

CONFORMED COPY

LOAN NUMBER 2916 ME

(Steel Sector Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CARBON Y MINERALES COAHUILA, S.A.

Dated March 15, 1988

LOAN NUMBER 2916 ME

PROJECT AGREEMENT

AGREEMENT, dated March 15, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CARBON Y MINERALES COAHUILA, S.A. (CMC).

WHEREAS (A) by the Loan Agreement of even date herewith between Nacional Financiera, S.N.C. (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to four hundred million dollars (\$400,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CMC agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and CMC, a portion of the proceeds of the loan provided for under the Loan Agreement will be made available to CMC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS CMC, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the

obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) CMC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part B.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and steel industry practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B.2 of the Project.

(b) CMC shall, for the purpose of carrying out Part B.2 of the Project, establish, and thereafter maintain, in a manner satisfactory to the Bank, a project management unit, including employing consultants, as and when appropriate, to assist such unit.

Section 2.02. 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 the Loan Agreement.

Section 2.03. CMC shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this and Part B.2 of the Project.

Section 2.04. CMC shall duly perform all its obligations under the CMC Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, CMC shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the CMC Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) CMC shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the CMC Subsidiary Loan Agreement and other matters relating to the purposes of the Loan.

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

Section 2.06. CMC shall (a) prepare and furnish to the Bank an action plan, satisfactory to the Bank, setting forth its mining program and specific measures and actions designed to carry it out, including the achievement of improvements in productivity and reductions in operating costs, as well as the completion and implementation of a standard costing system; (b) implement and adjust such action plan in a manner and according to a timetable satisfactory to the Bank and CMC; and (c) within six months after

the first disbursement under Part B.2 of the Project, and annually thereafter, until completion of the Project, exchange views with the Bank on the implementation of such action plan.

Section 2.07. CMC shall take all reasonable measures to ensure that the execution of Part B.2 of the Project, and the operation of the plants and other facilities pertaining to Part B.2 of the Project, is carried out with due regard to ecological and environmental factors, including air and water pollution standards and mine safety standards, all in accordance with the Guarantor's laws and regulations.

ARTICLE III

Management and Operations of CMC

Section 3.01. CMC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and industrial practices under the supervision of qualified and experienced management.

Section 3.02. CMC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industrial practices.

Section 3.03. CMC shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. CMC shall carry out a plan, satisfactory to the Bank, for: (i) a restructuring and recapitalization of its assets and liabilities, including shareholders' equity and debt obligations; and (ii) an internal reorganization of its operational and administrative functions, including its reorganization for the purpose of acting as a holding company for its mining operations.

Section 3.05. CMC shall permit the Bank and the Borrower to have access to and review, annually at the request of the Bank or the Borrower, as the case may be, all then existing sales agreements between CMC and SIDERMEX or between CMC and any subsidiary of SIDERMEX.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CMC shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts reflecting the resources and expenditures related to Part B.2 of the Project.

(b) CMC shall:

- (i) have the accounts referred to in (a) above and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with generally accepted auditing standards and procedures 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: (A) a certified copy of its financial statements for such year as so audited, and (B) a certified copy of the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested;

and

- (iii) furnish to the Bank such other information concerning said accounts and financial statements, as well as the audit thereof, and said records, as the Bank shall from time to time reasonably request.

(c) For all expenditures in carrying out Part B.2 of the Project and with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, CMC shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, separate 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 separate accounts are included in the audits referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 4.02. CMC shall fully coordinate and cooperate with SIDERMEX in the asset revaluation and balance sheet adjustment and updating to be undertaken by SIDERMEX pursuant to Section 4.02 of the SIDERMEX Project Agreement.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of CMC thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CMC thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For CMC:

Carbón y Minerales Coahuila, S.A.
Zaragoza 1000
Piso Mezzanine
Monterrey N.L.
Mexico, C.P. 64000

Telex:

38 20 24 MI NO ME

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CMC, may be taken or executed by the Director General or such other person or persons as the Director General shall designate in writing, and CMC shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain
Regional Vice President
Latin America and the Caribbean

CARBON Y MINERALES COAHUILA, S.A.

By /s/ Hugo García de Anda
Authorized Representative

