

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7501-ME

Loan Agreement

(Integrated Energy Services Project)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 5, 2008

Public Disclosure Authorized

LOAN AGREEMENT

Agreement dated December 5, 2008, between UNITED MEXICAN STATES (“Borrower”) represented by its SHCP, and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS by an agreement of even date herewith between the Borrower and the Bank, acting as implementing agency of the GEF (the GEF Grant Agreement), the Bank has agreed to make a grant to the Borrower in an amount of fifteen million Dollars (\$15,000,000) (the GEF Trust Fund Grant) to assist in financing of the Project on the terms and conditions set forth in the GEF Grant Agreement;

WHEREAS the Borrower has informed the Bank that the proceeds of the Loan (as set forth in the table in Section IV of Schedule 2 to this Agreement and for purposes of supporting the Project described in Schedule 1 to this Agreement), shall be used in conformity with the requirements of the Borrower’s income, budgetary and public debt laws and the terms of this Agreement.

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 fifteen million Dollars (USD 15,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative, for purposes of taking any action required or permitted to be taken pursuant to this Section, is the *Director Internacional* of NAFIN, or any person or person whom he or she shall designate in writing.

- 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.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; 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 (d) of the General Conditions.
- 2.05. The Payment Dates are May 1 and Nov 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower, through SENER, shall carry out the Project, with the assistance of NAFIN as financial administrator and financial agent (pursuant to the *Contrato de Mandato*), 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 Event of Suspension consists of the following, namely, that NAFIN shall have failed to perform any of its obligations under the *Contrato de Mandato*.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
 - (b) The *Contrato de Mandato* has been entered into by the parties thereto and is in effect.
 - (c) The Borrower (in its legal opinion) and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with the *Contrato de Mandato*'s terms.

- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on July 17, 2009.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its *Titular de la Unidad de Crédito Público* of SHCP.
- 6.02. The Borrower's Address for the purposes of Section 10.01 of the General Conditions is:

Secretaría de Hacienda y Crédito Público
Unidad de Asuntos Internacionales de Hacienda
Palacio Nacional
Edificio 12, segundo piso
Colonia Centro
06000 México, D.F.

Facsimile: 011-52-55-3688 - 1216

- 6.03. The Bank's Address is:

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

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

AGREED at Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Gerardo Rodríguez Regordosa
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Axel van Trotsenburg
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase access to efficient and sustainable energy services in the Borrower's rural areas in Selected States.

The Project consists of the following parts:

Part 1. Policy, Regulation and Strategy

- (a) Strengthening of the Borrower's policy, legal and regulatory framework for the energy sector, including: (i) the definition of the tariff and subsidy mechanisms for projects not connected to the national interconnection system; and (ii) the definition of ownership for projects co-financed with public resources at the national and sub-national level or with a combination of public and private resources.
- (b) Development of financial, policy and regulatory incentives to foster the development of RET-based off-grid electricity services.
- (c) Development of regulatory measures, standards and manuals to ensure minimum quality levels in technical installations and service delivery practices.
- (d) Development of methodological guidelines and tools for public consultation activities and for environmental protection.
- (e) Design of a conflict resolution mechanism to ensure transparency and reduce risks.

Part 2. Rural Energy Sub-Projects

Carrying out of Energy Sub-projects in the Borrower's rural communities.

Part 3. Technical Assistance for Rural Energy

Provision of technical assistance and capacity building activities to: (a) selected rural communities, to ensure the successful implementation of Energy Sub-projects; (b) promote RET-based off-grid electrification projects; and (c) promote private sector participation.

Part 4. Promotion and Technical Assistance to Increase Productive Uses of Electricity

Provision of technical assistance to selected entrepreneurs, associations or communities (on a competitive basis when applicable), in the Borrower's rural areas, to expand their business activities through the use of energy services, including, *inter alia*:

- (a) the development of social or community projects through the provision of rural energy services including energy for community centers or local government offices; (b) the development of productive and economic activities through the provision of energy services; (c) better access to micro-financing and better management of remittances; (d) better understanding of financial schemes and preparation of business plans; (e) the development of socially productive activities; and (f) promoting of economic and productive activities including profitable energy-intensive productive activities and micro-business or entrepreneurial activities.

Part 5. Project Management

Provision of technical assistance to the FIT and the SITs to carry out the implementation of the Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements; Operational Manual**

1. (a) The Borrower, through SHCP and SENER, shall enter into a contract (*Contrato de Mandato*) with NAFIN, satisfactory to the Bank, whereby NAFIN agrees to act as financial administrator and financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower vis-à-vis the Bank for purposes of submitting withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds and agrees to maintain and operate a designated account in compliance with the terms of the instructions deferred to in Section IV. A.1 of this Schedule.
- (b) The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan, all with the appropriate due diligence and efficiency for the benefit of the Project. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.
2. The Borrower, through SENER, shall establish and maintain throughout the implementation of the Project a Federal Implementation Team (FIT), to carry out the implementation of the Borrower's rural electrification program. The FIT shall be comprised of a project manager, a technical unit and an administrative unit, all with staffing, functions and qualifications acceptable to the Bank.
3. The Borrower, through SENER, shall establish and maintain throughout the implementation of the Project a Project Advisory and Monitoring Committee (PAMC) comprised of relevant Project related representatives as deemed necessary by SENER.
4. The Borrower, through SENER, shall cause the Selected States to establish and maintain throughout the implementation of the Project the State Implementation Teams (SITs) to assist SENER in the implementation of the Project at the state level.

B. Manuals

1. The Borrower, through SENER, shall carry out the Project in accordance with the terms of a manual satisfactory to the Bank (the Operational Manual). Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce the Operational Manual or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.
2. The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:
 - (a) procedures for the preparation, review and approval of reports pursuant to the Project's financial management arrangements;
 - (b) procurement and contracting procedures consistent with Schedule 2 to this Agreement, to be applicable to the contracts for the works, goods and services required for the Project and to be financed out of the proceeds of the Loan;
 - (c) Project performance indicators and the procedures for the monitoring and evaluation of the Project;
 - (d) procedures for the preparation, review and approval of withdrawal applications in conformity with the instructions that the Bank may give to the Borrower and NAFIN in this respect;
 - (e) eligibility criteria for the identification, prioritization and selection of the Energy Sub-Projects;
 - (f) clear and well defined roles and responsibilities of *inter alia*: (i) FIT; (ii) PAMC; (iii) CDI; (iv) NAFIN; (v) SITs; (vi) the Selected States; and (vii) the Selected Municipalities, in the carrying out of the Project;
 - (g) the Environmental Management Framework;
 - (h) a framework for public consultations with Project stakeholders and an action plan to protect indigenous peoples' rights; and
 - (i) requirements for the Service Management Contract.

Section II. Project Monitoring Reporting and Evaluation**A. Project Reports**

1. The Borrower, through SENER, 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 agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than 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 six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through SENER, shall 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, through SENER, shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower, through SENER shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement**A. General**

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

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

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Least Cost Selection
(b) Individual Consultants
(c) Fixed Budget
(d) Quality-based Selection

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds**A. General**

1. NAFIN 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 and/or NAFIN (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, other than those financed by the GEF Trust Fund Grant	8,000	100%
(2) Consultant Services and Training, other than those financed by the GEF Trust Fund Grant	3,577,500	100%
(3) Expenditures under Service Management Contracts other than those financed by the GEF Trust Fund Grant	7,776,000	100% of OBA payments for Electrification Sub-projects

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(4) Operating Costs, other than those financed by the GEF Trust Fund Grant	2,375,000	100%
(5) Unallocated	1,226,000	
(6) Front-end Fee	37,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL	15,000,000	

For purposes of this paragraph:

- (a) “Training” means the reasonable non-consultant expenditures incurred by the Borrower in connection with the carrying out of training activities (including workshops, conferences and seminars) under the Project, including travel costs, *per diem* of trainers, trainees, facilitators and stakeholders, and training materials;
- (b) “Operating Costs” means the reasonable costs of communications, office supply and utilities, travel and per diem directly related to the performance of the Project activities, which would not have been incurred absent the Project; and
- (c) “OBA payments for Energy Sub-projects” means an amount or amounts paid ex-post by the Selected States to service providers under Part 2 of the Project, which amount cannot exceed the agreed price set forth in the relevant Service Management Contract.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$ 3,000,000 equivalent may be made for payments made within twelve (12) months of this Agreement, but in no case prior to May 15, 2007, for Eligible Expenditures; and from the Loan Account until the Bank has received payment in full of the Front-End Fee referred to in Section 2.03 of this Agreement.
2. The Closing Date is June 30, 2013.

SCHEDULE 3

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 1 and November 1 Beginning May 1, 2013 through November 1, 2022	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date

following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX**Section I. Definitions**

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “CDI” means *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, the Borrower’s Indigenous People Development Commission.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “*Contrato de Mandato*” means the contract referred to in Section I.A.1(a) of Schedule 2 to this Agreement.
5. “Energy Sub-projects” means activities, including the provision of goods and services to provide integrated energy services (including off-grid electrification) and promote the development of social, economic and productive activities, in the Selected States and Selected Municipalities, including investments in RET (defined below), hybrid systems (diesel-RETs) and limited fossil-fuel based Sub-projects.
6. “Environmental Management Framework” means the framework for the Project dated July 11, 2007, that governs mandatory safeguards and mitigation actions for the Project which could possibly have a negative environmental impact such as, in particular, through use of any pesticides, increase in deforestation, pollution of groundwater, negative impacts on endangered species, increased pesticide level in food, increased soil erosion, impacts on national parks and protected areas, and encroachment on natural habitats as specified in the Operational Manual.
7. “FIT” means the Federal Implementation Team referred to in Section I.A.2 of Schedule 2 to this Agreement.
8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
9. “NAFIN” means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower’s financial administrator and financial agent for purposes of the Loan.
10. “Operational Manual” means the manual referred to in Section I.B of Schedule 2 to this Agreement.

11. "PAMC" means the Project Advisory and Monitoring Committee referred to in Section I.A.3 of Schedule 2 to this Agreement.
12. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.
13. "Procurement Plan" means the Borrower's procurement plan for the Project, dated September 11, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. "RET" means Renewable Energy Technologies.
15. "Selected Municipalities" means the Borrower's municipalities where the Energy Sub-Projects will be carried out.
16. "Selected States" means the Borrower's states of Oaxaca, Guerrero and Veracruz and any other state which may be agreed between the Borrower and the Bank, from time to time, which meets the criteria set forth in the Operational Manual.
17. "SENER" means *Secretaría de Energía*, the Borrower's Secretariat of Energy.
18. "Service Management Contracts" means any or all the agreements executed between the Selected States and private and public sector service providers under Part 2 of the Project, consistent with the model contained in the Operational Manual and referred to in Section I.B.2(i) of Schedule 2 to this Agreement.
19. "SHCP" means "*Secretaría de Hacienda y Crédito Público*", the Borrower's Secretariat of Finance and Public Credit.
20. "SITs" means the Borrower's State Implementation Teams referred to in Section I.A.4 of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 2.07 (b) shall read as follows:

"Except as otherwise provided in the Loan Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01."

2. Section 3.01 shall read as follows:

“Section 3.01. *Front-end Fee.* 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”).”

3. A new paragraph (d) is added to Section 3.02, at the end thereof, which shall read as follows:

“Section 3.02. *Interest*

(d) Notwithstanding the provisions of paragraph (a) of this Section, 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 Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”

4. APPENDIX – Definitions:

4.01. Definition (19) “Commitment Charge” is deleted.

4.02. Definition (40) “Fixed Spread” shall read as follows:

““Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

4.03. Definition (43) “Front-end Fee” shall read as follows:

““Front-end Fee” means the fee specified in the Loan Agreement for the purpose of Section 3.01.”

4. 04. Definition (56) “LIBOR Reset Date” shall read as follows:

““LIBOR Reset Date” means:

- (a) for any Loan Currency other than Euro, the day two London Banking Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period of a Variable Spread Loan, the day two London Banking Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two London Banking Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period of a Fixed Spread Loan, the day two London Banking Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided, that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two London Banking Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to any Approved Currency other than Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided, that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the Conversion Date);
- (b) for Euro, the day two Target Settlement Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period for a Variable Spread Loan, the day two Target Settlement Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period for a Fixed Spread Loan, the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to Euro falls

on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the Conversion Date); and

- (c) notwithstanding sub-paragraphs (a) and (b) of this paragraph, if, for a Currency Conversion to an Approved Currency, the Bank determines that market practice for the determination of the LIBOR Reset Date is on a date other than as set forth in said sub-paragraphs, the LIBOR Reset Date shall be such other date, as further specified in the Conversion Guidelines.”

4.05. Definition (63) “Loan Payment” shall read as follows:

““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, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

4.06. Definition (68) “Payment Date” shall read as follows:

““Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”

4.07. The following definitions are added to the Appendix at the end thereof:

““Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

““Default Interest Rate” means for any Default Interest Period:

- (a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);
- (b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies

was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and

- (c) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

““Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

““Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”