDB may, by notice to the Borrower, suspend the right of the Borrower to request Disbursements or cancel all or any portion of the undisbursed balance of the Loan if:

- 3.15.1.1 any Event of Default has occurred and is continuing;
- 3.15.1.2 the Disbursement Request for the last Disbursement has not been made by the Commitment Termination Date; or
- 3.15.1.3 Brazil ceases to be an IDB Member.

3.15.2 In addition to the suspension rights set forth in Section 3.15.1 (*Suspension or Cancellation by IDB*) above, IDB may, by notice to the Borrower, suspend the right of the Borrower to request Disbursements if any Default (other than an Event of Default) has occurred and is continuing,

3.15.3 Upon the giving of any such notice, the right of the Borrower to request any further Disbursements shall be suspended (which suspension shall continue until the event that gave rise to such suspension no longer exists or is continuing (provided always that no other Default exists or is continuing and that Brazil is an IDB Member)) or cancelled, as the case may be. The exercise by IDB of its right of suspension shall not preclude IDB from exercising its right of cancellation, either for the same or any other reason, and shall not limit any other rights of IDB under any other provision of this Agreement or any of the other Financing Documents.

Section 3.16 Cancellation by the Borrower.

3.16.1 The Borrower may, by notice to IDB, irrevocably request IDB to cancel the undisbursed portion of the Loan on the date specified in such notice (which shall be a date not earlier than fifteen (15) Business Days after the date of that notice).

3.16.2 IDB shall, by notice to the Borrower, cancel the undisbursed portion of the Loan effective as of such specified date if IDB has received payment of all fees and other Obligations (other than principal of and interest on the Loan not then due and payable) accrued (whether or not such Obligations (other than principal of and interest on the Loan) are then due and payable) up to such specified date.

Section 3.17 Terms and Conditions Applicable to Cancellation or Suspension.

3.17.1 Upon any cancellation, the Borrower shall, subject to Section 3.17.3 (*Terms and Conditions Applicable to Cancellation or Suspension*), pay to IDB all fees and other Obligations (other than principal of and interest on the Loan not then due and payable) accrued (whether or not such Obligations (other than principal of and interest on the Loan) are then due and payable) up to the date of any such cancellation, including any amounts owed pursuant to Section 3.14 (*Costs, Expenses and Losses*).

3.17.2 The Commitment Fee applicable to any undisbursed and uncanceled portion of the Loan shall continue to accrue and be payable during any suspension of IDB's obligation to make Disbursements pursuant to Section 3.15 (*Suspension or Cancellation by IDB*).

3.17.3 The undisbursed portion of the Loan *shall* be automatically reduced by the portion of the Loan cancelled under Section 3.15 (*Suspension or Cancellation by IDB*) or Section 3.16 (*Cancellation by the Borrower*). Such reduction shall be applied *pro rata* to the A Loan and the B Loan, and *pro rata* to Tranche I and Tranche II.

Section 3.18 Increased Costs.

3.18.1 On each Interest Payment Date the Borrower shall pay, in addition to interest and principal, if applicable, on the Loan, the amount that IDB from time to time notifies to the Borrower in an Increased Costs Certificate as being the aggregate Increased Costs of IDB or any Participant accrued and unpaid prior to such Interest Payment Date.

3.18.2 If the Borrower is required to pay any Increased Costs pursuant to Section 3.18.1 (*Increased Costs*), it may prepay, in whole, but not in part, that part of the Loan with respect to which the Increased Costs are incurred. Such prepayment shall be made in accordance with Section 3.5 (*Voluntary Prepayment*) except that provisions with respect to the timing of any prepayment set forth in Section 3.5.1.1 (*Voluntary Prepayment*) and the minimum prepayment amount set forth in Section 3.5.1.2 (*Voluntary Prepayment*) shall not apply.

3.18.3 Notwithstanding anything set forth in Section 3.13 (*Taxes*) or this Section 3.18 (*Increased Costs*), if at the time of any assignment by any Participant of a Participation (or portion thereof) prior to the occurrence of an Event of Default, such assignment would result in increased Transaction Taxes or additional Increased Costs in respect of such Participation (or

portion thereof) for which the Borrower otherwise would be liable pursuant to the terms of this Agreement or any other Financing Document, the Participant (and not the Borrower) shall be liable for such increased Transaction Taxes or additional Increased Costs.

Section 3.19 Fixed Rate Prepayment Costs for Prepayment of A Loan.

3.19.1 If at any time while the amounts outstanding under the A Loan bear interest at the A Loan Fixed Interest Rate, all or any portion of the A Loan is prepaid, in accordance with Section 3.5 (*Voluntary Prepayments*), Section 3.6 (*Mandatory Prepayments*), Section 3.18 (*Increased Costs*), Section 3.20 (*Illegality*) or Section 7.1.1.2 (*General Acceleration Terms and Conditions*), then, on the date of such prepayment, the Borrower shall pay IDB an amount (the **Fixed Rate Prepayment Costs**) equal to: (a) in the case of a prepayment of the outstanding A Loan in full, an amount in Dollars equal to the cost of breakage of funds, termination costs and other unwinding costs incurred by IDB, if positive, as determined by IDB on the basis of the most favorable costs to the Borrower out of at least three (3) firm quotations from dealers in the Dollar swap market selected by IDB in good faith, taking into account the principal repayment schedule, the Term Date and the final maturity date for the Loan (with any necessary determinations being made by IDB); or (b) in the case of a partial prepayment of the A Loan, a proportion of such costs determined in accordance with subclause (a) above equal to the proportion that the amount of the A Loan being prepaid bears to the amount of the A Loan then outstanding.

3.19.2 IDB's determination of the Fixed Rate Prepayment Costs shall be final and conclusive and bind the Borrower unless the Borrower proves to IDB's satisfaction that the determination involved manifest error.

Section 3.20 Illegality.

Notwithstanding anything to the contrary contained in this Agreement, if, after the Effective Date, any change made in any applicable law or the interpretation or application thereof by any Authority (a **Relevant Change**) makes it unlawful for IDB or any Participant to continue to maintain or to fund the Loan or the relevant Participation or any portion thereof:

3.20.1 the Borrower shall, upon request by IDB (but subject to any applicable Authorization (including from the Brazilian Central Bank) having been obtained), immediately prepay in full:

3.20.1.1 with respect to a Relevant Change affecting the A Loan (or any portion thereof), the entire Loan; or

3.20.1.2 with respect to a Relevant Change affecting the B Loan (or any portion thereof), only that portion of the B Loan that IDB advises is so affected.

3.20.2 concurrently with a prepayment pursuant to Section 3.20.1 (*Illegality*), the Borrower shall pay (a) all accrued interest on the Loan; (b) all accrued Increased Costs (if any) on the Loan; (c) the amount payable (if any) in respect of such prepayment pursuant to Sections 3.13 (*Taxes*) and 3.14.1.2 (*Costs, Expenses and Losses*); (d) the Fixed Rate Prepayment Costs (if any) in respect of such prepayment; and (e) all other Obligations then due and payable;

3.20.3 the Borrower shall take all reasonable steps to obtain, as quickly as possible after receipt of IDB's request for prepayment, the Authorizations referred to in Section 3.20.1 (*Illegality*) if any such Authorizations are then required; and

3.20.4 the Borrower's right to request Disbursement of the undisbursed portion of the Loan shall terminate upon the Borrower's receipt of IDB's request for prepayment under Section 3.20.1.1 (*Illegality*). The Borrower's right to request Disbursement of the undisbursed portion of the B Loan affected by the Relevant Change shall terminate upon the Borrower's receipt of IDB's request for prepayment under Section 3.20.1.2 (*Illegality*).

Section 3.21 Reimbursement of Expenses.

The Borrower shall pay to IDB or to whom IDB may direct the Borrower to pay to IDB's account with such Person:

3.21.1 the fees and expenses of IDB (including the fees and expenses of IDB's counsel) in Brazil and the United States of America incurred in connection with:

3.21.1.1 the preparation for the Loan, including any due diligence;

3.21.1.2 the preparation, review, negotiation, execution, implementation and, where appropriate, translation, registration and notarization of the Financing Documents and any other documents relating to them;

3.21.1.3 the giving of any legal opinions IDB is entitled to request under this Agreement and any other Financing Document;

3.21.1.4 IDB's administration of the Loan, the preservation or exercise of any of IDB's rights under any Financing Document or otherwise in connection with any amendment, supplement or modification to, or waiver under, any of the Financing Documents;

3.21.1.5 the registration (where appropriate) and the delivery of the evidences of indebtedness relating to the Loan and its disbursement; and

3.21.1.6 the occurrence of any Default;

3.21.2 the out-of-pocket expenses (including travel and subsistence expenses), not exceeding the equivalent of ten thousand Dollars (\$10,000) in any calendar year, incurred by IDB in relation to its annual Loan supervision review, including the supervision of compliance with Environmental and Social Provisions, payable upon receipt of a statement of those expenses from IDB;

3.21.3 the fees and expenses of the Paying Agent as provided in the Paying Agency Agreement (it being acknowledged that the fees payable to Union Bank of California, N.A. shall not exceed fifteen thousand Dollars (\$15,000) per annum (each, an **Annual Fee**) plus an initial payment of twenty thousand Dollars (\$20,000) (the **Initial Payment**)). The Initial Payment and first Annual Fee shall be payable on or before the First Disbursement Date, and thereafter, each

Annual Fee shall be payable on May 15 of each calendar year. IDB agrees that it will consult with the Borrower before amending the Paying Agency Agreement or entering into a new Paying Agency Agreement;

3.21.4 the costs and expenses incurred by IDB in relation to efforts to preserve, enforce or protect its rights under any Financing Document, including with respect to IDB's rights under this Section 3.21 (*Reimbursement of Expenses*) and any corresponding terms in any of the other Financing Documents, or the exercise of its rights or powers consequent upon or arising out of the occurrence of any Event of Default, or any other activities of IDB related to the preservation, enforcement or protection of its rights under any Financing Document consequent upon or arising out of the occurrence of any Default, including legal and other professional consultants' fees;

in each case without duplication to the extent that such fees are expressed to be payable, or already have been paid, pursuant to the Arranger Agreement or the Mandate Letter.

Part 2: A Loan and B Loan Interest Rate Terms and Conditions

Section 3.22 A Loan Interest.

Subject to Section 3.12 (*Late Charges*), the Borrower shall pay interest on the principal amount of the A Loan outstanding from time to time in accordance with this Section 3.22 (*A Loan Interest*).

3.22.1 Interest on the A Loan shall accrue from day to day for any Interest Period from and including the first day of such Interest Period to, but excluding, the last day of such Interest Period computed on the basis of actual number of days elapsed in such Interest Period and a year of three hundred and sixty (360) days and be payable in arrears on the Interest Payment Date falling at the end of that Interest Period; provided that with respect to any A Loan Disbursement made less than ten (10) days before an Interest Payment Date, interest on that Disbursement shall be payable commencing on the second Interest Payment Date following the date of that Disbursement.

3.22.2 During each Interest Period, the A Loan (or, with respect to the first Interest Period for each A Loan Disbursement, the amount of that Disbursement) shall bear interest at the A Loan Interest Rate for that Interest Period.

3.22.3 Subject to Section 3.24 (*Change in Interest Period*), the A Loan Interest Rate for any Interest Period shall be the rate that is the sum of:

3.22.3.1 the Applicable LIBOR on the Interest Rate Determination Date for that Interest Period; plus

3.22.3.2 the Applicable Spread.

3.22.4 On each Interest Rate Determination Date, IDB shall determine the A Loan Interest Rate applicable to the relevant Interest Period and promptly notify the Borrower of such rate.

3.22.5 IDB's determination, from time to time, of the A Loan Interest Rate shall be final and conclusive and shall bind the Borrower unless the Borrower proves to IDB's satisfaction that the determination involved manifest error.

3.22.6 The Borrower shall have the right, once during the term of the A Loan after the earlier of the Disbursement in full of the A Loan and the Commitment Termination Date to convert the A Loan Interest Rate from the A Loan Variable Interest Rate to the A Loan Fixed Interest Rate (such conversion, the ***Rate Basis Conversion***), subject to (i) the prior delivery to IDB by the Borrower of documents evidencing that all Authorizations required for the Rate Basis Conversion under applicable law have been obtained, along with a legal opinion from Brazil counsel to the Borrower reasonably acceptable to IDB confirming the validity and effectiveness of such Authorizations, and (ii) the payment of the fee referred to in Section 3.22.9 (*A Loan Interest*), by delivering to IDB an irrevocable Conversion Notice.

3.22.7 Commencing on the Rate Basis Conversion Date, the A Loan shall bear interest at the A Loan Fixed Interest Rate on the full amount of the A Loan outstanding from time to time.

3.22.8 The A Loan Fixed Interest Rate shall be the rate that is the sum of:

- 3.22.8.1 the Swap Market Fixed Rate as of the Interest Rate Reset Date; plus
- 3.22.8.2 the Applicable Spread; plus
- 3.22.8.3 one-eighth of one percent (0.125%) per annum.

3.22.9 As conditions to the Rate Basis Conversion becoming effective, (a) the Borrower shall pay to IDB a one-time administrative fee of an amount in Dollars equal to one-eighth of one percent (0.125%) of the outstanding principal amount of the A Loan on the Interest Rate Reset Date, payable on or prior to the Rate Basis Conversion Date; and (b) the Borrower shall provide to IDB copies of all relevant Authorizations required under applicable law in respect of such Rate Basis Conversion, and no such Rate Basis Conversion shall take effect until all such relevant Authorizations have been received by IDB.

3.22.10 Following a Rate Basis Conversion, the A Loan Interest Rate may not be converted from the A Loan Fixed Interest Rate to the A Loan Variable Interest Rate.

Section 3.23 B Loan Interest.

Subject to Section 3.12 (*Late Charges*), the Borrower shall pay interest on the outstanding principal amount of the B Loan from time to time in accordance with this Section 3.23 (*B Loan Interest*).

3.23.1 Interest on the B Loan shall accrue from day to day for any Interest Period from and including the first day of such Interest Period to, but excluding, the last day of such Interest Period computed on the basis of actual number of days elapsed in such Interest Period and a year of three hundred and sixty (360) days and be payable in arrears on the Interest Payment Date falling at the end of that Interest Period; provided that with respect to any B Loan Disbursement made less than ten (10) days before an Interest Payment Date, interest on that Disbursement shall

be payable commencing on the second Interest Payment Date following the date of that Disbursement.

3.23.2 During each Interest Period, the B Loan (or, with respect to the first Interest Period for each B Loan Disbursement, the amount of that Disbursement) shall bear interest at the B Loan Interest Rate for that Interest Period.

3.23.3 Subject to Section 3.24 (*Change in Interest Period*), the B Loan Interest Rate for any Interest Period shall be the rate that is the sum of:

3.23.3.1 the Applicable LIBOR on the Interest Rate Determination Date for that Interest Period; plus

3.23.3.2 the Applicable Spread for Tranche I or Tranche II, as applicable.

3.23.4 On each Interest Rate Determination Date, IDB shall determine the B Loan Interest Rate applicable to the relevant Interest Period and promptly notify the Borrower of such rate.

3.23.5 IDB's determination, from time to time, of the B Loan Interest Rate shall be final and conclusive and bind the Borrower unless the Borrower proves to IDB's satisfaction that the determination involved manifest error.

Section 3.24 Change in Interest Period.

Without prejudice to the terms of Section 3.12 (*Late Charges*), if at any time while any amounts are outstanding under the A Loan or the B Loan, the Borrower fails to pay any amount of principal of, or interest on, either the A Loan or the B Loan when due (whether at stated maturity or upon acceleration), and any part of that amount remains unpaid on the third (3rd) Business Day immediately preceding any Interest Payment Date falling after that amount became due, then:

3.24.1 IDB may elect that the duration of the Interest Period in respect of the A Loan or the B Loan, as applicable, commencing on that Interest Payment Date and, subject to Section 3.24.2 (*Change in Interest Period*), any subsequent Interest Period shall be shorter in duration and shall notify the Borrower of such election and the duration of such Interest Periods; and

3.24.2 unless a Default has occurred and is continuing, IDB shall reinstate Interest Periods of six (6) months as of the first Interest Payment Date that is May 15 or November 15 falling at least three (3) Business Days after the payment default is remedied in full and shall inform the Borrower of such reinstatement.

Part 3: Promissory Notes

Section 3.25 Notes.

To further evidence its obligation to repay the Loan, with interest accrued thereon, at the request of IDB, the Borrower shall issue and deliver to IDB, on or prior to each Disbursement Date promissory notes substantially in the form of Exhibit 6 (*Form of A Loan Promissory Note*) and Exhibit 7 (*Form of B Loan Promissory Note*) (collectively, the **Notes**) in respect of each of the

A Loan Disbursement and the B Loan Disbursement, respectively. The Notes shall be valid and enforceable as to their principal amount to the extent of the aggregate amounts disbursed and then outstanding hereunder and, as to interest, to the extent of the interest accrued thereon in accordance with the terms of this Agreement. At IDB's request, the Borrower shall promptly execute and deliver new Notes satisfactory to IDB to substitute for the Notes previously delivered to IDB. The Notes shall indicate Brazil as the place of issuance and be delivered to IDB with the maturity date left blank. The Borrower hereby authorizes IDB to insert the earliest of (a) the scheduled maturity date of the Loan, (b) the date any Event of Default occurs, or (c) the date all Obligations otherwise become due and payable hereunder as the maturity date of the Notes.

Section 3.26 Payments under Notes and Loan.

3.26.1 The issuance, execution and delivery of any Note pursuant to this Agreement shall not be or be construed as a novation with respect to this Agreement or any other agreement between IDB and the Borrower and shall not limit, reduce or otherwise affect the obligations or rights of the Borrower under this Agreement, and the rights and claims of IDB under any Note shall not replace or supersede the rights and claims of IDB under this Agreement, all subject to the remaining provisions of this Section 3.26 (*Payments Under Notes and Loan*).

3.26.2 Payment of the principal amount of any Note shall *pro tanto* discharge the obligation of the Borrower to repay that portion of the A Loan and/or B Loan to which such Note relates; and payment of interest accrued on any Note shall *pro tanto* discharge the obligation of the Borrower to pay such amount of interest on that portion of the A Loan and/or B Loan to which such Note relates.

3.26.3 Payment of the principal amount of the A Loan and/or B Loan shall *pro tanto* discharge the obligation of the Borrower to repay the principal amount of the Note or Notes relating to that portion of the A Loan and/or B Loan; and payment of interest accrued on the A Loan and/or B Loan shall *pro tanto* discharge the obligation of the Borrower to pay such amount of interest in respect of the Note or Notes relating to the A Loan and/or B Loan to which such interest relates.

3.26.4 The Borrower shall indemnify and hold harmless IDB and its agents, employees, directors, successors and assigns from and against any claim, damage, charge, proceeding, liability, costs and expenses made, filed, asserted or collected from or against any of them as a result of, or in connection with, the issuance, execution, delivery, or enforcement of any Note issued pursuant to this Section.

ARTICLE 4

Representations and Warranties

Section 4.1 Representations and Warranties.

The Borrower represents and warrants as of the Effective Date and on each Disbursement Date that:

4.1.1 *Organization; Powers.* The Borrower is a *sociedade anônima aberta e de economia mista* duly incorporated and validly existing and in good standing in Brazil and is authorized to do business in Brazil and each other jurisdiction where the character of its Property or nature of its activities makes such authorization necessary. The Borrower has full capacity (*capacidade*), and all requisite corporate power and authority to own its Property, conduct its business as presently conducted and to enter into, and comply with its obligations under, this Agreement and the other Financing Documents to which it is a party, or will, in the case of any Financing Document not executed as at the Effective Date, when that Financing Document is executed, have the capacity and requisite corporate power and authority to enter into, and comply with its obligations under, that Financing Document.

4.1.2 *Enforceability.* Each Financing Document to which the Borrower is a party has been, or will be, duly authorized and executed by the Borrower and constitutes, or will, when executed, constitute, a valid and legally binding obligation of the Borrower, enforceable in accordance with its terms in each case, except as may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

4.1.3 *No Violation.* Neither the execution and delivery by the Borrower of any Financing Document to which it is a party nor (when all the Relevant Permits referred to in Section 4.1.4 (*Relevant Permits*) have been obtained) the compliance by the Borrower with its terms will:

- 4.1.3.1 contravene any judgment, decree or order or any law, rule or regulation applicable to the Borrower or any Authorization applicable to the Borrower;
- 4.1.3.2 contravene or result in any breach of any of the material terms of, or constitute a default or require any consent under the terms of, any indenture, mortgage, deed of trust, agreement or other arrangement to which the Borrower is a party or by which it is bound or to which it may be subject;
- 4.1.3.3 result in the creation or imposition of (or the obligation to create or impose) any Lien (other than Permitted Liens) upon any of the Borrower's other Property; or
- 4.1.3.4 violate the terms of the Borrower's Organizational Documents.

4.1.4 *Relevant Permits.*

- 4.1.4.1 Each material Relevant Permit has been validly issued and obtained and is in full force and effect;
- 4.1.4.2 No material Relevant Permit is the subject of an appeal or judicial or other review by any Authority;
- 4.1.4.3 All conditions (if any) to the effectiveness of each material Relevant Permit have been fully satisfied;
- 4.1.4.4 The Borrower and, if applicable, to the extent that its failure to comply could reasonably be expected to have a Material Adverse Effect, each of its Subsidiaries, is in compliance in all material respects with each Relevant Permit; and
- 4.1.4.5 Neither the Borrower nor, if applicable, to the extent that the expiration, withdrawal, suspension, cancellation, variation, surrender or revocation of a Relevant Permit could reasonably be expected to have a Material Adverse Effect, any of its Subsidiaries, has any reason to believe that any material Relevant Permit that requires renewal will not be renewed as and when required under applicable law without the imposition of additional restrictions or conditions or any material Relevant Permit will be withdrawn, suspended, cancelled, varied, surrendered or revoked.

4.1.5 *Compliance with Applicable Laws.* Other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB, the Borrower and, if applicable, each of its Subsidiaries, is in compliance with all material laws, rules and regulations (other than Environmental Laws, with regard to which the Borrower makes certain representations and warranties in Section 4.1.20 (*Environmental Matters*)) applicable to it.

4.1.6 *No Default.* No Default has occurred and is continuing.

4.1.7 *Litigation.*

- 4.1.7.1 Other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB, no action, suit, other legal proceeding, arbitral proceeding, administrative proceeding, investigation or other claim before or of any Authority is presently in progress or pending against the Borrower, the government of the State of São Paulo, Brazil, or, if applicable, any of the Borrower's Subsidiaries, or, to the best of the Borrower's knowledge, has been threatened in writing against the Borrower, the government of the State of São Paulo, Brazil, or, if applicable, any of the Borrower's Subsidiaries, which either:
 - 4.1.7.1.1 relates to or arises under a Financing Document or the transactions contemplated thereby; or

- 4.1.7.1.2 by itself or together with any other such proceeding or claim, has had or could reasonably be expected to have a Material Adverse Effect; and
- 4.1.7.2 No judgment, order or award has been issued against the Borrower, the government of the State of São Paulo, Brazil, or, if applicable, any of the Borrower's Subsidiaries, that has had or could reasonably be expected to have a Material Adverse Effect.
- 4.1.8 *Payment of Taxes.*
- 4.1.8.1 The Borrower and, if applicable, each of its Subsidiaries, has filed timely or caused to be filed timely all Tax Returns required to be filed by it and has paid or caused to be paid all Taxes due and payable by it whether shown to be due and payable on such Tax Returns or on any assessment received by it or otherwise, except to the extent that such failure would not constitute a breach under Section 6.1.9 (*Taxes*).
- 4.1.8.2 All Taxes required to be deducted or withheld from payments by the Borrower and, if applicable, each of its Subsidiaries, have been timely and duly deducted or withheld and properly paid to the appropriate Authority, except to the extent that such failure would not constitute a breach under Section 6.1.9 (*Taxes*).
- 4.1.8.3 Except as otherwise disclosed in such Financial Statements, neither the Borrower nor, if applicable, any of its Subsidiaries, has received notice of any Lien (other than a Permitted Lien) with respect to Taxes that has been filed against any of the Borrower's or, if applicable, such Subsidiary's, Property nor, to the best of the Borrower's or, if applicable, such Subsidiary's, knowledge, has any such Lien been threatened.
- 4.1.9 *Applicable Taxes.*
- 4.1.9.1 Under the laws of Brazil, the Borrower is not required to deduct or withhold Taxes from any payment to be made by it under this Agreement or any other Financing Document.
- 4.1.9.2 No Taxes or Other Taxes are required to be paid on or in connection with the execution, delivery, registration, notarization or enforcement of this Agreement or any other Financing Document other than Other Taxes for which the Borrower is liable under Section 3.13 (*Taxes*).
- 4.1.9.3 Neither the execution, delivery, registration, notarization or enforcement of any Financing Document, nor the consummation of any of the transactions contemplated thereby, will result in any Tax (exclusive of Taxes on net income) being imposed by any Authority of Brazil upon or with respect to IDB, any of the Participants, the Paying Agent or any other agent of IDB.

4.1.10 *Financial Statements.*

4.1.10.1 The Financial Statements as at and for the annual period ending on December 31, 2007 already delivered to IDB were prepared from and are in accordance with the Borrower's books and records and give a true and fair view of the financial position of the Borrower as of the date thereof and the results of its operations and cash flow for the annual period then ended and were prepared in conformity with the Accounting Principles.

4.1.10.2 Except as disclosed in Schedule 2 (*Liabilities*), such Financial Statements disclose all liabilities (contingent or otherwise) of the Borrower and the reserves, if any, for such liabilities and all unrealized or anticipated liabilities or losses arising from commitments entered into by the Borrower (whether or not such commitments have been disclosed in such Financial Statements).

4.1.11 *No Material Adverse Effect.* Since December 31, 2007, there has been no condition or event that has had or could be reasonably expected to have a Material Adverse Effect.

4.1.12 *Business of the Borrower.* Neither the Borrower nor, if applicable, any of its Subsidiaries, has engaged or agreed to engage in any business that is inconsistent with its scope of business as of the Effective Date.

4.1.13 *Ownership of Property; Liens.* The Borrower and, if applicable, each of its Subsidiaries, has good, legal and valid title to all its material Property, free of all Liens other than Permitted Liens.

4.1.14 *Provision of Information, etc.*

4.1.14.1 All information heretofore or hereafter furnished in writing by or on behalf of the Borrower to IDB (other than opinions, projections and other forward-looking statements) was on its date of issue and continues to be, or will be when furnished, as the case may be, true, complete and correct in all material respects and does not and will not contain any misstatements or omissions that would make it misleading in any material respect. There are no documents, events or conditions that have not been disclosed in writing to IDB that are material in the context of the Financing Documents or that could reasonably be expected to have a Material Adverse Effect.

4.1.14.2 The opinions, projections, and other forward-looking statements included in such information provided to IDB were prepared in good faith, with due care and diligence, utilizing reasonable assumptions, by or on behalf of the Borrower, and such opinions, projections and other forward-looking statements represented the Borrower's views as at the date on which they were prepared.

4.1.14.3 No event has occurred since the date of provision of written information to IDB that has rendered its contents materially untrue, inaccurate or incomplete.

4.1.15 *Subject to Civil and Commercial Law; No Immunity.* The Borrower is subject to civil and commercial law in respect of all its obligations hereunder and the execution and delivery by the Borrower of, and the compliance with its obligations under, this Agreement and the other Financing Documents to which it is a party constitute private and commercial acts of the Borrower rather than public or governmental acts. Neither the Borrower nor any of its Property has any immunity (sovereign or otherwise) from any legal action, suit or proceeding (whether service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) or from the jurisdiction of any court or from set-off. To the extent that the Borrower or any of its Property, assets or revenues may hereafter become entitled to any such right of immunity in any proceedings arising out of this Agreement or the other Financing Documents to which the Borrower is a party, or the transactions contemplated hereby or thereby, the Borrower's right to claim immunity in any such proceeding has been fully waived under Section 8.10.10 (*Applicable Law and Jurisdiction*). Such waiver is legal, valid and binding under applicable laws in Brazil and would be enforced in accordance with its terms by the courts of Brazil.

4.1.16 *Legal Form; Enforceability.* All formalities required in Brazil for the validity and enforceability of this Agreement and the other Financing Documents have been or will be accomplished prior to the First Disbursement Date (other than, with regard to the Loan Agreement, notarization, legalization by Brazilian consular authorities, translation into Portuguese by a sworn certified public translator and registration with the Registry of Titles and Documents in the city where the Borrower's head office is located, all of which will be accomplished no later than thirty (30) days after the Effective Date), and no further action is required for the validity and enforceability thereof.

4.1.17 *Pari Passu.* The obligations of the Borrower under the Financing Documents are senior, unconditional and unsubordinated obligations and rank and will rank in all respects at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Borrower, except for obligations mandatorily preferred by law applying to companies generally.

4.1.18 *Share Capital.*

4.1.18.1 The authorized Share Capital of the Borrower consists of 227,836,623 common, nominative and book-entry form shares, all of which are duly issued, subscribed for and paid-up, representing a Borrower's corporate capital in the total amount of BRL 6,203,688,565.23.

4.1.18.2 As of the date hereof, the State of São Paulo, Brazil owns fifty and thirteen fiftieths of one percent (50.26%) of the Share Capital of the Borrower. Under the Borrower's Organizational Documents and the State of São Paulo Law No. 119 of June 28, 1973, as amended, the government of the

State of São Paulo, Brazil is required to own at least the absolute majority of the Borrower's Share Capital at all times.

- 4.1.18.3 Each such share is entitled to one vote with respect to all matters requiring a vote of the Shareholders under applicable law, including the appointment of each Person proposed to serve on the Board of Directors of the Borrower.
- 4.1.18.4 All such shares have been duly authorized, validly issued and fully paid for full cash consideration.
- 4.1.18.5 To the best of the Borrower's knowledge, except as specified in Sections 4.1.18.1 and 4.1.18.2 (*Share Capital*) above, no Person has any Equity Rights in respect of the Borrower of greater than ten percent (10%).

4.1.19 *Impact of Government Ownership.* The government of the State of São Paulo, Brazil has the right to appoint the majority of the members of the Borrower's Board of Directors. Pursuant to the Borrower's Organizational Documents the Borrower operates its business on a commercial basis and in a manner which gives due consideration to certain policy objectives of the government of the State of São Paulo, Brazil. The Borrower can set its own prices and rates for its products and services in accordance with applicable rules and regulations and with due regard to the policy considerations of its controlling shareholder, the government of the State of São Paulo, Brazil.

4.1.20 *Environmental Matters.* Other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB, the operations and Property of the Borrower and each of its Subsidiaries comply with all Environmental Laws, except to the extent that failure by it to so comply, either individually or in the aggregate, would not have a Material Adverse Effect. With respect to Borrower's business activities, operations, facilities and staff and other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB: (i) to its reasonable knowledge, there are no existing material adverse impacts or risks relating to Environmental or Social Matters, including any material Release of Hazardous Substances, presence of underground storage tanks on any part of the Borrower's facilities or Property or polychlorinated biphenyl used or located at or contaminating any part of the Borrower facilities or Property, that have not been adequately mitigated to the extent reasonably practicable in accordance with industry practice and its management policies; (ii) to its knowledge, there are no pending or threatened material Environmental Claims; and (iii) IDB has been provided true information and complete copies of all material and recent reports, analyses and studies with respect to any material Environmental or Social Matter.

4.1.21 *Availability and Transfer of Foreign Currency.* Other than the ROF Registration, no foreign exchange control approvals or other Authorizations are required to ensure the availability of Dollars to enable the Borrower to perform all of its obligations under each Financing Document to which it is a party in accordance with the terms thereof. Except for the ROF Registration and for any Authorizations that may be required under Brazilian law as a result of a change in law following the Effective Date, there are no restrictions or requirements that limit the availability or transfer of foreign exchange for the purpose of the performance by the

Borrower of its respective obligations under this Agreement or any other Financing Document to which it is a party.

4.1.22 *Bankruptcy; Insolvency; Winding-up.* The Borrower has not taken any corporate action nor have any other legal steps been taken or legal proceedings been commenced or, to the best of the Borrower's knowledge, threatened against the Borrower seeking a reorganization, moratorium, arrangement, adjustment or composition or for the appointment of a receiver, liquidator, assignee, sequestrator (or similar official) in relation to any significant part of its Property, or for the winding up, dissolution or re-organization of the Borrower or of all or any significant part of the Borrower's Property.

4.1.23 *Choice of Law; Consent to Jurisdiction.* Under the law of Brazil, the choice of the law of New York to govern this Agreement and the other Financing Documents stated to be governed by such law is valid and binding. The submission to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in the Borough of Manhattan and of the United States District Court for the Southern District of New York, as set forth in Section 8.10.2 (*Applicable Law and Jurisdiction*), is legal, valid and binding under applicable laws in Brazil and would be enforced in accordance with its terms by the courts of Brazil.

4.1.24 *Prohibited Practices.* None of the Borrower, the government of the State of São Paulo, Brazil, or, if applicable, any of the Borrower's Subsidiaries, or any Person acting on its or their behalf, has committed or engaged in, with respect to any transaction contemplated by this Agreement, any Prohibited Practice.

4.1.25 *Foreign Asset Control and Anti-money Laundering Regulations.* None of the Borrower's or, if applicable, any of the Borrower's Subsidiaries', activities have, and none of the borrowing of the Loan by the Borrower hereunder and the Borrower's use of the proceeds thereof will, violate any of the Foreign Asset Control and Anti-Money Laundering Regulations.

4.1.26 *Investment Company Act and Public Utility Holding Company Act.* The Borrower is not (a) an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended; or (b) a "holding company," a "subsidiary company" of a "holding company" or an "affiliate" of either of the foregoing entities within the meaning of the Public Utility Holding Company Act of 2005, as amended.

4.1.27 *Affiliate Transactions.* As of the Effective Date, there are no Affiliate Transactions other than the ones disclosed to IDB by the Borrower as of the Effective Date.

4.1.28 *No Subsidiaries.* As of the Effective Date (and at all times after the Effective Date, unless otherwise disclosed to IDB), the Borrower has no Subsidiaries.

4.1.29 *No Omissions.* None of the representations and warranties in this Section 4.1 (*Representations and Warranties*) omits any matter the omission of which makes any of such representations and warranties misleading.

Section 4.2 Acknowledgment and Warranty.

The Borrower acknowledges that it makes the representations and warranties contained in Section 4.1 (*Representations and Warranties*) with the intention of inducing IDB to enter into this Agreement and the other Financing Documents (and the Participants to enter into the Participation Agreements) and that IDB has entered into this Agreement and the other Financing Documents (and the Participants have entered or will enter, as the case may be, into the Participation Agreements) on the basis of, and in full reliance on, each such representation and warranty.

ARTICLE 5

Conditions Precedent to Disbursement

Section 5.1 Conditions Precedent to First Disbursement.

The obligation of IDB to make the first Disbursement is subject to the fulfillment in a manner satisfactory to IDB, prior to or on the First Disbursement Date, of the following conditions:

5.1.1 *Participants' Commitment.* IDB has received formal commitments from Participants to acquire Participations in an aggregate amount equal to the full amount of the B Loan, and such commitments shall be in full force and effect as evidenced by the due execution and delivery by each such Participant of a Participation Agreement.

5.1.2 *Organizational Documents.*

5.1.2.1 IDB has received copies of the Organizational Documents of the Borrower duly registered with the competent commercial registry and accompanied by a certificate substantially in the form of Exhibit 4 (*Form of Borrower's Certificate Regarding Organizational Documents*) signed by the Authorized Representatives of the Borrower certifying such copies as true and complete; and

5.1.2.2 the Organizational Documents of the Borrower are in form and substance satisfactory to IDB.

5.1.3 *Directors' Resolutions of the Borrower.* IDB has received a copy of the resolutions of the Board of Directors of the Borrower (in each case, duly registered with the proper commercial registry), accompanied by a certificate, substantially in the form of Exhibit 9 (*Form of Borrower's Certificate Regarding Corporate Approvals*), signed by the Authorized Representatives of the Borrower as being in full force and effect as of the First Disbursement Date, along with any other necessary approvals or registrations (or evidence thereof), which in each case are required to authorize:

5.1.3.1 the execution, delivery and performance of the Financing Documents to which the Borrower is a party; and

- 5.1.3.2 a specified Person or Persons to execute such Financing Documents on behalf of the Borrower.

5.1.4 *Incumbency of the Borrower.* IDB has received (i) documents satisfactory to IDB evidencing the appointment of the current members of Borrower's Board of Directors and Board of Officers and, if applicable, attorneys-in-fact, each duly registered with the competent commercial registry in Brazil and if applicable, the Borrower's attorneys-in-fact; and (ii) evidence (to be provided in the form of statements recorded in the appropriate corporate books of Borrower or a statement (*Termo de Posse*) signed by such members, as applicable), that the members of its Board of Directors and Board of Officers have taken office, accompanied by a Certificate of Incumbency and Authority dated as of the First Disbursement Date, substantially in the form of Exhibit 3 (*Form of Certificate of Incumbency and Authority*).

5.1.5 *Financing Documents.* The Financing Documents (including, without limitation, the Notes required to be delivered in respect of such Disbursement) are in form and substance satisfactory to IDB, are unconditional and fully effective in accordance with their respective terms and have been duly authorized, executed and delivered by all parties thereto and originals thereof have been delivered to IDB.

5.1.6 *Legal Opinions.* IDB has received a legal opinion or opinions dated as of the First Disbursement Date, addressed to IDB and in form and substance satisfactory to IDB, from:

- 5.1.6.1 Tautil, Chequer & Mello, affiliated with Thompson & Knight LLP, Brazil counsel to the Borrower;
- 5.1.6.2 Mayer Brown LLP, New York counsel to the Borrower; and
- 5.1.6.3 Felsberg, Pedretti, Mannrich e Aidar Advogados e Consultores Legais, Brazil counsel to IDB covering such matters incident to the transactions contemplated by the Financing Documents as IDB may reasonably require.

5.1.7 *Financial Statements.* IDB has received copies of the Financial Statements referred to in Section 4.1.10 (*Financial Statements*) certified by the Auditors.

5.1.8 *Process Agent.* IDB has (i) received a letter substantially in the form of Exhibit 5 (*Form of Service of Process Letter*) relating to the appointment of an agent for service of process by the Borrower, together with evidence satisfactory to IDB of such process agent's unconditional acceptance of such appointment to act as such until the date that is six (6) months after the final maturity date of the Loan and (ii) an irrevocable, notarized power of attorney granted to the above-mentioned agent for service of process under Brazilian law in the form of Exhibit 10 (*Form of Irrevocable Power of Attorney to Process Agent*).

Section 5.2 Conditions of all Disbursements.

The obligation of IDB to make any Disbursement of the Loan (including, except where otherwise stated, the first Disbursement) is also subject to the fulfillment, in a manner satisfactory to IDB, of the following conditions:

5.2.1 *Disbursement Request.* IDB has received a Disbursement Request with respect to the Disbursement in accordance with Section 3.2 (*Disbursement Procedure*), together with a receipt substantially in the form of Exhibit 2 (*Form of Disbursement Receipt*). The Disbursement Request shall evidence use of proceeds in sufficient detail satisfactory to IDB and in compliance with Section 6.1.1 (*Use of Proceeds*).

5.2.2 *Default.* No Default has occurred and is continuing or will occur as a result of the making of the Disbursement.

5.2.3 *Representations and Warranties.* All representations and warranties made by the Borrower in Article 4 are true and correct with reference to the facts and circumstances existing on the date of the Disbursement Request and on the Disbursement Date with the same effect as though such representations and warranties had been made on and as of each such date and will remain so immediately following such Disbursement; provided that the references to Financial Statements shall be deemed to be references to the most recent Financial Statements delivered to IDB.

5.2.4 *Fees.* The Borrower has paid all fees due prior to or as of the relevant Disbursement Date pursuant to each Financing Document.

5.2.5 *Expenses.* IDB has been reimbursed for all fees and expenses required to be reimbursed prior to or as of the relevant Disbursement Date pursuant to this Agreement (including all invoiced fees and expenses of IDB's counsel as provided in Section 3.21 (*Reimbursement of Expenses*)) or has received confirmation that those fees and expenses have been paid directly.

5.2.6 *Subsequent Legal Opinions, Reports and Certifications.* If IDB requests, IDB has received, in form and substance satisfactory to IDB, and with respect to any matters incident to such Disbursement, a legal opinion from IDB's counsel and concurred in by the Borrower's counsel, in addition to those supplied under Section 5.1.6 (*Legal Opinions*).

5.2.7 *Material Adverse Effect.* Since the Effective Date, nothing has occurred that has or could reasonably be expected to have a Material Adverse Effect.

5.2.8 *Environmental and Social.* The Authorized Representatives of the Borrower have certified as part of the Disbursement Request that each Environmental Party is in compliance with all Environmental and Social Provisions.

5.2.9 *Financial Ratios.* After taking into account the amount of that Disbursement on a pro forma basis, the Interest Coverage Ratio of the Borrower as of that Disbursement Date would not be less than 2.35:1 and the Net Debt to Adjusted EBITDA Ratio of the Borrower as of that Disbursement Date would not equal or exceed 3.65:1, each as certified by the Borrower setting forth in reasonable detail computations as to compliance therewith.

5.2.10 *Proceeds.* The proceeds of the Disbursement will be needed for that purpose within six (6) months of the date of the Disbursement Request.

5.2.11 *Financing Documents.* Each Financing Document remains in full force and effect in accordance with its terms.

5.2.12 *Registrations.* IDB has received a copy of the document generated automatically by SISBACEN upon the making of an ROF Registration, duly approved as required under applicable law by the Central Bank of Brazil and other Authorities, evidencing that:

5.2.12.1 an ROF Registration has been obtained prior to each Disbursement with respect to such Disbursement and such ROF Registration shall be valid and in effect on the relevant Disbursement Date; and

5.2.12.2 the payment schedule of all prior Disbursements made to the Borrower (if any) have been properly registered in the relevant ROF Registration in a timely manner, in form and substance satisfactory to IDB.

5.2.13 *Notes.* The Notes required to be delivered in respect of such Disbursement are in form and substance satisfactory to IDB, are unconditional and fully effective in accordance with their respective terms and have been duly authorized, executed and delivered by the Borrower and originals thereof have been delivered to IDB.

Section 5.3 Conditions for IDB Benefit.

The conditions in Section 5.1 (*Conditions Precedent to First Disbursement*) and Section 5.2 (*Conditions of all Disbursements*) are for the benefit of IDB and may be waived only by IDB in its discretion.

ARTICLE 6

Covenants

Section 6.1 Affirmative Covenants.

Unless IDB otherwise agrees, the Borrower shall:

6.1.1 Use of Proceeds.

6.1.1.1 Cause the proceeds of each A Loan Disbursement to be applied only in reimbursement of, or payment for, expenditures in territories of IDB Members or for goods produced in or services supplied from or originating in such territories, and otherwise in accordance with the Financing Documents.

6.1.1.2 Cause the proceeds of all Disbursements to be applied only for the purpose described in Article 2 (*Purpose of the Loan*).

6.1.2 *Existence; Continuing Engagement in Business.* Maintain, and cause each of its Subsidiaries to maintain, its corporate existence and take, and cause each of its Subsidiaries to

take, all reasonable action necessary to maintain all rights, privileges and franchises necessary in the normal conduct of its business.

6.1.3 *Property.* Maintain, and cause each of its Subsidiaries to maintain, all material Property in good working order and condition, ordinary wear and tear excepted, except in each case where failure to comply would have a Material Adverse Effect and maintain good, legal and valid title to all such Property, free of all Liens other than Permitted Liens.

6.1.4 *Systems; Books and Records.* Maintain, and cause each of its Subsidiaries to maintain, an accounting and cost control system, management information system and books of account and other records adequate to reflect truly and fairly the financial condition of the Borrower or such Subsidiary and the results of its operations in conformity with the Accounting Principles, the Financing Documents, applicable law, the Relevant Permits and prudent industry practice.

6.1.5 *Access to the Borrower.* Upon IDB's request, such request to be made with reasonable prior notice to the Borrower, except if a Default is continuing or if special circumstances so require, permit, and cause each of its Subsidiaries to permit, representatives of IDB and any agent of IDB, including any consultants appointed by IDB, during normal business hours, to:

- 6.1.5.1 visit and inspect any premises where the business of the Borrower or any of its Subsidiaries is conducted;
- 6.1.5.2 inspect all facilities, plant, equipment and other Property where the business of the Borrower or any of its Subsidiaries is conducted and examine, make abstracts and make photocopies or reproductions of any of the Borrower's or such Subsidiary's books of account and records; and
- 6.1.5.3 have access to those of the Borrower's employees, officers and agents who have or may have knowledge of the matters with respect to which IDB seeks information or of the business, operations, Property and financial and other condition of the Borrower or any of its Subsidiaries generally.

6.1.6 *Auditors.* Maintain Auditors.

6.1.7 *Maintenance of Relevant Permits.*

- 6.1.7.1 Obtain timely and maintain in force, or cause to be obtained timely and maintained in force (and where appropriate, timely renew or cause to be timely renewed) all Relevant Permits where failure to do so would have a Material Adverse Effect, and cause each of its Subsidiaries to do the same;
- 6.1.7.2 Perform and observe or cause to be performed or observed, and cause each of its Subsidiaries to perform and observe or cause to be performed or observed, all obligations, conditions and restrictions contained in, or imposed on the Borrower or such Subsidiary by all such Relevant Permits where failure to do so would have a Material Adverse Effect; and

- 6.1.7.3 If IDB requests, deliver, and cause each of its Subsidiaries to deliver, to IDB a copy of each such Relevant Permit, certified by the Authorized Representatives of the Borrower, within thirty (30) days of its issuance or renewal;

it being acknowledged and agreed that failure by the Borrower to complete and maintain the ROF Registration shall be deemed to have a Material Adverse Effect.

6.1.8 *Conditions of Business; Compliance with Applicable Law.* Other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB, conduct its business, and cause each of its Subsidiaries to conduct its business, in accordance with (i) prudent industry practice, insofar as such practice is relevant to its business as a whole; (ii) all material applicable laws (other than Environmental Laws, with which the Borrower is obligated to comply in accordance with the provisions of Section 6.4 (*Environmental and Social*)); (iii) the Foreign Asset Control and Anti-money Laundering Regulations; (iv) Relevant Permits where failure to do so would have a Material Adverse Effect (it being acknowledged and agreed that failure to complete the ROF Registration shall be deemed to have a Material Adverse Effect); and (v) the Financing Documents.

6.1.9 *Taxes.* File timely or cause to be filed timely, and cause each of its Subsidiaries to file timely or cause to be filed timely, all Tax Returns required to be filed by it and pay or cause to be paid, and cause each of its Subsidiaries to pay or cause to be paid, all Taxes due and payable by it whether shown to be due and payable on such Tax Returns or on any assessment received by it or otherwise, except to the extent any such Taxes are being diligently contested by appropriate proceedings in good faith and with respect to which adequate reserves have been established on the books of the Borrower in accordance with the Accounting Principles and where the failure to pay or discharge such taxes could not reasonably be expected to have a Material Adverse Effect.

6.1.10 *Pari Passu.* Take such action as may be necessary to ensure that, at all times, the obligations of the Borrower under the Financing Documents are senior, unconditional and unsubordinated obligations, and rank and will rank at least *pari passu* in priority of payment with all other unsecured and unsubordinated obligations of the Borrower outstanding from time to time, except for obligations mandatorily preferred by law applying to companies generally.

6.1.11 *Development Impact Analysis.* Cooperate with IDB and provide to IDB all information required by IDB to enable it to deliver on or about the fifth (5th) anniversary of the Effective Date a report regarding the developmental impact and additionality of the Borrower's capital investment program.

6.1.12 *Registration of Payment Terms.*

- 6.1.12.1 Obtain, perfect and maintain in full force and effect all ROF Registrations (a) with respect to all fees and charges set forth in Section 3.8 (*Charges and Fees*) of this Agreement to ensure the timely payment thereof, (b) with respect to the payment terms of each Disbursement, and (c) otherwise necessary to perform and satisfy all Obligations;

6.1.12.2 Provide IDB with evidence that the ROF Registration for each prior Disbursement has been properly made in a timely manner; and

6.1.12.3 Maintain all ROF Registrations in full force and effect.

6.1.13 *Social Works.* Use all proceeds received through IDB's Office of Outreach and Partnership for the social works agreed upon between the IDB and the Borrower.

6.1.14 *Derivatives Transactions.* Promptly after providing notice to IDB of any potential Derivatives Transaction related to the Loan in accordance with Section 6.3.3.9 (*Notices*), offer to ABN, BBVA, DEPFA and Dexia the right to tender an offer in relation to such Derivatives Transaction; provided always that the Borrower's obligation to make such offer shall apply only if (i) the value of the potential Derivatives Transaction, together with the values of all other Derivatives Transactions entered into pursuant to this Section 6.1.14, would not exceed the value of the Loan, and (ii) the potential Derivatives Transaction relates to payment flows directly attributable to the Loan.

6.1.15 *Paying Agency Agreement.* Provide to the Paying Agent in a timely manner all Disbursement Requests, prepayment notices and any other information required by the Paying Agent to fulfill its obligations under the Paying Agency Agreement.

6.1.16 *Financing Documents.* Ensure that no later than thirty (30) days after the Effective Date, IDB has received a notarized and consularized copy of the Loan Agreement and a Portuguese translation thereof issued by a sworn certified public translator, and the Loan Agreement has been duly registered with the Registry of Titles and Documents in the city where the Borrower's head office is located.

6.1.17 *Renewal of Power of Attorney.* For so long as any power of attorney granted to CT Corporation System by the Borrower in accordance with Section 5.1.8 (*Process Agent*) is limited in duration to one (1) calendar year, provide to IDB, as soon as possible before the expiration of such power of attorney, but in no event later than December 21 of each calendar year, a new irrevocable, notarized power of attorney granted to CT Corporation System for service of process under Brazilian law in the form of Exhibit 10 (*Form of Irrevocable Power of Attorney to Process Agent*).

6.1.18 *Prohibited Practices.* Exercise its best efforts to ensure that the government of the State of São Paulo, Brazil, complies with the obligations set forth in Section 6.2.10 (*Prohibited Practices*) as if such obligations were direct obligations of the State of São Paulo, Brazil.

Section 6.2 Negative Covenants.

Unless IDB otherwise agrees, the Borrower shall not:

6.2.1 *Limitation on Restricted Payments.* Unless such Restricted Payment is required by applicable law, make any Restricted Payment if any Default relating to a failure by the Borrower to make any payment under the Financing Documents or to maintain the Financial Ratios as provided herein has occurred and is continuing or would exist after the making of such Restricted Payment.

6.2.2 *Interest Coverage Ratio.* Permit the Interest Coverage Ratio, determined on a Consolidated Basis, to be less than 2.35:1 as of any Financial Quarter Date.

6.2.3 *Net Debt to Adjusted EBITDA Ratio.* Permit the Net Debt to Adjusted EBITDA Ratio, determined on a Consolidated Basis, to equal or exceed 3.65:1 as of any Financial Quarter Date.

6.2.4 *Liens.* Create, assume or permit to exist (or allow any Subsidiary to create, assume or permit to exist) any Lien on any of its Property other than Permitted Liens.

6.2.5 *Fundamental Changes to the Borrower.*

6.2.5.1 (a) Enter into, or permit any of its Subsidiaries to enter into, any agreement or arrangement whereby the Borrower's affairs (i.e., operations and/or day-to-day business) are managed by any Person other than the Borrower; or (b) change, or permit any of its Subsidiaries to change, any provision of the Borrower's Organizational Documents in any manner that would be inconsistent with or breach any provision of any Financing Document or that could be reasonably likely to have a Material Adverse Effect; or (c) change, or permit any of its Subsidiaries to change, its registered domicile.

6.2.5.2 Undertake or permit any merger, (*incorporação*), including share merger (*incorporação de ações*), spin off (*cisão*), consolidation (*fusão*), transformation of the corporate form (*transformação*), transfer of establishment (*transferência de estabelecimento*), or reorganization.

6.2.6 *Sale of Assets.* Sell, lease, transfer or otherwise dispose of (by one or a series of transactions, related or not) all or substantially all of its Property, or permit any of its Subsidiaries to do the same.

6.2.7 *Affiliate Transactions.* Enter into, or permit any of its Subsidiaries to enter into, any transaction, including the purchase, sale, lease or exchange of Property or the rendering of any service, with any Affiliate (an ***Affiliate Transaction***) unless such transaction is:

6.2.7.1 specifically provided for and permitted under the Financing Documents;
or

6.2.7.2 upon terms that are fair and reasonable to the Borrower and/or such Subsidiary and at fair market value (determined on the basis of an arm's length transaction that would be entered into between two willing unrelated parties).

6.2.8 *Scope of Business.* Change the nature or scope of its business or enter into any other business, either directly or indirectly, that is inconsistent with its scope of business as of the Effective Date, or permit any of its Subsidiaries to do the same.

6.2.9 *Accounting Changes.* Change its Financial Year, or make or permit any change in accounting policies or reporting practices, except as required to comply with the Accounting Principles or its Financial Year.

6.2.10 *Prohibited Practices.* Commit or engage in (and shall not authorize or permit any of the Borrower's Subsidiaries, or any other Person acting on its or their behalf, to commit or engage in) any Prohibited Practice, and if IDB notifies the Borrower of its concern that there has been a violation of this Section or of Section 4.1.24 (*Prohibited Practices*), the Borrower shall cooperate in good faith (and shall cause the relevant Subsidiary, or the Person acting on its behalf, as the case may be, to cooperate in good faith) with IDB and its representatives in determining whether such a violation has occurred, and shall respond promptly and in reasonable detail (and shall cause the relevant Subsidiary, or the Person acting on its behalf, as the case may be, to respond promptly and in reasonable detail) to any notice from IDB, and shall furnish documentary support for such response (and shall cause the relevant Subsidiary, or the Person acting on its behalf, as the case may be, to furnish documentary support for such response) upon IDB's request.

Section 6.3 Information.

The Borrower shall deliver to IDB:

6.3.1 *Audited Annual Consolidated Financial Statements.* As soon as available but in any event within one hundred and twenty (120) days after the end of each Financial Year:

6.3.1.1 two (2) copies of the audited Consolidated Financial Statements of the Borrower for such Financial Year setting forth in each case in comparative form the corresponding figures for the previous Financial Year;

6.3.1.2 a certificate of the Auditors or the Authorized Representatives of the Borrower:

6.3.1.2.1 certifying that during the applicable period and as of the end of the relevant Financial Year the Borrower was in compliance with all the terms and conditions of the Financing Documents and that no Default has occurred, except as specified in such certificate; and

6.3.1.2.2 setting forth in reasonable detail computations as to compliance with all information necessary to calculate (and providing the calculations necessary to determine) each of the Financial Ratios during the applicable period and as of the last day of the relevant Financial Year; and

6.3.1.3 "Consolidating" financial statements showing how the accounts of its Subsidiaries are combined.

6.3.2 *Unaudited Quarterly Consolidated Financial Statements.* As soon as available but in any event within ninety (90) days after the end of each Financial Quarter:

- 6.3.2.1 two (2) copies of the unaudited Consolidated Financial Statements of the Borrower for such quarterly period setting forth in each case in comparative form the corresponding figures for the corresponding periods of the previous Financial Year;
- 6.3.2.2 a certificate of the Authorized Representatives of the Borrower:
 - 6.3.2.2.1 certifying that the Financial Statements delivered pursuant to Section 6.3.2.1 (*Unaudited Quarterly Consolidated Financial Statements*) were prepared from and are in accordance with the Borrower's books and records and give a true and fair view of the financial position of the Borrower as of the date thereof and the results of its operations and cash flow for the relevant Financial Quarter and were prepared in conformity with the Accounting Principles;
 - 6.3.2.2.2 certifying that during the applicable period and as of the relevant Financial Quarter Date the Borrower was in compliance with all the terms and conditions of the Financing Documents and that no Default has occurred, except as specified in such certificate; and
 - 6.3.2.2.3 setting forth in reasonable detail computations as to compliance with each of the Financial Ratios as of the last day of the relevant Financial Quarter; and
- 6.3.2.3 "Consolidating" financial statements showing how the accounts of its Subsidiaries are combined.
- 6.3.3 *Notices.*
 - 6.3.3.1 Promptly upon the occurrence of a Default, a notice specifying the nature of that Default and any steps the Borrower is taking to remedy it.
 - 6.3.3.2 Prompt notice of any revocation, denial or non-renewal of any material Relevant Permit.
 - 6.3.3.3 Promptly upon becoming aware thereof, notice of any action, suit, other legal proceeding, administrative proceedings or other claim before any Authority that has had or may reasonably be expected to have a Material Adverse Effect, and notice to IDB by facsimile of that event specifying the nature of those proceedings and the steps the Borrower is taking or proposes to take with respect thereto.
 - 6.3.3.4 Prompt notice of any proposed changes in the nature or scope of the business operations of the Borrower.

- 6.3.3.5 Prompt notice of any material event of loss or force majeure event.
- 6.3.3.6 Prompt notice of any revocation, denial or non renewal of any Relevant Permit.
- 6.3.3.7 Prompt notice of any other event or condition which has had or may reasonably be expected to have a Material Adverse Effect.
- 6.3.3.8 Promptly upon becoming aware of the existence of any violation of any of the Foreign Asset Control and Anti-money Laundering Regulations by the Borrower, or any investigation by any Authority relating thereto, provide notice thereof, including a description of the violation or the matter under investigation, as the case may be, and the steps that are being taken to resolve such matter.
- 6.3.3.9 Promptly upon becoming aware that the government of the State of São Paulo, Brazil, or any Person acting on its behalf, has committed or engaged in any Prohibited Practice, or of any investigation by any Authority relating thereto, provide notice thereof, including a description of the Prohibited Practice or the matter under investigation, as the case may be, and the steps that are being taken to resolve such matter.
- 6.3.3.10 Prior notice of any potential Derivatives Transactions related to the Loan.
- 6.3.3.11 Prompt notice upon the establishment of any Subsidiary of the Borrower.
- 6.3.3.12 Prior notice of any issuance of Share Capital or Equity Rights or of any other change in the Borrower's capital structure.
- 6.3.3.13 In the case of each of Sections 6.3.3.1 through 6.3.3.9 and Section 6.3.3.11 (*Notices*), "prompt" or "promptly" shall mean as soon as available but in any event within fifteen (15) days of the occurrence of the relevant event.

6.3.4 *Communications with Auditors.* Promptly following receipt thereof by the Borrower, two (2) copies of any management letter or other communication sent by the Auditors (or any other accountants retained by the Borrower) to the Borrower in relation to the Borrower's financial, accounting and other systems, the Borrower's management information system or its accounts, if not otherwise delivered under Section 6.3.1 (*Audited Annual Consolidated Financial Statements*).

6.3.5 *Notices from Shareholders and Creditors.* All documents dispatched by the Borrower to:

- 6.3.5.1 if requested by IDB, its Shareholders (or any class of them); and
- 6.3.5.2 its creditors generally.

6.3.6 *Additional Information.* From time to time, such information as IDB may reasonably request, including information with respect to the Borrower, its Property and the performance by it of its obligations under the Financing Documents.

Section 6.4 Environmental and Social.

6.4.1 *Affirmative Covenants.* Other than as disclosed in Exhibit 8 (*Environmental and Social Disclosure*) and accepted by IDB, unless IDB otherwise agrees, the Borrower shall:

- 6.4.1.1 conduct its business in compliance with all Environmental and Social Requirements (other than Environmental and Social Requirements that also are Environmental Laws, with which the Borrower shall comply in all material respects) and otherwise ensure that there are no impacts or risks relating to Environmental or Social Matters with respect to its operations that are not adequately mitigated or compensated to the extent reasonably practicable in accordance with industry practice and its management policies;
- 6.4.1.2 cause each Environmental Party to ensure that there are no impacts or risks relating to Environmental or Social Matters that are not adequately mitigated or compensated to the extent reasonably practicable in accordance with industry practice and its management policies;
- 6.4.1.3 implement adequate on-going information disclosure and public consultation activities with the local population relating to Environmental or Social Matters pertaining to its operations; and
- 6.4.1.4 upon the reasonable request of IDB, permit IDB, or an independent consultant engaged by IDB, at the expense of the Borrower (such expense to be included within and subject to the limitations on the expenses payable by the Borrower pursuant to Section 3.21.2 (*Reimbursement of Expenses*)), to perform an independent audit with respect to Environmental or Social Matters in relation to each Environmental Party to:
 - 6.4.1.4.1 confirm compliance with the Environmental and Social Provisions and to identify any adverse impacts, risks or liabilities with respect to Environmental or Social Matters that have not been adequately mitigated or compensated to the extent reasonably practicable in accordance with industry practice and its management policies; and
 - 6.4.1.4.2 if necessary, prepare a Corrective Action Plan to correct any identified non-compliance or deficiency, whereupon the Borrower shall implement such Corrective Action Plan.

6.4.2 *Negative Covenants.* Unless IDB otherwise agrees, the Borrower shall not, nor permit any Environmental Party to, make any material change or modification to the Sabesp Corporate Environmental Management System.

6.4.3 *Environmental Information Covenants.*

6.4.3.1 The Borrower shall deliver to IDB an Environmental and Social Compliance Report, in form and substance satisfactory to IDB for each calendar year in respect of that calendar year, no later than sixty (60) days after the end of each such period.

6.4.3.2 The Borrower shall notify IDB as soon as possible, but in any event within fifteen (15) days of the Borrower's obtaining knowledge of its occurrence, of any fact, circumstance, condition or occurrence that has or could likely result in any of the following relating to any Environmental Party:

6.4.3.2.1 any material non-compliance with the Environmental and Social Provisions;

6.4.3.2.2 any deaths or significant injuries or accidents, Release of Hazardous Substances, significant unplanned Releases, explosions or fires or any other material adverse impact relating to any Environmental or Social Matter that has not been adequately mitigated or compensated to the extent reasonably practicable in accordance with industry practice and its management policies;

6.4.3.2.3 any material written communication with any Authority relating to any Environmental or Social Matter, other than in the ordinary course of business;

6.4.3.2.4 any material Environmental Claim; or

6.4.3.2.5 any material complaints relating to Environmental or Social Matters;

and such notice shall include a reasonable description of the event detailing the extent, magnitude, impact and cause of such event together with corrective or remedial actions taken or proposed to be taken with respect thereto, and, as necessary, a Corrective Action Plan.

Section 6.5 Insurance.

The Borrower shall insure and keep insured, and cause each of its Subsidiaries to insure and keep insured, with financially sound and reputable insurers, all its material Property and business against usual insurable losses in accordance with prudent industry practice and applicable law and with reasonable deductibles and shall, if requested by IDB, provide copies of all requested insurance policies.

ARTICLE 7

Events of Default

Section 7.1 General Acceleration Terms and Conditions.

7.1.1 If an Event of Default occurs and is continuing (whether it is voluntary or involuntary, or results from the operation of any applicable law or pursuant to or as a result of any act or failure to act by any Authority or otherwise), IDB may, by notice to the Borrower, take any or all of the following actions:

- 7.1.1.1 terminate without further review (*de pleno iure* (*cláusla resolutoria expresa*)) the Borrower's right to request, and any obligation of IDB to make, Disbursements of the Loan, whereupon such right and obligation shall immediately terminate;
- 7.1.1.2 declare the Loan or such part of the Loan as is specified in the notice (with accrued interest thereon) and all other Obligations to be due and payable forthwith, whereupon the same shall become immediately due and payable without any further notice and without any presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower; and
- 7.1.1.3 exercise any other remedies that may be available to IDB under any Financing Document or applicable law.

7.1.2 Upon receipt of a notice from IDB under Section 7.1.1.2 (*General Acceleration Terms and Conditions*), the Borrower shall immediately repay the Loan or such part of the Loan as is specified in the notice and all other amounts then declared to be due and payable with respect thereto. Except as expressly provided in this Section 7.1 (*General Acceleration Terms and Conditions*), the Borrower waives presentment, demand, protest or other notice of any kind with respect to that demand for immediate payment and IDB's exercise of remedies.

Section 7.2 Events of Default.

It shall be an Event of Default if:

7.2.1 *Payments by Borrower.*

- 7.2.1.1 *Failure to Make Payments under Financing Documents.* The Borrower fails to pay when due (whether at stated maturity or otherwise) any Obligation, including principal of, or interest on, the Loan (unless failure to pay is caused by administrative or technical error and payment is made within three (3) Business Days of its due date).
- 7.2.1.2 *Failure to Make Other Payments Owed to IDB.* The Borrower fails to pay when due (whether at stated maturity or otherwise) any part of the principal of, or interest on, any loan from IDB to the Borrower (other than

the Loan) and any such failure continues for more than any applicable period of grace.

7.2.1.3 *Failure to Pay Other Indebtedness.*

7.2.1.3.1 The Borrower fails to pay when due any amount outstanding with respect to any of its Indebtedness (other than the Obligations or any other loan from IDB) in excess of twenty-five million Dollars (\$25,000,000) in the aggregate and such failure continues for more than any applicable period of grace; or

7.2.1.3.2 Any of its Indebtedness (other than the Obligations or any other loan from IDB) in excess of twenty-five million Dollars (\$25,000,000) in the aggregate becomes prematurely due and payable (other than solely as a result of the submission by the Borrower of a request for or notice of voluntary prepayment) or is placed on demand.

7.2.2 *Financing Documents.*

7.2.2.1 *Breach of Financing Documents.* The Borrower fails to comply with any of its obligations contained in this Agreement or any other Financing Document or any other agreement between the Borrower and IDB (or in any document delivered under them) (other than an obligation referred to elsewhere in this Section 7.2 (*Events of Default*)) and, if in the reasonable determination of IDB capable of remedy, such failure has continued for a period of thirty (30) days after the Borrower becomes aware, or should have become aware, of such failure to comply; provided that no cure period shall apply if, in the reasonable determination of IDB, such failure has had or could reasonably be expected to have a Material Adverse Effect.

7.2.2.2 *Revocation, Termination or Repudiation of Financing Documents.* Any Financing Document or any of its terms:

7.2.2.2.1 is revoked, terminated, becomes void or ceases to be in full force and effect;

7.2.2.2.2 becomes, or the performance of or compliance with any obligation thereunder becomes, unlawful or unenforceable; or

7.2.2.2.3 is repudiated by any party thereto or its legality, validity or enforceability is challenged by any Person;

provided, however, that if the Financing Document being revoked, terminated or repudiated as described in any of Sections 7.2.2.2.1 through

7.2.2.2.3 (*Revocation, Termination or Repudiation of Financing Documents*) above is the Paying Agency Agreement, such revocation, termination, repudiation or similar event shall not be an Event of Default if such revocation, termination, repudiation or similar event is reversed, withdrawn or otherwise remedied within thirty (30) days and the Paying Agency Agreement remains in full force and effect.

7.2.3 *Default under Concessions.* The Borrower fails to comply with any of its obligations contained in any concession or similar arrangement or agreement to which it is a party and such failure has had or could reasonably be expected to have a Material Adverse Effect.

7.2.4 *Misrepresentation.* Any representation or warranty confirmed or made by the Borrower in any Financing Document or in any document delivered thereunder is found to have been incorrect or misleading in any material respect when confirmed or made.

7.2.5 *Expropriation.* Any Authority:

7.2.5.1 *Seizure of Property.* condemns, nationalizes, seizes, confiscates or otherwise expropriates all or any substantial part of the Property of the Borrower or of its Share Capital or commences any proceeding in furtherance of any of the foregoing;

7.2.5.2 *Control of Property.* assumes custody or control of the Property of the Borrower, the business or operations of the Borrower or its Share Capital; or

7.2.5.3 *Interruption of Business.* takes any action to displace the management of the Borrower, to curtail the Borrower's authority to conduct its business, to dissolve or disestablish the Borrower, or to prevent the Borrower or its officers from carrying on all or a substantial part of its business or operations (to an extent that any such action has had or could reasonably be expected to have a Material Adverse Effect);

provided always that the foregoing shall not apply to the maintenance of its majority shareholding in the Borrower by the State of São Paulo.

7.2.6 *Insolvency Events.*

7.2.6.1 *Involuntary Proceedings.* An involuntary proceeding (including, but not limited to, a judicial or extra-judicial reorganization (*recuperação judicial* or *extrajudicial*), to the extent applicable, is commenced or an involuntary petition is filed seeking:

7.2.6.1.1 a judicial or extra-judicial reorganization (*recuperação judicial* or *extrajudicial*) or an adjudication of the Borrower as bankrupt (*falido*) or insolvent, in either case, to the extent applicable;

- 7.2.6.1.2 liquidation, winding up, judicial or extra-judicial reorganization (*recuperação judicial* or *extrajudicial*) moratorium, arrangement, adjustment or composition of, or other relief in respect of, the Borrower or its debts, or of a substantial part of its Property under applicable law, in any case, to the extent applicable; or
- 7.2.6.1.3 the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Borrower or of any substantial part of its Property;

and in any such case, such proceeding or petition is not dismissed within thirty (30) days after an order or decree approving or ordering any of the foregoing is entered.

7.2.6.2 *Voluntary Proceedings.* The Borrower:

- 7.2.6.2.1 voluntarily commences any proceeding or files any petition seeking liquidation, judicial or extra-judicial reorganization (*recuperação judicial* or *extrajudicial*) or other relief under applicable law relating to insolvency;
- 7.2.6.2.2 applies for or consents to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Borrower or of any substantial part of its Property;
- 7.2.6.2.3 makes a general assignment for the benefit of creditors;
- 7.2.6.2.4 requests a moratorium or suspension of payment or reorganization of debts from any competent Authority;
- 7.2.6.2.5 institutes proceedings or takes any form of corporate action to be liquidated or adjudicated bankrupt or insolvent or to be subject to judicial or extra-judicial reorganization (*recuperação judicial* or *extrajudicial*), in either case, to the extent applicable;
- 7.2.6.2.6 consents to the institution of, or fails to contest in a timely and appropriate manner, any proceeding or petition described in Section 7.2.6.1 (*Involuntary Proceedings*); or
- 7.2.6.2.7 takes any action for the purpose of effecting any of the foregoing.

7.2.6.3 *Inability to Pay Debts.* The Borrower becomes unable, admits in writing its inability or fails generally to pay its debts as they become due or otherwise becomes insolvent.

7.2.6.4 *Events Analogous to Bankruptcy, Insolvency, Etc.* Any other event occurs that under any applicable law would have an effect analogous to any of those events listed in Sections 7.2.6.1 (*Involuntary Proceedings*), 7.2.6.2 (*Voluntary Proceedings*) or 7.2.6.3 (*Inability to Pay Debts*).

7.2.7 *Attachment.* An attachment or analogous process is levied or enforced upon or issued against any of the Property of the Borrower for an amount in excess of the equivalent of twenty-five million Dollars (\$25,000,000) and remains unsatisfied for a period of sixty (60) days.

7.2.8 *Judgments.* A final judgment, order or arbitral award is rendered against the Borrower or any of its Property for an amount in excess of the equivalent of twenty-five million Dollars (\$25,000,000) and remains without discharge or stay for a period of sixty (60) days.

7.2.9 *Moratorium.* Any Authority of Brazil declares any general payment delay, refusal to pay or acknowledge a payment obligation, repudiation or other action (whether or not formally announced) that relates to debts or any category of debts not to be paid in accordance with their terms.

7.2.10 *Financial Ratios.* The Borrower fails to comply with Sections 6.2.2 (*Interest Coverage Ratio*) or 6.2.3 (*Net Debt to Adjusted EBITDA Ratio*).

7.2.11 *Relevant Losses.*

7.2.11.1 The Borrower or any Subsidiary loses any concession or similar right, arrangement or agreement, which allows it to provide its services; or

7.2.11.2 The Borrower loses or spins off any Subsidiary;

which loss(es) or spin-off(s), individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

7.2.12 *Environmental and Social.* The Borrower fails to comply with any Environmental and Social Provision, or any provision relating to Environmental or Social Matters under any other agreement between the Borrower and IDB, and such failure has continued for a period of thirty (30) days after IDB notifies the Borrower of that failure, and the Borrower has not presented a Corrective Action Plan to IDB.

Section 7.3 Bankruptcy.

Notwithstanding any provision in this Agreement to the contrary, if any event described in Section 7.2.6.1 (*Involuntary Proceedings*), or Section 7.2.6.2 (*Voluntary Proceedings*) or Sections 7.2.7 (*Attachment*) through 7.2.11 (*Relevant Losses*) occurs or any other event occurs that under any applicable law would have an effect analogous to any of the events listed in Section 7.2.6.1 (*Involuntary Proceedings*) or Section 7.2.6.2 (*Voluntary Proceedings*) or Sections 7.2.7 (*Attachment*) through 7.2.11 (*Relevant Losses*), the Borrower's right to request, and any obligation of IDB to make, Disbursements shall automatically terminate *de pleno iure* (*cláusula resolutória expressa*), and the principal of the Loan then outstanding, together with accrued interest thereon and all fees and other Obligations outstanding, shall automatically become immediately due and payable, without any presentment, demand, protest or notice of any kind, all of which the Borrower hereby waives.

ARTICLE 8

Miscellaneous

Section 8.1 Notices.

Any notice, request, demand or other communication to be given or made under this Agreement shall be in writing. Subject to Section 8.10.4 (*Applicable Law and Jurisdiction*) any notice, request, demand or other communication may be delivered by hand, prepaid certified or registered airmail, internationally recognized courier service, or facsimile to the party's address specified below or at such other address as such party shall have designated by notice to the party giving or making such notice, request, demand or other communication, and shall be effective upon receipt. All time periods to be counted from the delivery of any notice, request, demand or other communication pursuant to this Agreement shall be counted from the date of receipt of any such notice, request, demand or other communication pursuant to the terms of this Section 8.1 (*Notices*).

For the Borrower:

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Rua Costa Carvalho, 300

Bairro Pinheiros

São Paulo, SP,

Brazil

Cep: 05429-900

Attention: Mario Azevedo de Arruda Sampaio

Superintendente de Captação de Recursos e Relações com Investidores

(Head of Capital Markets and Investor Relations)

Alternative address for communications by facsimile:

Facsimile: +55(11) 3388 8669

For IDB:

Inter-American Development Bank

1300 New York Avenue, N.W.

Washington D.C. 20577

Attention: Manager and Portfolio Management Unit, Structured and Corporate Finance
Department

Alternative address for communications by facsimile:

Facsimile: +1 (202) 312-4135

Section 8.2 English Language.

All documents to be furnished or communications to be given or made under this Agreement or any of the other Financing Documents shall be in the English language (other than the Organizational Documents of the Borrower or any other documents that the Borrower is required to deliver as conditions precedent to any Disbursement, which are ordinarily prepared in a language other than English). To the extent that the original of any such document or communication is in a language other than English, it shall be accompanied by a translation into English certified by the Authorized Representatives of the Borrower to be a true and correct translation of the original. IDB may, if it so requires, obtain an English translation of any document or communication received in a language other than English at the cost and expense of the Borrower. IDB may deem any such translation to be the governing version between the Borrower and IDB.

Section 8.3 Indemnity.

8.3.1 The Borrower shall indemnify and hold harmless IDB, together with its respective officers, directors, agents, employees, representatives, attorneys, Affiliates, successors and assigns (collectively, the ***Indemnified Persons***) from and against any and all claims, actions, suits, judgments, demands, damages (including foreseeable and unforeseeable compensatory damages and punitive claims), losses, liabilities (including liabilities for penalties), reasonable costs or expenses of any nature or kind whatsoever, including reasonable fees and disbursements of counsel on a full indemnity basis, arising out of or in connection with:

- 8.3.1.1 the execution, delivery, enforcement or performance of, and any transaction contemplated under, this Agreement or any of the other Financing Documents (including, for the avoidance of doubt, the Paying Agency Agreement, to which the Borrower will not be a party);
- 8.3.1.2 the Loan or the use or intended use of the proceeds therefrom;
- 8.3.1.3 any actual or alleged presence or Release of Hazardous Substances on or from any Property owned or operated by any Environmental Party, any Environmental Claim, any failure by any Environmental Party to comply with any Environmental and Social Provision or any other Environmental or Social Matter relating in any way to any Environmental Party;

- 8.3.1.4 any actual or prospective claim, action, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnified Person is a party thereto; or
- 8.3.1.5 the development, construction, ownership, operation, maintenance or use of the Borrower's Property or activities (including any of the foregoing resulting from the violation of, noncompliance with or liability under any applicable law) (all of the foregoing, collectively, the ***Indemnified Liabilities***);

provided that, the Borrower shall have no obligation hereunder to any such Indemnified Person with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of any such Indemnified Person as determined by the final judgment of a court of competent jurisdiction.

8.3.2 The rights granted under this Section 8.3 (*Indemnity*) are in addition to the rights granted under any other provision of this Agreement, under any other Financing Document or otherwise.

8.3.3 This Section 8.3 (*Indemnity*) shall survive repayment of the Obligations.

8.3.4 All amounts payable to any Indemnified Person under this Section 8.3 (*Indemnity*) shall be paid within thirty (30) days after receipt by the Borrower from such Indemnified Person of a reasonably detailed invoice therefor.

Section 8.4 Successors and Assigns.

This Agreement binds and benefits the respective successors and assigns of the parties, except that the Borrower may not assign or delegate any of its rights or obligations under this Agreement or any other Financing Document without the prior consent of IDB. IDB may assign to one or more banks or other entities all or a portion of all of its rights and obligations under this Agreement and the other Financing Documents. Any assignment or delegation in violation of this Section shall be void.

Section 8.5 Counterparts.

This Agreement may be executed in several counterparts, each of which is an original, but all of which together shall constitute one and the same agreement.

Section 8.6 Confidential Information.

8.6.1 IDB may disclose any documents or records of, or information relating to, the Borrower, its Property, business or affairs (collectively, the ***Borrower's Information***) to:

- 8.6.1.1 on a confidential basis, any existing or future co-lenders of IDB, the Participants or any other Person with a participation in or who intends to purchase a participation in a portion of Loan and the Paying Agent;

- 8.6.1.2 any Person in connection with the exercise of any power, remedy, right, authority or discretion relevant to this Agreement or any other Financing Document (including in connection with IDB's defense of any legal action, suit or proceeding brought by any other party to a Financing Document);
- 8.6.1.3 any Person, to the extent required to do so under any applicable law;
- 8.6.1.4 any banking or other regulatory or examining authorities (whether governmental or otherwise) pursuant to and in accordance with whose instructions it and other banks must customarily comply;
- 8.6.1.5 on a confidential basis, the directors, officers, employees, arrangers, co-lenders, attorneys, consultants, rating agencies, independent auditors and advisors (including the Consultants and any other technical, financial and other advisors) of each of IDB, the Inter-American Investment Corporation, the Multilateral Investment Fund, and their respective Affiliates; and
- 8.6.1.6 on a confidential basis, any Person in connection with any proposed sale, transfer, assignment or other disposition of IDB's rights under this Agreement or any other Financing Document (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Borrower Information and be instructed to keep it confidential);

provided that, in the cases described in Sections 8.6.1.1, 8.6.1.5 and 8.6.1.6 (*Confidential Information*), such Persons shall agree to be bound by confidentiality provisions substantially the same as the requirements of this Section 8.6 (*Confidential Information*).

8.6.2 The Borrower expressly authorizes IDB and the Participants to request from any Person information relating to the Borrower.

8.6.3 The Borrower acknowledges and agrees that, notwithstanding the terms of any other agreement between the Borrower and IDB, a disclosure of Borrower's Information by IDB in the circumstances contemplated by this Section 8.6 (*Confidential Information*) does not violate any duty owed to the Borrower under this Agreement or under any such other agreement.

Section 8.7 Amendment.

Any amendment or waiver of, or any consent given under, any provision of this Agreement shall be in writing and, in the case of any amendment, signed by the Borrower and IDB or their permitted successors and assigns.

Section 8.8 Savings of Rights; Remedies and Waivers.

8.8.1 The rights and remedies of IDB in relation to any misrepresentation or breach of warranty on the part of the Borrower shall not be prejudiced by any investigation by or on behalf

of IDB or any of the Participants into the affairs of the Borrower, by the execution or the performance of this Agreement or by any other act or thing that may be done by or on behalf of IDB in connection with this Agreement and that might, apart from this Section, prejudice such rights or remedies.

8.8.2 No course of dealing or waiver by IDB in connection with any condition of Disbursement under this Agreement shall impair any right, power or remedy of IDB with respect to any other condition of Disbursement, or be construed to be a waiver thereof; nor shall the action of IDB with respect to any Disbursement affect or impair any right, power or remedy of IDB with respect to any other Disbursement.

8.8.3 Unless IDB otherwise notifies the Borrower and without prejudice to the generality of Section 8.8.2 (*Savings of Rights; Remedies and Waivers*), the right of IDB to require compliance with any condition under this Agreement that may be waived by IDB with respect to any Disbursement is expressly preserved for the purposes of any subsequent Disbursement.

8.8.4 No course of dealing and no failure or delay by IDB in exercising, in whole or in part, any power, remedy, discretion, authority or other right under this Agreement or any other agreement shall waive or impair, or be construed to be a waiver of or an acquiescence in, such or any other power, remedy, discretion, authority or right under this Agreement, or in any manner preclude its additional or future exercise; nor shall the action of IDB with respect to any Default, or any acquiescence by it therein, affect or impair any right, power or remedy of IDB with respect to any other Default.

Section 8.9 Severability.

Any provision hereof that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining terms and conditions hereof and without affecting the validity or enforceability of any provision in any other jurisdiction. Where terms of any applicable law resulting in such prohibition or unenforceability may be waived, they are waived by the parties to the full extent permitted by law so that this Agreement shall be deemed a valid and binding agreement, enforceable in accordance with its terms.

Section 8.10 Applicable Law and Jurisdiction.

8.10.1 This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

8.10.2 The Borrower hereby irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the State of New York sitting in the Borough of Manhattan and of the United States of America District Court for the Southern District of New York, and any appellate court from any thereof, in any legal action, suit or proceeding arising out of or relating to this Agreement or any other Financing Document to which the Borrower is a party. Final judgment against the Borrower in any such legal action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction including Brazil by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

8.10.3 Nothing in this Agreement shall affect the right of IDB to commence legal proceedings or otherwise sue the Borrower in Brazil or any other appropriate jurisdiction, or concurrently in more than one jurisdiction, or to serve process, pleadings and other legal papers upon the Borrower in any manner authorized by the laws of any such jurisdiction.

8.10.4 By the execution and delivery of this Agreement, the Borrower hereby irrevocably agrees to designate, appoint and empower, in accordance with Sections 5.1.8 (*Process Agent*) and 6.1.17 (*Renewal of Power of Attorney*) of the Loan Agreement, CT Corporation System, with offices at 111 Eighth Avenue, 13th Floor, New York, N.Y. 10019, as its authorized agent solely to receive for and on its behalf service of summons or other legal process in any legal action, suit or proceeding in any court specified in Section 8.10.2 (*Applicable Law and Jurisdiction*).

8.10.5 The Borrower shall, for so long as this Agreement is in effect, maintain a duly appointed and authorized agent in New York, New York to receive for and on its behalf service of summons, complaint or other legal process in any legal action, suit or proceeding IDB may bring in the State of New York in respect of this Agreement or any other Financing Document to which the Borrower is a party and shall keep IDB advised of the identity and location of such agent.

8.10.6 The Borrower further irrevocably consents, if for any reason there is no authorized agent for service of process in New York, New York, to the service of process being made out of the courts referred to in Section 8.10.2 (*Applicable Law and Jurisdiction*) either by mailing copies thereof by registered United States of America air mail, postage prepaid and/or by delivering of letters rogatory to the Borrower at its address specified in Section 8.1 (*Notices*), at IDB's election.

8.10.7 Service of process in the manner provided in this Section 8.10 (*Applicable Law and Jurisdiction*) in any action, suit or proceeding shall be deemed personal service and accepted by the Borrower as such and shall be valid and binding upon the Borrower for all the purposes of any such action suit or proceeding.

8.10.8 The Borrower irrevocably waives, to the fullest extent permitted by applicable law:

- 8.10.8.1 any objection that it may now or hereafter have to the laying of venue of any action, suit or proceeding brought in any court referred to in this Section;
- 8.10.8.2 any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum; and
- 8.10.8.3 its right of removal of any matter commenced by IDB in the courts of the State of New York to any court of the United States of America.

8.10.9 To the extent that the Borrower may, in any action, suit or proceeding brought in any of the courts referred to in Section 8.10.2 (*Applicable Law and Jurisdiction*), any court of Brazil or elsewhere arising out of or in connection with this Agreement or any other Financing Document to which the Borrower is a party, be entitled to the benefit of any provision of law

requiring IDB in such action, suit or proceeding to post security for the costs of the Borrower or to post a bond or to take similar action, as the case may be, the Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or hereafter permitted under the laws of Brazil or, as the case may be, the other jurisdiction in which such court is located.

8.10.10 To the extent that the Borrower may be entitled in any jurisdiction to claim for itself or its Property immunity in respect of its obligations under this Agreement or any other Financing Document to which the Borrower is a party from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any jurisdiction that immunity (whether or not claimed) may be attributed to it or its Property, the Borrower irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted now or in the future by the laws of such jurisdiction.

8.10.11 The Borrower hereby acknowledges that IDB shall be entitled under applicable law, including the terms of the International Organizations Immunities Act of 1945 (22 U.S.C. §288), to immunity from a trial by jury in any action, suit or proceeding arising out of or relating to this Agreement or any other Financing Document to which the Borrower is a party or the transactions contemplated hereby or thereby, brought against IDB in any court of the United States of America. **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER FINANCING DOCUMENT TO WHICH THE BORROWER IS A PARTY OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, AND FOR ANY COUNTERCLAIM THEREON, BROUGHT BY OR AGAINST IDB IN ANY FORUM IN WHICH IDB IS NOT ENTITLED TO IMMUNITY FROM TRIAL BY JURY.** The Borrower agrees that the waivers set forth above shall have the fullest extent permitted under the Foreign Sovereign Immunities Act of 1976 of the United States of America (28 U.S.C. §§1602-1611) and are intended to be irrevocable and not subject to withdrawal for purposes of such Act.

Section 8.11 Term of Agreement.

This Agreement shall continue in force until the date on which IDB is satisfied that all amounts outstanding under the Financing Documents have been indefeasibly paid and discharged in full and the Borrower has no right to request, and IDB is under no obligation to make, any further Disbursement.

Section 8.12 Set-Off.

In addition to any rights and remedies of IDB provided by applicable law, upon the occurrence and continuation of an Event of Default, IDB shall have the right, without prior presentment, demand, protest or notice to the Borrower, any such presentment, demand, protest or notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any Obligation becoming due and payable by the Borrower (whether at the stated maturity, by acceleration or otherwise), to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other

credits, indebtedness or claims in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by IDB to or for the credit of the Borrower. IDB shall promptly notify the Borrower after it makes any such set-off and application; provided that, failure to give such notice shall not affect the validity of such set-off and application.

Section 8.13 Entire Agreement.

This Agreement and the other Financing Documents represent the final and complete agreement of the parties hereto and all prior negotiations, representations, understandings, writings and statements of any nature with respect thereto are hereby superseded in their entirety by the terms of this Agreement and the other Financing Documents.

Section 8.14 No Third Party Beneficiaries.

The agreement of IDB to make the Loan to the Borrower on the terms and conditions set forth in this Agreement and the other Financing Documents is solely for the benefit of the Borrower, and no other Person or any subcontractor, supplier, worker, carrier, warehouseman or materialman furnishing supplies, goods or services to or for the benefit of the Borrower) shall have any rights hereunder against IDB with respect to the Loan, the proceeds thereof or otherwise.

Section 8.15 Waiver and Estoppel.

8.15.1 The Borrower hereby covenants that it will not hinder, delay or impede the execution of any power granted to IDB in this Agreement, the Notes or any other Financing Document.

8.15.2 The Borrower waives, to the extent permitted by applicable law, presentment, demand, protest and any notice of any kind (except notices explicitly required hereunder or under any other Financing Document) in connection with this Agreement, the Notes and the other Financing Documents.

Section 8.16 Survival.

All representations and warranties made in this Agreement, in any other Financing Document and in any document, certificate or statement delivered pursuant hereto or in connection herewith and Sections 3.10 (*Judgment Currency*), 3.13 (*Taxes*), 3.14 (*Costs, Expenses and Losses*), 3.18 (*Increased Costs*), 3.19 (*Fixed Rate Prepayment Costs for Prepayment of A Loan*), 3.21 (*Reimbursement of Expenses*), 8.3 (*Indemnity*), 8.6 (*Confidential Information*) and 8.10 (*Applicable Law and Jurisdiction*) and any related provisions of Article 1 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment in full or expiration or termination of the Loan or the termination of this Agreement or any other Financing Document or any provision hereof or thereof.

(Signature page follows)

IN WITNESS WHEREOF, the parties, acting through their duly Authorized Representatives, have caused this Agreement to be signed in their respective names, as of the date first above written.

**COMPANHIA DE SANEAMENTO BÁSICO DO
ESTADO DE SÃO PAULO - SABESP**

By:_____

Name:

Title:

By:_____

Name:

Title:

INTER-AMERICAN DEVELOPMENT BANK

By:_____

Name:

Title:

WITNESS:

By:_____

Name:

Title:

WITNESS:

By:_____

Name:

Title:

MEMBER COUNTRIES OF IDB

Argentina	Israel
Austria	Italy
Bahamas	Jamaica
Barbados	Japan
Belgium	Republic of Korea
Belize	Mexico
Bolivia	Netherlands
Brazil	Nicaragua
Canada	Norway
Chile	Panama
Colombia	Paraguay
Costa Rica	Peru
Croatia	Portugal
Denmark	Slovenia
Dominican Republic	Spain
Ecuador	Suriname
El Salvador	Sweden
Finland	Switzerland
France	Trinidad and Tobago
Germany	United Kingdom
Guatemala	United States of America
Guyana	Uruguay
Haiti	Venezuela
Honduras	

LIABILITIES

(See Section 4.1.10 (*Financial Statements*) of the Loan Agreement)

FORM OF DISBURSEMENT REQUEST

(See Section 3.2 (*Disbursement Procedure*) of the Loan Agreement)

[BORROWER'S LETTERHEAD]

[Date]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Request for Loan Disbursement No. [_____]*

1. Reference is made to the loan agreement dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the ***Borrower***) and Inter-American Development Bank (***IDB***). Capitalized terms used but not defined in this request have the meanings assigned to them in the Loan Agreement. The rules of interpretation set forth in Section 1.2 (*Interpretation*) of the Loan Agreement shall apply to this request.
2. The Borrower irrevocably requests disbursement on [_____, ____] (or as soon as practicable thereafter) of the amount of [_____] Dollars (\$_____) under the Loan (the ***Disbursement***) consisting of an A Loan Disbursement in the amount of [_____] Dollars (\$_____) and a B Loan Disbursement in the amount of [_____] Dollars (\$_____), in accordance with Section 3.2 (*Disbursement Procedure*) of the Loan Agreement. IDB is requested to pay such amount to the account in [the City of New York] of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, Account No. _____ at [name and address of bank] for further credit to the Borrower's Account No. _____ at [name and address of bank] in [city and country].
3. [Enclosed is a signed[, stamped] but undated receipt for the amount of the Disbursement. The Borrower authorizes you to date such receipt with the Disbursement Date.] OR [Immediately upon receipt of the disbursed funds, the Borrower shall deliver to IDB a receipt therefor substantially in the form of Exhibit 2 (*Form of Disbursement Receipt*) to the Loan Agreement.]
4. The Borrower certifies that all conditions set forth in [Section 5.1 (*Conditions Precedent to First Disbursement*) and]* Section 5.2 (*Conditions of all Disbursements*) of the Loan Agreement have been satisfied.

5. The Borrower further certifies that (i) the proceeds of the A Loan Disbursement will be applied only in reimbursement of, or payment for, expenditures in territories of IDB Members or for goods produced in or services supplied from or originating in such territories, as further specified in Annex A hereto and (ii) the proceeds of all Disbursements will be applied only for the purpose described in Article 2 (*Purpose of the Loan*) of the Loan Agreement.
6. The above certifications are effective as of the date hereof and shall continue to be effective as of the Disbursement Date for this Disbursement. If any certification is no longer valid as of or prior to such Disbursement Date, the Borrower will notify IDB immediately and, on demand, repay the Disbursement (or any portion thereof) if the Disbursement is made prior to IDB's receipt of such notice.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

By: _____

Authorized Representative*

By: _____

Authorized Representative*

ANNEX A TO DISBURSEMENT REQUEST DATED [____]

Loan Number: 1983AB/OC-BR Disbursement Number: [_____]

GOODS / SERVICES	COUNTRY OF ORIGIN	% CONTENT VIS- À-VIS A LOAN DISBURSEMENT	AMOUNT (US\$)
TOTAL LOAN DISBURSEMENT		100%	

FORM OF DISBURSEMENT RECEIPT

(See Section 3.2 (*Disbursement Procedure*) of the Loan Agreement)

[BORROWER'S LETTERHEAD]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Disbursement Receipt No. []*

We, Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the ***Borrower***), hereby acknowledge receipt on the date hereof, of the sum of _____ Dollars (\$_____) disbursed to us by Inter-American Development Bank (***IDB***) under the Loan of _____ Dollars (\$_____) provided for in the loan agreement dated as of May 27, 2008 between ourselves. Of this sum, _____ Dollars (\$_____) is an A Loan Disbursement and _____ is a B Loan Disbursement. Capitalized terms used but not defined in this receipt have the meanings assigned to them in the Loan Agreement.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

By: _____
Authorized Representative**

By: _____
Authorized Representative**

FORM OF CERTIFICATE OF INCUMBENCY AND AUTHORITY

(See Section 5.1.4 (*Incumbency of the Borrower*) of the Loan Agreement)

[BORROWER'S LETTERHEAD]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Certificate of Incumbency and Authority

1. Reference is made to the Loan Agreement, dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo S.A. - SABESP (the ***Borrower***) and Inter-American Development Bank (***IDB***). Capitalized terms used but not defined in this certificate have the meanings assigned to them in the Loan Agreement.
2. Copies of the following documents evidencing the appointment of Borrower's Authorized Representatives are attached:
 - 2.1 Minutes of Shareholders Ordinary and Extraordinary Meeting held on April 30, 2007, registered before the State of São Paulo Commercial Registry under # 195.930/07-1 on May 21, 2007;
 - 2.2 Minutes of Shareholders Extraordinary Meeting held on July 30, 2007, registered before the State of São Paulo Commercial Registry under # 268.791/07-7 on August 3, 2007;
 - 2.3 Minutes of Board of Directors Meeting held on June 26, 2007, registered before the State of São Paulo Commercial Registry under # 251.642/07-0 on July 7, 2007;
 - 2.4 Minutes of Shareholders Ordinary and Extraordinary Meeting held on April 29, 2008, duly registered or to be duly registered before the State of São Paulo Commercial Registry;
 - 2.5 Statements recorded in the appropriate corporate books of Borrower, evidencing that the former members of its Board of Directors and the current members of its Board of Officers appointed under the Minutes of Meetings mentioned in 2.1, 2.2 and 2.3 above have taken office;

- 2.6 In lieu of statements recorded in the appropriate corporate books of the Borrower, a statement (*Termo de Posse*) signed by the current members of its Board of Directors appointed under the Minutes of Meeting mentioned in 2.4 above, confirming that all such members have taken office; and
- 2.7 Power(s) of Attorney granting specific powers for the execution of any Financing Documents or any other document related thereto.

The Borrower hereby certifies that none members of Borrower's Board of Directors and Board of Officers appointed under the Minutes of Meetings mentioned in 2.1 through 2.4 above or attorney(s)-in-fact appointed under the Power(s) of Attorney mentioned in 2.6 above have been resigned, dismissed or replaced. Borrower further certifies that the above-mentioned Minutes of Meetings and power(s) of attorney enclosed herewith are true and complete copies of the respective originals and are in full force and effect.

3. I, the undersigned [Chairman/Officer] of the Borrower, duly authorized to do so, hereby certify that the following are the names, offices and true specimen signatures of the persons each of whom are, and will continue to be, authorized:
- 3.1 to sign on the Borrower's behalf, the Disbursement Requests provided for in Section 3.2 (*Disbursement Procedure*) of the Loan Agreement;
- 3.2 to sign on the Borrower's behalf, the certifications provided for in Section 5.1 (*Conditions Precedent to First Disbursement*) and Section 6.3 (*Information*) of the Loan Agreement; and
- 3.3 to take any other action required or permitted to be taken, done, signed or executed on the Borrower's behalf, under the Financing Documents or any other agreement to which the Borrower and IDB may be parties.

<u>Name</u>	<u>Office</u>	<u>Specimen Signature</u>

IDB may assume that any such person continues to be so authorized until IDB receives authorized notice from the Borrower that they, or any one of them, is no longer authorized.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP.

By: _____
[Chairman/Officer]

By: _____

Authorized Representative

**FORM OF BORROWER'S CERTIFICATE REGARDING ORGANIZATIONAL
DOCUMENTS**

(See Section 5.1.2 (*Organizational Documents*) of the Loan Agreement)

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Certificate Regarding Organizational Documents

1. Reference is made to the Loan Agreement dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo S.A. - SABESP (the ***Borrower***) and Inter-American Development bank (***IDB***). Capitalized terms used but not defined in this certificate have the meanings assigned to them in the Loan Agreement.
 2. Copies of the following documents are attached, which documents constitute all of the Organizational Documents of the Borrower:
 - 2.1 Minutes of Shareholders Extraordinary Meeting held on June 19, 2006, registered before the State of São Paulo Commercial Registry under # 171.409/06-1 on June 29, 2006;
 - 2.2 Minutes of Shareholders Ordinary and Extraordinary Meeting held on April 30, 2007, registered before the State of São Paulo Commercial Registry under # 195.930/07-1 on May 21, 2007; and
 - 2.3 Minutes of Shareholders Ordinary and Extraordinary Meeting held on April 29, 2008, duly registered or to be duly registered before the State of São Paulo Commercial Registry.
- The Minutes of the above-mentioned Shareholders Meetings have respectively approved and amended Borrower's By-laws currently in effect.
3. The Borrower certifies that the attached copies of the Organizational Documents are true and complete copies of the respective originals; none of the Organizational Documents has been amended since April 29, 2008; and no proceedings have been commenced to amend any of the Organizational Documents.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

By: _____
Authorized Representative*

By: _____
Authorized Representative*

FORM OF SERVICE OF PROCESS LETTER**[PROCESS AGENT'S LETTERHEAD]**

(See Section 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement)

[Date]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Agency for Service of Process

1. Reference is made to the loan agreement dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo S.A. - SABESP (the ***Borrower***) and Inter-American Development Bank (***IDB***). Capitalized terms used but not defined in this letter have the meanings assigned to them in the Loan Agreement.
2. Pursuant to Sections 5.1.8 (*Process Agent*), 6.1.17 (*Renewal of Power of Attorney*) and 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement, the Borrower has irrevocably designated and appointed the undersigned CT Corporation System, with offices at 111 Eighth Avenue, 13th Floor, New York, N.Y. 10019, as its authorized agent solely to receive for and on the Borrower's behalf, service of summons or other legal process in any legal action, suit or proceeding in any court specified in Section 8.10.2 (*Applicable Law and Jurisdiction*) of the Loan Agreement.
3. The undersigned informs you that it has irrevocably and unconditionally accepted that appointment as process agent as set forth in Section 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement from the date hereof until the date that is six (6) months after the final maturity date of the Loan and agrees with IDB that the undersigned shall (i) inform IDB promptly in writing of any change in the address of the undersigned in New York, (ii) perform its obligations as process agent in accordance with the relevant terms of Section 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement, and (iii) promptly forward to the Borrower any legal process received by the undersigned in its capacity as process agent.
4. As process agent, the undersigned and its successors shall discharge the above-mentioned obligations and shall not refuse fulfillment of such obligations as provided in Section 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement.

Yours truly,

CT CORPORATION SYSTEM

By: _____

Name:

Title:

cc: COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

FORM OF A LOAN PROMISSORY NOTE(See Section 3.25 (*Notes*) of the Loan Agreement)

PROMISSORY NOTE

NOTA PROMISSÓRIA

VALOR: US\$ _____^[1] **DATA DE VENCIMENTO: __/__/__** ^[2]

Em _____ ^[3], a abaixo-assinada, Companhia de Saneamento Básico do Estado de São Paulo - SABESP, sociedade anônima constituída de acordo com as leis da República Federativa do Brasil, com sede na Rua Costa Carvalho 300, na cidade de São Paulo, Estado de São Paulo, República Federativa do Brasil, inscrita no CNPJ No. 43.776.517/0001-80, por esta Nota Promissória pagará à **INTER-AMERICAN DEVELOPMENT BANK**, uma organização internacional estabelecida de acordo com os seus documentos societários, devidamente assinados pelos estados membros que a compõem, com sede na 1300 New York Avenue, N.W., Washington, D.C. 20577, Estados Unidos da América, ou à sua ordem, em fundos imediatamente disponíveis, em moeda dos Estados Unidos da América, a quantia de US\$ _____ (_____ dólares norte-americanos) ^[4]

O beneficiário desta nota promissória poderá apresentá-la para pagamento até _____ ^[5] nos Estados Unidos de América, ou na República Federativa do Brasil, à opção do beneficiário

Esta nota promissória é assinada e emitida neste dia ____ de ____ de 200[], na cidade de São Paulo, Estado de São Paulo, República Federativa do Brasil.

Companhia de Saneamento Básico do Estado de São Paulo – SABESP

Nome:

Cargo: Diretor [_____]

Nome:

Cargo: Diretor [_____]

[Esta Nota Promissória é emitida nos termos e de acordo com o Contrato de Empréstimo, celebrado entre Companhia de Saneamento Básico do Estado de São Paulo S.A. – SABESP e Inter-American Development Bank datado de _____]⁶

¹ A ser preenchido com o valor de cada parcela de principal ou juros devida pelo mutuário nos termos do contrato de empréstimo.

² A ser deixada em branco, para preenchimento pela beneficiária da nota, conforme autorizada nos termos do contrato de empréstimo

³ A ser deixada em branco, para preenchimento pela beneficiária da nota, conforme autorizada nos termos do contrato de empréstimo

⁴ A ser preenchido com o valor de cada parcela ou juros de principal devida pelo mutuário nos termos do contrato de empréstimo.

⁵ A ser preenchida com a data correspondente a 180 dias, após a data de vencimento final do empréstimo.

⁶ A sentença ente chaves deve ser inserida no verso da Nota Promissória.

FORM OF B LOAN PROMISSORY NOTE

(See Section 3.25 (*Notes*) of the Loan Agreement)

PROMISSORY NOTE

NOTA PROMISSÓRIA

VALOR: US\$ _____ ^[7] **DATA DE VENCIMENTO: ____/____/____** ^[8]

Em _____ ^[9], a abaixo-assinada, Companhia de Saneamento Básico do Estado de São Paulo - SABESP, sociedade anônima constituída de acordo com as leis da República Federativa do Brasil, com sede na Rua Costa Carvalho 300, na cidade de São Paulo, Estado de São Paulo, República Federativa do Brasil, inscrita no CNPJ No. 43.776.517/0001-80, por esta Nota Promissória pagará à **INTER-AMERICAN DEVELOPMENT BANK**, uma organização internacional estabelecida de acordo com os seus documentos societários, devidamente assinados pelos estados membros que a compõem, com sede na 1300 New York Avenue, N.W., Washington, D.C. 20577, Estados Unidos da América, ou à sua ordem, em fundos imediatamente disponíveis, em moeda dos Estados Unidos da América, a quantia de US\$ _____ (_____ dólares norte-americanos) ^[10]

O beneficiário desta nota promissória poderá apresentá-la para pagamento até _____ ^[11] nos Estados Unidos da América, ou na República Federativa do Brasil, à opção do beneficiário

Esta nota promissória é assinada e emitida neste dia ____ de ____ de 200[____], na cidade de São Paulo, Estado de São Paulo, República Federativa do Brasil.

Companhia de Saneamento Básico do Estado de São Paulo – SABESP

Nome: _____

Cargo: Diretor [_____]

Nome: _____

Cargo: Diretor [_____]

[Esta Nota Promissória é emitida nos termos e de acordo com o Contrato de Empréstimo, celebrado entre Companhia de Saneamento Básico do Estado de São Paulo S.A. – SABESP e Inter-American Development Bank datado de _____] ^[12]

⁷ A ser preenchido com o valor de cada parcela de principal ou juros devida pelo mutuário nos termos do contrato de empréstimo.

⁸ A ser deixada em branco, para preenchimento pela beneficiária da nota, conforme autorizada nos termos do contrato de empréstimo

⁹ A ser deixada em branco, para preenchimento pela beneficiária da nota, conforme autorizada nos termos do contrato de empréstimo

¹⁰ A ser preenchido com o valor de cada parcela ou juros de principal devida pelo mutuário nos termos do contrato de empréstimo.

¹¹ A ser preenchida com a data correspondente a 180 dias, após a data de vencimento final do empréstimo.

¹² A sentença entre chaves deve ser inserida no verso da Nota Promissória.

ENVIRONMENTAL AND SOCIAL DISCLOSURE

(See Sections 4.1.20 (*Environmental Matters*), 5.2.8 (*Environmental and Social*), 6.4 (*Environmental and Social*) and 7.2.12 (*Environmental and Social*) of the Loan Agreement)

Part A - Labor Claims

The Borrower has been a party to many lawsuits and administrative legal procedures that involve the SINTAEMA (its labor union), its engineers, its employees and former employees.

On October 6th, 1989, SINTAEMA filed a labor claim against the Borrower in relation to the payment of the health hazard bonus due to the inappropriate labor conditions in effect from September, 1987 to February, 1991. On December 19th, 1997, the Labor Superior Court gave judgment against the Borrower. The Borrower appealed, but such appeal was denied by the Labor Superior Court. SINTAEMA began execution of the judgment and the report of the technical inspector hired to determine the total amount of the claim by the court was presented on February 21st, 2007, amounting to R\$28,3 million. The Borrower's legal department considered the risk of loss as probable and such amount was provisioned on December 31st, 2007.

On January 27th, 2005, SINTAEMA filed a labor claim claiming (i) breach by the Borrower of the maximum employee working hours according to the applicable legislation and (ii) unpaid employee overtime payment related thereto. The lower court judge dismissed the claim and accepted the Borrower's defense that the claim was without grounds. However, the Regional Labor Court reversed the decision and sent the case back to the original court for retrial. If the Borrower loses this lawsuit, the amount to be paid will be R\$40,892,545.40. The Borrower's legal department considered the risk of loss as low and has not made any provisions for this claim.

On February 12th, 2007, the Engineer Union filed a labor claim against the Borrower on behalf of the Borrower's employees claiming payment of a benefit granted to state government employees in accordance with art. 129 of São Paulo State Constitution as from the moment any employee, active or retired, has completed 20 years of rendering services to the Borrower. 1007 active engineers will benefit from such disposition. On July 5th, 2007, a judicial decision ordered

the Borrower to pay such benefits to the active engineers that complete or might complete 20 years of work, plus vacations, plus 1/3 of their salary which is due in the vacation period, plus overtime and Christmas bonus. The Borrower filed an appeal and is waiting for a decision to be rendered by the Local Labor Courts. The total amount of the award is R\$71,542,474.66. The Borrower's legal department considered the risk of loss as remote and has not made any provisions for this claim.

On August 3rd, 2007, SINTAEMA filed a labor claim against the Borrower, on behalf of the Borrower's active and inactive employees, claiming that the Borrower pension fund is in deficit in respect of all employees which have worked at least during 20 years, including those already retired. On August 24th, 2007 the court gave judgment against the Borrower. The Borrower appealed and the Regional Labor Court decided the claim had no grounds. SINTAEMA appealed again and currently is waiting for the Superior Court's decision. The value for this action is R\$153,491,041.97. The Borrower's legal department considered the risk of loss and has not made provision for it.

On February 20th, 2008, SINTAEMA filed a labor claim requesting a harmonization of salaries between employees inside and outside the São Paulo metropolitan area. The Borrower presented its defense and is waiting for the lower court judgment to be rendered. As yet, the amount of this claim has not yet been defined.

The Borrower is defendant in approximately 2,939 labor claims and one public civil action filed by some employees and ex-employees against the Borrower, requesting benefits granted by Law No. 4,819, from August 26, 1958. Approximately 40 of these claimants also requested benefits before the Civil Courts. In these cases, the Borrower claims that the State of São Paulo – not it – is responsible for these payments requested by the claimants. In the public civil action filed against the Borrower and the State Treasury, an injunction was granted by the lower court, ordering the Borrower to pay the benefits granted by Law No. 4,819/58 to all claimants. The judgment was issued by the lower court on April 5th, 2005, the Borrower appealed to the Regional Labor Court. As yet, the Borrower and the State of São Paulo did not reach an agreement with respect to the total amount to be indemnified in connection with these claims.

On December 31st, 2007, the total amount of all pending labor claims where the risk is considered as possible and probable was of R\$132.1 million, and claims with risk of probable loss provisioned were R\$61.7 million.

Part B - Environmental Lawsuits

Environmental lawsuits made against the Borrower include lawsuits filed by the São Paulo State Public Prosecutor Office, some municipal districts and some non-governmental organizations. Most environmental lawsuits relate to (1) the prohibition on the release of raw sewage in some watercourses; (2) general indemnification for environmental damages not yet quantified; (3) and the installation and operation of sewage treatment in environmentally affected areas. In most of these lawsuits the Borrower is being sued for daily fines for non-compliance with environmental laws. In response to such lawsuits, the Borrower emphasizes that the installation and operation of the sewage treatment in the affected areas is provided for in the Borrower's business plan and that the suspending of the release of raw sewage into the relevant watercourses would obstruct the sewage collection of those areas, therefore affecting the needs of the population and causing more damage to the environment and to the local public health.

The main lawsuits that involve the São Paulo State Public Prosecutor Office are:

(a) On April 4th, 2002 the Borrower was notified of a public civil action filed by the Prosecutor Office of São Bernardo do Campo, relating to damages caused by the release of mud from the water treatment plant of the Borrower. The action requested the interruption of such release and the implementation of an environmental recovery project. The Lower Court gave judgment in favor of the Borrower and the decision has been appealed. The Superior Court gave judgment against the Borrower and ordered the Borrower to cease releasing mud within one (1) year from the judgment, as well as to proceed with the environmental recovery of the affected area within two (2) years from the date of the judgment, and subjected the Borrower to a daily fine of R\$10,000.00. The Borrower's legal department appraised the risk of loss as probable and provided for such loss in a total amount of R\$163,000.00 as at December 31st, 2007.

(b) The São Paulo State Public Prosecutor Office filed a public civil action against the Borrower demanding the cessation of sewage release by the Borrower in the municipal district of Borá and an investment to be made to the existent sewage treatment system of the municipal district. The court expert appraised the environmental damages in the total amount of R\$ 41,022,000.00 on November 29th, 2005, which is not definitive yet considering the non-existence of a final binding decision by the competent court.

(c) On February 25th, 2003, an environmental public civil action was filed by the São Paulo State Public Prosecutor Office demanding the cessation of sewage release by the Borrower into the Boa Esperança streamlet and other places in the municipal district of Lutécia, demanding as well an investment to be made to the existent sewage treatment system of the municipal district, and including indemnification for environmental damage. The court expert appraised the environmental damage in the total amount of R\$ 82,779,000.00 on August 13th, 2004, which is not definitive yet considering the non-existence of a final binding decision by the competent court. The Borrower's legal department determined the risk of loss of the lawsuit described in (b) above and the lawsuit described in this item (c) as probable, and losses were provisioned in the amount of R\$ 3,889,000.00 as at December 12th, 2007.

(d) The São Paulo State Public Prosecutor Office filed a public civil action against the Borrower, AES Eletropaulo, Daee, Cetesb and São Paulo State Treasury declaring that they are all jointly-liable for environmental damages caused by reason of the reversion of the flow of Rio Pinheiros to Represa Billings. The lower court judgment based on an expert's report appraised the total damages in R\$284,525,000.00, and the parties were sentenced to jointly pay the amount with interest from June 2000 to December 2007 amounting to R\$491,575,000.00. The Borrower, Daee, AES Eletropaulo, Cetesb and São Paulo State Treasury filed an appeal and are waiting for a final decision. The Borrower's legal department considered such lawsuit as a possible loss, and it has not been provisioned in December 31st, 2007 (the lawsuit was originally classified as a remote loss).

(e) The Civil Entities Coordinator Council of Piracicaba filed a public civil action against the Borrower and the National Agency of Water, demanding reparation of damage caused by the utilization of the Bay of Piracicaba, Jundiá and Capivari Rivers for supplying the

metropolitan area of the municipal district of São Paulo by means of Cantareira's System for almost thirty years. The amount stipulated for the claim was of R\$11,400,000,000.00 as at December 10th, 2003. The lawsuit is waiting for judgment. Such lawsuit is still at an initial stage and until now no official amount has been determined in relation to the claimed damages. The Borrower's legal department considered the risk of loss as remote and therefore no provision related to such lawsuit has been provided.

(f) The São Paulo State Public Prosecutor Office filed a public civil action against the Borrower and Cotia City Hall demanding the individual and joint condemnation of the defendants related to: (a) the cessation of the discharge of non-treated sewage into Cotia's river, under penalty of having a daily fine for non-compliance applied; (b) forcing the defendants to submit the sewage to a previous treatment before releasing it into Cotia's river under penalty of having a daily fine for non compliance applied; (c) complete restoration of the primitive conditions of the soil, superficial and underground bodies of water and vegetation, under penalty of having a daily fine for non-compliance applied; and (d) payment of indemnity for the damages caused to the environment, soil, water sources and superficial and underground bodies of water that can not be restored. The superior court gave judgment against the Borrower on items (a), (c) and (d) above. The technical expert of the court calculated the indemnity in the amount of R\$ 826,800.00, or alternatively, R\$ 5,800,000.00 as at October 17th, 2006. Such amount is not being disputed and but the decision of the superior court awaits confirmation. The Borrower's legal department determined the risk of loss as probable. On December 2007, the Borrower made provision for such loss in the amount of R\$6,255,488.87.

The Borrower is also a party to other environmental lawsuits in other municipalities where it operates, arising from the release of sewage without treatment, assessed as probable or possible losses by the Borrower's legal department. The amounts provisioned do not always represent the final amount to be paid as indemnification for the alleged damages, in view of the current stage of the lawsuits and the difficulty of the courts to estimate, on a reasonable basis, the amounts of such payments. On December 31, 2007, the total amount of claims related to environmental lawsuits was R\$514.4 million where risks were considered as possible and probable losses. The Borrower has provisioned R\$50.1 millions related to actions considered as probable losses.

Part C – 7.5% Notes due 2016 Offering Memorandum

The Borrower has issued US\$140,000,000 7.5% Notes due 2016 in relation to which it produced an offering circular dated October 20, 2006 (the “**Offering Circular**”). The Offering Circular discloses information relating to certain lawsuits that have been commenced related to the Borrower relating to Environmental or Social Matters and other matters and the Borrower’s alleged non-compliance with Environmental Laws and other laws, rules and regulations. All such information contained in the Offering Circular is deemed disclosed herein by reference to the facts existing on the date when the Offering Circular was issued.

FORM OF BORROWER'S CERTIFICATE
REGARDING CORPORATE APPROVALS

(See Section 5.1.3 (*Directors' Resolutions of the Borrower*) of the Loan Agreement)

[BORROWER'S LETTERHEAD]

[Date]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Certificate Regarding Corporate Approvals

1. Reference is made to the Loan Agreement dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo S.A. - SABESP (the ***Borrower***) and Inter-American Development bank (***IDB***). Capitalized terms used but not defined in this certificate have the meanings assigned to them in the Loan Agreement.
2. Copies of the following corporate approvals are attached:
 - 2.1 The Minutes of the 672nd Board of Directors Meeting of Borrower, held on December 13, 2007, duly registered before the State of São Paulo Commercial Registry under # 150,516/08-3 on May 13, 2008;
 - 2.2 The Minutes of the 675th Board of Directors Meeting of Borrower, held on February 21, 2008, duly registered before the State of São Paulo Commercial Registry under # 139,988/08-7 on May 5, 2008; and
 - 2.3 The Minutes of the 679th Board of Directors Meeting of Borrower, held on May 8, 2008, duly registered before the State of São Paulo Commercial Registry under # 152,885/08-0 on May 15, 2008.
3. The Borrower certifies that the above-mentioned Minutes of Board of Directors Meetings enclosed herewith have approved among other matters all basic terms and conditions of the Loan and authorized Borrower's Board of Officers to perform all acts relating thereto; such corporate approvals are true and complete copies of the respective originals and that such corporate approvals are in full force and effect.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

By: _____
Authorized Representative*

By: _____
Authorized Representative*

FORM OF IRREVOCABLE POWER OF ATTORNEY TO PROCESS AGENT

(See Sections 5.1.8 (*Process Agent*) and 6.1.17 (*Renewal of Power of Attorney*) of the Loan Agreement)

Companhia de Saneamento Básico do Estado de São Paulo - SABESP, a *sociedade anônima* organized and existing under the laws of the Federative Republic of Brazil, with its head offices in the city of São Paulo, State of São Paulo, at Rua Costa Carvalho 300, enrolled with the General Taxpayers' Register (CNPJ/MF) under No. 43.776.517/0001-80 (the ***Borrower***); and herein duly represented pursuant to Section 28 of its By-laws by its Authorized Representatives signing below,

IRREVOCABLY APPOINTS,

CT Corporation System, with offices at 111 Eighth Avenue, 13th Floor, New York, N.Y. 10019 as its attorney for it and in its name to receive notices, interpretations, service of summons or other legal process with respect to any legal action, suit or proceeding in any court specified in paragraph 8.10 (*Applicable Law and Jurisdiction*) of the Loan Agreement (the "***Loan Agreement***") dated as of May 27, 2008, between the Borrower and Inter-American Development Bank, an international organization established by the Articles of Agreement among its member countries (***IDB***), as long as the above-mentioned notices, interpretations, service of summons or other legal process relate to the Loan Agreement or any other Financing Document (as such term is defined in the Loan Agreement) to which the Borrower is a party, the attorney being authorized to execute any documents and perform all acts necessary, useful and/or convenient for the full compliance of this Power of Attorney, which is irrevocably granted in accordance with the provisions of Article 684 of the Brazilian Civil Code.

This Power of Attorney shall be valid for the one (1)-year period from [*insert date of first Power of Attorney*]¹³/[December 31, 2008]¹⁴/[December 31, [____]]¹⁵ to [December 31, 2008]¹⁶/[December 31, 2009]¹⁷/[December 31, [____]]¹⁸.

IN WITNESS WHEREOF, the undersigned has duly executed this Power of Attorney on [_____] 200[____].

[Indicate place and date of execution]

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO – SABESP

By: _____

Name:

¹³ Relevant date for the first Power of Attorney.

¹⁴ Relevant date for the second Power of Attorney.

¹⁵ Relevant date for all subsequent Powers of Attorney.

¹⁶ Relevant date for the first Power of Attorney.

¹⁷ Relevant date for the second Power of Attorney.

¹⁸ Relevant date for all subsequent Powers of Attorney.

Title: President

By: _____

Name:

Title: [_____] Officer

Note: Signatures must be acknowledged by the Notary Public.

FORM OF CONVERSION NOTICE

(See Section 3.22 (*A Loan Interest*) of the Loan Agreement)

[BORROWER'S LETTERHEAD]

[Date]

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Attn: Structured and Corporate Finance Department, Portfolio Management Unit

Ladies and Gentlemen:

Loan No. 1983AB/OC-BR

Conversion Notice for A Loan Interest Rate

1. Reference is made to the loan agreement dated as of May 27, 2008 (the ***Loan Agreement***) between Companhia de Saneamento Básico do Estado de São Paulo S.A. – SABESP (the ***Borrower***) and the Inter-American Development Bank (***IDB***). Capitalized terms used but not defined in this notice have the meanings assigned to them in the Loan Agreement.
2. Pursuant to and in accordance with Section 3.22.6 (*A Loan Interest*) of the Loan Agreement, the Borrower irrevocably notifies IDB that the A Loan Interest Rate shall be converted from the A Loan Variable Interest Rate to the A Loan Fixed Interest Rate commencing on [____], which shall be the Rate Basis Conversion Date.
3. The Borrower confirms that on [_____, ____], it paid IDB a fee for the Rate Basis Conversion in the amount of _____ Dollars (\$_____) determined in accordance with Section 3.22.9 (*A Loan Interest*) of the Loan Agreement.
4. Attached are documents evidencing that all Authorizations required for the Rate Basis Conversion under applicable law have been obtained, along with a legal opinion from Brazil counsel to the Borrower reasonably acceptable to IDB confirming the validity and effectiveness of such Authorizations.

Yours truly,

COMPANHIA DE SANEAMENTO BÁSICO
DO ESTADO DE SÃO PAULO - SABESP

By: _____

Authorized Representative *

By: _____

Authorized Representative *