



LOAN NUMBER 8453-UY

Loan Agreement

(Drought Events' Impact Mitigating Investment Project Financing)

between

NATIONAL DEVELOPMENT CORPORATION
(CORPORACIÓN NACIONAL PARA EL DESARROLLO)

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 11, 2015

LOAN AGREEMENT

Agreement dated February 11, 2015, between NATIONAL DEVELOPMENT CORPORATION (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred million Dollars (\$200,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one half of one percent (0.50%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower, with the prior approval of the Guarantor, may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall and shall cause CONAFIN AFI S.A. to carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consists of the following:
- (a) the FEE Regulations have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CONAFIN AFI S.A. to perform any of its obligations under the Subsidiary Agreement; and
 - (b) CONAFIN AFI S.A. has failed to perform any of its obligations under the Subsidiary Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the events specified in paragraph 4.01 of this Agreement occur and are continuing for a period of 90 days after notice of the event has been given by the Bank to the Borrower and the Guarantor.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Subsidiary Agreement has been executed on behalf of the Borrower and the CONAFIN AFI S.A. in accordance with the terms and conditions referred to in Section I. B.1 of Schedule 2 to this Agreement.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the CONAFIN AFI S.A. and is legally binding upon the Borrower and the CONAFIN AFI S.A. in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Board of Directors.

6.02. The Borrower's Address is:
Rincón 528
Montevideo, CP 11000
Uruguay

Facsimile:
2916-2800

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20033
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

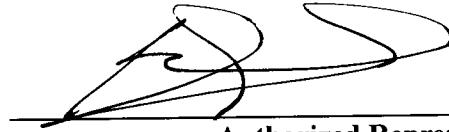
248423(MCI) or
64145(MCI)

1-202-477-6391

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

NATIONAL DEVELOPMENT CORPORATION

By



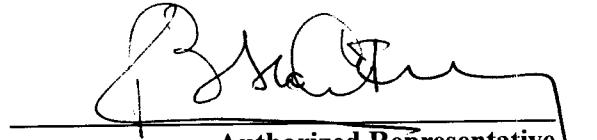
Authorized Representative

Name: Pedro Brunoro

Title: Presidente

NATIONAL DEVELOPMENT CORPORATION

By



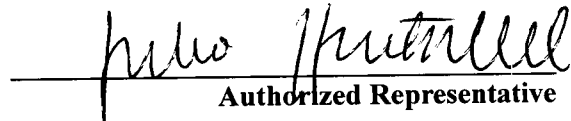
Authorized Representative

Name: PABLO GUTIERREZ

Title: VICE PRES. DOWNE

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

Name: JESKO HENTSCHEL

Title: COUNTRY DIRECTOR
WORLD BANK

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to enhance the Guarantor's efforts to mitigate the effect of adverse weather conditions on its public sector accounts; and (ii) to enhance the efficiency of its risk management framework used to mitigate these risks.

The Project consists of the following part:

Part 1: Mitigation of the Effects of Adverse Weather Conditions

Provision of contingent financing, through CONAFIN AFI S.A. as trustee of the FEE, to capitalize the FEE in case of an Eligible Event, so as to enable the FEE to provide additional resources needed by UTE to face adverse weather related, unexpected costs of electricity generation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall maintain CONAFIN AFI S.A. with the necessary resources to carry out the Project, and with a composition and terms of reference satisfactory to the Bank.
2. Not later than 30 days after the Effective Date the Borrower shall cause CONAFIN AFI S.A. to enter into an asset management contract with BCU to regulate the investment of the FEE's funds, all under terms and conditions satisfactory to the Bank.
3. Not later than November 30 of each year during Project implementation, the Borrower shall cause CONAFIN AFI S.A. to: (a) submit to the MEF for its review and no objection an annual operating budget relating to expenses that CONAFIN AFI S.A. expects to be incurred in the following calendar year in relation to managing the FEE; and (b) make said budget publicly available on the Borrower's website.
4. During Project implementation, the Borrower shall cause CONAFIN AFI S.A. to prepare and provide to the Bank, on a quarterly basis, not later than 30 days after the end of the respective quarter: (a) a report on the balance of FEE's funds as of the end of the corresponding quarter (FEE Balance Report) and make it publicly available on the Borrower's website; and (b) a report on the use of the FEE's funds and the investments of the FEE's funds (including returns and losses from said investments) during the same quarter of the FEE Balance Report.
5. Not later than April 30 of each year during Project implementation, the Borrower shall cause CONAFIN AFI S.A. to submit to the Bank a report (prepared in accordance with the methodology set forth in Article 2 of Decree 442/011) assessing the Targeted Value of the Fund's Coverage for the purposes set forth in Article 3 of Decree 442/011.
6. The Borrower shall cause CONAFIN AFI S.A. to ensure that the FEE maintains at all times, throughout the implementation of the Project, a minimum balance equivalent to \$500,000 to cover the costs relating to the management of FEE's funds.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to CONAFIN AFI S.A., acting as trustee of the FEE, pursuant to the provisions of the Administrative Trust Agreement, under a subsidiary agreement between the Borrower and the CONAFIN AFI S.A. ("Subsidiary Agreement") under terms and conditions satisfactory to the Bank, which shall include, *inter alia*: (a) the provisions of the Administrative Trust Agreement; (b) the provisions of Article V of the General Conditions; (c) the obligations of CONAFIN AFI S.A. set forth in the provisions of Schedule 2 of this Agreement; and (d) the obligation of CONAFIN AFI S.A. to carry out the Project in accordance with the Anti-Corruption Guidelines.
2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank and the Guarantor shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than 6 months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall and shall cause CONAFIN AFI S.A. to maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause CONAFIN AFI S.A. to prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter, interim unaudited financial reports of the FEE for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall and shall cause CONAFIN AFI S.A. and the FEE to have their respective Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one calendar year of the Borrower, commencing with the fiscal year in which this Agreement has been declared effective. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions ("the Additional Instructions"), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) Transfers to FEE	200,000,000	100%
TOTAL AMOUNT	200,000,000	

B. Withdrawal Conditions; Withdrawal Period

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

- (a) until the Bank has received payment in full of the Front-end Fee; and
 - (b) unless and until the Borrower has provided the Bank with satisfactory evidence that:
 - (i) the Real Quarterly Hydraulic Generation for a respective quarter is equal to or lower than 90% of the Expected Quarterly Hydraulic Generation, as evidenced by an Hydraulic Report issued by UTE for this quarter; and
 - (ii) the condition referred to in sub-paragraph (b) (i) above has been caused by a drought event as confirmed by a resolution issued by UTE. Such resolution shall have been issued and submitted to the Bank within 12 months from the end of the quarter during which the condition under sub-paragraph (b)(i) above has occurred; and
 - (iii) FEE's balance is less than the equivalent amount of fifty million Dollars (\$50,000,000), as evidenced by either: (A) a FEE Balance Report issued for the same quarter for which the Hydraulic Report under sub-paragraph (b) (i) has been issued; or (B) a statement issued by CONAFIN AFI S.A. and submitted to the Bank within 12 months from the end of the quarter during which the condition referred to in sub-paragraph (b) (i) above has occurred.
2. (a) If the Bank determines at any time that: (i) withdrawals from the Loan Account and deposit of the Loan proceeds have not been done in accordance with the Additional Instructions; or (ii) any payment out of the FEE was made not in compliance with the FEE Regulations, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the FEE (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further withdrawal shall be approved by the Bank until the Borrower has provided such evidence or made such deposit or refund, as the case may be.
- (b) Refunds to the Bank made pursuant to paragraph 2(a) shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provision of the Loan Agreement.
3. The Closing Date is December 31, 2017.

SCHEDULE 3

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first installment to be payable on the ninth (9th) Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the thirty-fourth (34th) Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-twenty-sixth ($1/26$) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after April 15, 2035, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
4. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency.

APPENDIX

Section I. Definitions

1. “Administrative Trust Agreement” means the agreement (*contrato de fideicomiso de administración*) to be entered into between the Borrower and CONAFIN AFI S.A. pursuant to clause B.1 of Section I of Schedule 2 to this Agreement, on terms and conditions satisfactory to the Bank, including, *inter alia*: (i) appointment of CONAFIN AFI S.A. and UTE as, respectively, trustee and beneficiary of the FEE; and (ii) establishment of the criteria and procedures for managing the FEE.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “FEE Balance Report” means any quarterly report prepared by CONAFIN AFI S.A. and submitted to the Bank pursuant to Section I.A.4 (a) of Schedule 2 to this Agreement.
4. “BCU” means *Banco Central de Uruguay*, the Guarantor’s Central Bank.
5. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
6. “CONAFIN AFI S.A.” means *Corporación Nacional Financiera Administradora de Fondos de Inversión*, the National Finance Corporation Adminstrating Investment Funds, established through the articles of agreement, dated October 15, 2002, and approved by the Guarantor’s *Auditoria Interna* on January 29, 2003.
7. “Decree 442/011” means the Guarantor’s Decree No. 442 of December 19, 2011, duly published in the Guarantor’s Official Gazette on December 29, 2011, as amended through Decree No. 305 of October 22, 2014, duly published in the Guarantor’s Official Gazette on October 24, 2014, which sets forth the rules of funding allocation and use of FEE’s funds.
8. “Eligible Event” means the occurrence of all the withdrawal conditions set forth in Section III.B.1 (b) Schedule 2 to this Agreement.
9. “Expected Quarterly Hydraulic Generation” or “*Generación Hidráulica Esperada Trimestral*” means estimated hydropower generation, as determined by UTE on a quarterly basis, pursuant to Article 2 of Decree 442/011.

10. “FEE” means *Fondo de Estabilización Energética*, the Energy Stabilization Fund, established within the Borrower, pursuant to Article 773 of Law No. 18.719 of December 27, 2010, duly published in the Guarantor’s Official Gazette on January 5, 2011.
11. “Transfers to FEE” means any transfer of funds, through CONAFIN AFI S.A. as a trustee of the FEE, for the purposes of the FEE capitalization in case of an Eligible Event, so as to enable the FEE to provide additional resources needed by UTE to face adverse weather related unexpected costs of electricity generation, as such transfers shall be made in accordance with the FEE Regulations, the provisions of this Agreement and the Subsidiary Agreement.
12. “FEE Regulations” means: (i) the Guarantor’s Law No. 18.719 of December 27, 2010, duly published in the Guarantor’s Official Gazette on January 5, 2011; (ii) Decree 442/011; (iii) the Administrative Trust Agreement; and (iv) the asset management contract to be entered into pursuant to Section I.A.2 of Schedule 2 to this Agreement.
13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
14. “Guarantor” means the Oriental Republic of Uruguay.
15. “Hydraulic Report” means a quarterly report issued by UTE, pursuant to Article 4 of Decree 442/011, which provides comparison between Real Quarterly Hydraulic Generation and Expected Quarterly Hydraulic Generation.
16. “MEF” means *Ministerio de Economía y Finanzas*, the Guarantor’s Ministry of Economy and Finance.
17. “Real Quarterly Hydraulic Generation” or “*Generación Hidráulica Real Trimestral*” means real hydropower generation as reported, on a quarterly basis, by the Electric Market Administration (*Administración de Mercado Eléctrico* or ADME), pursuant to Article 2 of Decree 442/011.
18. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement, pursuant to which the Borrower shall make the proceeds of the Loan available to the CONAFIN AFI S.A.
19. “Targeted Value of the Fund’s Coverage” means FEE’s *Valor Objetivo de Cobertura del Fondo*, as determined by UTE, pursuant to Article 2 of Decree 442/011.

20. "UTE" means the Guarantor's Electricity Transmission and Electric Power Plants Administration (*Administración de Usinas y Trasmisiones Eléctricas*), established pursuant to the Guarantor's Law No. 4.273 of October 21, 1912.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
3. In the Appendix, **Definitions**, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“68. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.