

CONFORMED COPY

LOAN NUMBER 3189 ME

Loan Agreement

(Transmission and Distribution Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NACIONAL FINANCIERA, S.N.C.

Dated September 25, 1990

LOAN NUMBER 3189 ME

LOAN AGREEMENT

AGREEMENT, dated September 25, 1990 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NACIONAL FINANCIERA, S.N.C. (the Borrower).

WHEREAS (A) the United Mexican States (the Guarantor), the Borrower and Comision Federal de Electricidad (CFE), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

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

(C) by an agreement (the Project Agreement) of even date herewith, between the Bank and CFE, the latter has agreed to undertake the obligations set forth in the Project Agreement;

(D) the Borrower intends to contract from the Inter-American

Development Bank (IDB) a loan in an amount equivalent to approximately three hundred million dollars (\$300,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the IDB Loan Agreement) to be entered into between the Borrower and IDB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the last sentence of Section 3.02 deleted, constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "CFE" means Comision Federal de Electricidad, (Federal Electricity Commission) wholly owned by the Guarantor and established by the Ley que crea la Comision Federal de Electricidad, published in the Diario Oficial of the Guarantor on August 24, 1937, as amended;

(c) "Project Agreement" means the agreement between the Bank and CFE of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and CFE pursuant to Section 3.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Loan Agreement;

(e) "Financial Rehabilitation Agreement" means the agreement (Convenio para la Rehabilitacion Financiera de la Comision Federal de Electricidad) between the Guarantor and CFE, dated August 31, 1989;

(f) "Ten-Year Investment Plan" means the Programa de Obras e Inversiones del Sector Electrico - POISE, the program of works and investments for the electric power sector of the Guarantor, issued by CFE on March 3, 1989, as amended from time to time pursuant to Section 4.02 of the Project Agreement;

(g) "Hydroelectric Development Project" means the Project, as so defined in the Loan Agreement, dated September 25, 1989, between the Bank and the Borrower;

(h) "Loan Agreement 3083-ME" means the Loan Agreement referred to in paragraph (g) above;

(i) "Project Agreement 3083-ME" means the Project Agreement, dated September 25, 1989, between the Bank and CFE, in respect of the Hydroelectric Development Project;

(j) "Guarantee Agreement 3083-ME" means the Guarantee Agreement, dated September 25, 1989, between the Guarantor and the Bank in respect of the Hydroelectric Development Project;

(k) "SEDUE" means Secretaria de Desarrollo Urbano y Ecologia, the Guarantor's Ministry of Urban Development and Ecology;

(l) "Special Transmission Program" means the program to be carried out by CFE to build high voltage transmission lines, as described in the report "Programa de Construccion de Obras en el Area de Transmision de CFE", dated July 10, 1989, such program to be carried out during the years 1990 through 1993;

(m) "Special Distribution Program" means the program to be carried out by CFE to construct and improve distribution networks and equipment, as described in the report "Programa Especial para Ampliaciones y Mejoras en el Area de Distribucion", dated July 1989, such program to be carried out during the years 1990 through 1994;

(n) "Special Thermal Plant Renovation Program" means the program to be carried out by CFE to upgrade and renovate approximately 40 thermal power generating units to full capacity, and to improve their efficiency and availability, as described in the report "Proyecto Especial para Rehabilitacion y Modernizacion de las Unidades Generadoras Termoelectricas", dated October 1989, such program to be carried out during the years 1990 through 1994;

(o) "FOB" means "free on board", as defined in "Incoterms", published by the International Chamber of Commerce in March 1980;

(p) "CIF" means "cost, insurance and freight", as defined in "Incoterms", published by the International Chamber of Commerce in March 1980;

(q) "PEMEX" means Petroleos Mexicanos, the national petroleum company established and wholly owned by the Guarantor; and

(r) "CLFC" means Compania de Luz y Fuerza del Centro.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of four hundred fifty million dollars (\$450,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding

Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Periods means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost or Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

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

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

ARTICLE III

Transfer of Loan Proceeds;
Execution of the Project;
Other Covenants

Section 3.01. (a) The Borrower shall lend the proceeds of the Loan to CFE for purposes of carrying out the Project under a

subsidiary loan agreement, satisfactory to the Bank, to be entered into between the Borrower and CFE, and that shall include, inter alia, the following terms and conditions:

- (i) the funds lent to CFE shall be denominated in dollars;
- (ii) CFE shall pay the same charges, interest and have the same amortization period as are set forth in Sections 2.04 through 2.07 of this Agreement, on all amounts withdrawn and outstanding under the Subsidiary Loan Agreement; and
- (iii) CFE shall pay a fee to the Borrower of 10% of the interest due and payable on amounts withdrawn and outstanding under the Subsidiary Loan Agreement.

(b) Except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce the Subsidiary Loan Agreement, or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall be carried out by CFE pursuant to Section 2.04 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, the Special Account, and separate records and accounts adequate to reflect in accordance with sound accounting practices, the resources and expenditures in connection with the execution of the Project.

(b) The Borrower shall:

- (i) have such separate records and the Special Account for each fiscal year audited, in accordance with generally accepted auditing standards and practices consistently applied, by independent and qualified auditors;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank each month certified statements of the Special Account; and
- (iv) furnish to the Bank such other information concerning the Special Account, the audit thereof and said records as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section,

records and accounts reflecting such expenditures;

- (ii) retain, or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) CFE shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CFE will be able to perform its obligations under the Project Agreement;

(c) the Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CFE, or for the suspension of its operations;

(d) the IDB Loan Agreement shall have failed to become effective by September 30, 1990, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

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

(A) the right of the Borrower to withdraw the proceeds of the loan under the IDB Loan Agreement, or any other loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

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

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under

such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a) or (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section; and

(c) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Loan Agreement has been entered into on behalf of the Borrower and CFE; and

(b) progress, satisfactory to the Bank, has been made by the Guarantor, the Borrower and CFE in the execution of the Hydroelectric Development Project, including, without limitation, the implementation of the Financial Rehabilitation Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly executed and authorized, and is legally binding upon, CFE in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been executed and duly authorized by, and is legally binding upon, the Borrower and CFE in accordance with its terms.

Section 6.03. The date December 26, 1990 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Director Internacional of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:
INTBAFRAD
Washington, D.C.

Telex:
197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

For the Borrower:

Nacional Financiera, S.N.C.
Direccion Internacional
Plaza NAFINSA, Insurgentes Sur 1971
Torre Sur, 11 Piso
CP 01020, Mexico D.F.
Mexico

Cable address:

NAFIN
Mexico City

Telex:

NAFIME 383-1775765
Mexico City

Fax:

548-5191

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shah id Husain
Regional Vice President
Latin American and the Caribbean

NACIONAL FINANCIERA, S.N.C.

By /s/ Juan Jose Paramo
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods for the Special Trans- mission Program under Part A.2	160,000,000	100% of foreign expenditures (CIF Mexican port) and 100% of local

of the Project		expenditures (ex- factory cost)
(2) Goods for the Special Distri- bution Program under Part A.3 of the Project	140,000,000	100% of foreign expenditures (CIF Mexican port) and 100% of local expenditures (ex- factory cost)
(3) Goods for the Special Thermal Plant Renovation Program under Part A.4 of the Project	103,500,000	100% of foreign expenditures (CIF Mexican port) and 100% of local expenditures (ex- factory cost)
(4) Consultants' services under Parts B.1 (a) and B.2 (a) of the Project	1,000,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Training expen- ditures under Parts B.1 (b) and B.2 (b) of the Project	500,000	100%
(6) Unallocated	4,000,000	
TOTAL	450,000,000 =====	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$20,000,000, may be made on account of payments made for expenditures before that date but after September 24, 1989 under Categories (1) through (3) for goods procured under Section I.A. of Schedule 4 to this Agreement, and under Categories (4) and (5).

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) support CFE's transmission and distribution program for the years 1991-1992 with the purpose of meeting industrial and commercial demand and expanding residential coverage, while improving the technical efficiency and reliability of electric service; (b) promote improvements and renovation of thermoelectric power plants to reduce the investment requirements of the electric power sector; (c) support the Guarantor's policy of modifying CFE's tariff structure

to reduce subsidies to end users; (d) strengthen CFE's internal capabilities to address environmental issues related to the operation of thermoelectric power plants and to the construction of transmission lines and (e) continue improving CFE's management, technical, financial and energy conservation functions.

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

Part A: CFE's Investment Program 1991-1992

All works and services in connection with the Ten-Year Investment Plan in respect of the years 1991-1992, including, without limitation, the following:

1. Generation Program: Completion of the construction of, and placing into operation of, new power plants with a total capacity of approximately 1,200 megawatts and start of the construction of new power plants in accordance with the Ten-Year Investment Plan.
2. Transmission Program: Construction of high voltage transmission lines, substations and related facilities, and without limitation to the foregoing, the execution of the Special Transmission Program in respect of the years 1991-1992.
3. Distribution Program: Connection of approximately 1.1 million new customers to the electricity distribution system and, without limitation to the foregoing, the execution of the Special Distribution Program in respect of the years 1991-1992.
4. Equipment Upgrading: The renewal and upgrading of existing installations, including generation, transmission and distribution facilities and, without limitation to the foregoing, the execution of the Special Thermal Plant Renovation Program in respect of the years 1991-1992.
5. General Plant: Investments in facilities required for the operation of CFE including, without limitation, office buildings, vehicles and office equipment.

Part B: Studies and Technical Assistance

The carrying out of:

1. (a) A study on the environmental aspects of transmission lines and substations, such study to examine: (i) issues related to rights of way; (ii) resettlements; (iii) health effects of transmission lines and substations; (iv) the effects of the use of fire and biocides to maintain rights of way; (v) organizational aspects of CFE in the areas of environmental matters with regard to transmission lines and substations; and (vi) the design of the training program referred to in subparagraph (b) below.

(b) A training program for the personnel of CFE and SEDUE on the environmental aspects of transmission lines and substations.

2. (a) A study for the purposes of: (i) determining the nature and extent of the prevailing level of pollution caused by thermal power plants to air, land and water; and (ii) performing technical and economical analyses of alternative means to reduce pollution and effluents from thermal plants to permissible levels.

(b) A training program for the personnel of CFE and SEDUE on the control and reduction of pollution caused by thermal power plants.

* * * *

The Project is expected to be completed by June 30, 1993.

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15	
beginning December 15, 1995 through June 15, 2007	18,750,000

