

No. 7481

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
EL SALVADOR**

Guarantee Agreement—*Telecommunication Project* (with annexed Loan Regulations No. 4 and Loan Agreement between the Bank and the Administración Nacional de Telecomunicaciones). Signed at Washington, on 1 October 1963

Official text: English.

Registered by the International Bank for Reconstruction and Development on 25 November 1964.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
EL SALVADOR**

Contrat de garantie — *Project relatif aux télécommunications* (avec, en annexe, le Règlement n° 4 sur les emprunts et le Contrat d'emprunt entre la Banque et la Administración Nacional de Telecomunicaciones). Signé à Washington, le 1^{er} octobre 1963

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 25 novembre 1964.

No. 7481. GUARANTEE AGREEMENT¹ (*TELECOMMUNICATION PROJECT*) BETWEEN THE REPUBLIC OF EL SALVADOR AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 1 OCTOBER 1963

AGREEMENT, dated October 1, 1963, between REPUBLIC OF EL SALVADOR (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement of even date herewith between the Bank and Administración Nacional de Telecomunicaciones (hereinafter called the Borrower), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrower a loan in various currencies equivalent to nine million five hundred thousand dollars (\$9,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,² with the same force and effect as if they were fully set forth herein (said Loan Regulations No. 4 being hereinafter called the Loan Regulations).

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the

¹ Came into force on 11 September 1964, upon notification by the Bank to the Government of El Salvador.

² See p. 12 of this volume.

due and punctual payment of the principal of, and the interest and other charges on, the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for carrying out the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt hereafter created shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term “ assets of the Guarantor ” as used in this Section includes assets of the Guarantor or of any of its political subdivisions or of any agency of the Guarantor or of any such political subdivision, including assets of the Banco Central de Reserva de El Salvador.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the

Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Guarantor shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes or fees that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Guarantor or laws in effect in its territories.

Section 3.06. The Guarantor, in accordance with the principles presently set forth in the law creating the Borrower, covenants that it will permit the Borrower to earn revenues sufficient : (a) to cover operating and administrative expenses, including taxes, if any, adequate maintenance and depreciation, and interest; (b) to meet repayments on long-term indebtedness but only to the extent that such repayments shall exceed provision for depreciation; and (c) to create a surplus for financing a reasonable portion of planned expansion of the Borrower's facilities.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the Loan Regulations, its guarantee on the Bonds to be executed and

delivered by the Borrower. The *Ministro de Hacienda* of the Guarantor and such person or persons as he shall designate in writing are designated as the authorized representatives of the Guarantor for the purposes of Section 6.12 (b) of the Loan Regulations.

Article V

Section 5.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor :

Ministro de Hacienda
San Salvador, El Salvador

Alternative address for cablegrams and radiograms :

Ministro Hacienda
San Salvador

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafad
Washington, D.C.

Section 5.02. The *Ministro de Hacienda* of the Guarantor is designated for the purposes of Section 8.03 of the Loan Regulations.

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

Republic of El Salvador :

By F. R. LIMA
Authorized Representative

International Bank for Reconstruction and Development :

By G. M. WILSON
Vice President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 4, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO BORROWERS OTHER THAN
MEMBER GOVERNMENTS

[Not published herein. See United Nations, Treaty Series, Vol. 400, p. 212.]

LOAN AGREEMENT

(TELECOMMUNICATION PROJECT)

AGREEMENT, dated October 1, 1963, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and ADMINISTRACIÓN NACIONAL DE TELECOMUNICACIONES (hereinafter called the Borrower).

Article I

LOAN REGULATIONS; SPECIAL DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 4 of the Bank dated February 15, 1961,¹ with the same force and effect as if they were fully set forth herein.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to nine and one-half million dollars (\$9,500,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Agreement.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not withdrawn from time from the Loan Account.

Section 2.04. The Borrower shall pay interest at the rate of five and one-half per cent ($5\frac{1}{2}$ %) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

¹ See above.

Section 2.05. Except as the Bank and the Borrower shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1¹ to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2² to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The *Presidente* of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 (a) of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering and financial practices.

¹ See p. 24 of this volume.

² See p. 26 of this volume.

(b) The Borrower, in the carrying out of the Project and in the organization and initial conduct of its operations, shall employ qualified and experienced consultants. The selection of such consultants and the nature and scope of their responsibilities shall be the subject of agreement between the Bank and the Borrower.

(c) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications and construction schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

Section 5.02. The Borrower shall at all times conduct its business and carry on its operations in accordance with sound business and public utility practices and to that end shall employ competent management with appropriate qualifications and experience.

Section 5.03. (a) The Bank and the Borrower shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under the Loan Agreement, the administration, operations and financial condition of the Borrower and any other matters relating to the purposes of the Loan.

(b) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the goods financed out of such proceeds, the Project, and the administration, operations and financial condition of the Borrower.

(c) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

Section 5.04. The Borrower shall at all times maintain its existence and right to carry on its operations and shall take all practical steps that are required to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

Section 5.05. The Borrower shall at all times operate and maintain its plants, equipment and property, and from time to time make all necessary repairs or renewals thereof, in accordance with sound engineering and public utility practices.

Section 5.06. (a) The Borrower shall insure or cause to be insured with responsible insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territory of the Guarantor and delivery thereof to the site of the Project, and shall be for such amounts, as shall be consistent with sound commercial practices. Except as the Bank shall otherwise agree, such insurance shall be payable in the currency in which the cost of the goods insured thereunder shall be payable or in dollars.

(b) In addition, the Borrower shall take out and maintain with responsible insurers, or make other adequate provisions for, insurance against such risks and in such amounts as shall be consistent with sound public utility practices.

Section 5.07. The Borrower shall not, without the prior consent of the Bank, sell or otherwise dispose of any of its assets except in the ordinary course of its business.

Section 5.08. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not incur any long-term indebtedness unless the Borrower's net revenues for the calendar year, or a later twelve consecutive months' period, immediately preceding the date of such incurrence shall be at least 1,5 times the maximum debt service requirements on all the Borrower's long-term indebtedness (including the debt to be incurred) in any succeeding calendar year, including the calendar year in which the debt is to be incurred.

For the purposes of this Section :

(i) the term "long-term indebtedness" shall mean any debt maturing more than one year after the date on which it is originally incurred;

(ii) debt shall be deemed to be incurred on the date of execution and delivery of the contract or loan agreement providing for such debt;

(iii) the term "net revenues" shall mean gross revenues from all sources adjusted to take into account rates and charges in effect at the time of incurrence of such debt even though they were not in effect during the twelve consecutive months to which such revenues related, less operating and administrative expenses, including provision for taxes, if any, but excluding provision for depreciation and interest and other charges on debt;

(iv) the term "debt service requirements" shall mean the aggregate amount of amortization (including sinking fund contributions, if any), interest and other charges on debt; and

(v) whenever it shall be necessary to value in currency of the Guarantor debt payable in another currency, such valuation shall be made on the basis of the rate of exchange at which such other currency is obtainable by the Borrower, at the time such valuation is made, for the purposes of servicing such debt or, if such currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Bank.

Section 5.09. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds and that in the creation of such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; and (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred.

Section 5.10. The Borrower, in accordance with the principles presently set forth in the law creating it, covenants that it will take all steps necessary to earn revenues sufficient : (a) to cover operating and administrative expenses, including taxes, if any, adequate maintenance and depreciation, and interest; (b) to meet repayments on long-term indebtedness but only to the extent that such repayments shall exceed provision for depreciation; and (c) to create a surplus for financing a reasonable portion of planned expansion.

Section 5.11. The Borrower shall have its accounts regularly audited and its annual financial statements certified by independent accountants acceptable to the Bank.

Section 5.12. The Borrower shall maintain records adequate to identify the goods financed with the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; shall submit annually to the Bank, not later than May 1 in each year, the certified financial statements of the Borrower; and shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, all other properties of the Borrower and any relevant records and documents.

Section 5.13. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in the territories of the Guarantor on, or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.14. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of this Agreement, the Guarantee Agreement or the Bonds.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a), paragraph (b), paragraph (e) or paragraph (f) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations or Section 6.02 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, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following is specified as an additional event for the purposes of Section 5.02 of the Loan Regulations, namely :

Any amendment of the law establishing the Borrower which materially affects the Borrower's powers, duties, functions and responsibilities shall have become effective without the agreement of the Bank.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 of the Loan Regulations :

(a) The Borrower shall have engaged consultants in accordance with the provisions of Section 5.01 (b) of this Agreement.

(b) There shall have been transferred to the Borrower the property, equipment and installations of the Telecommunications Bureau of the Ministry of Interior of the Guarantor on terms and conditions satisfactory to the Guarantor and the Bank.

Section 7.02. A date ninety days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be March 31, 1968.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Administración Nacional de Telecomunicaciones (ANTEL)
San Salvador
El Salvador

Alternative address for cablegrams and radiograms :

ANTEL
San Salvador

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered 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 G. M. WILSON
Vice President

Administración Nacional de Telecomunicaciones :

By F. R. LIMA
Authorized Representative

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
May 1, 1968	\$190,000	May 1, 1976	\$290,000
November 1, 1968	195,000	November 1, 1976	300,000
May 1, 1969	200,000	May 1, 1977	310,000
November 1, 1969	205,000	November 1, 1977	315,000
May 1, 1970	210,000	May 1, 1978	325,000
November 1, 1970	215,000	November 1, 1978	335,000
May 1, 1971	220,000	May 1, 1979	345,000
November 1, 1971	230,000	November 1, 1979	355,000
May 1, 1972	235,000	May 1, 1980	360,000
November 1, 1972	240,000	November 1, 1980	370,000
May 1, 1973	250,000	May 1, 1981	385,000
November 1, 1973	255,000	November 1, 1981	395,000
May 1, 1974	260,000	May 1, 1982	405,000
November 1, 1974	270,000	November 1, 1982	415,000
May 1, 1975	275,000	May 1, 1983	425,000
November 1, 1975	285,000	November 1, 1983	435,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	½ %
More than three years but not more than six years before maturity	1½ %
More than six years but not more than eleven years before maturity	2½ %
More than eleven years but not more than sixteen years before maturity	3½ %
More than sixteen years but not more than eighteen years before maturity	4½ %
More than eighteen years before maturity	5½ %

SCHEDULE 2

DESCRIPTION OF PROJECT

The Project comprises the construction of automatic telephone exchanges with a total of 26,000 lines, 26,000 telephones, related cable and line networks and installations, mainly radio, for interurban connections. The principal items included in the Project are :

1. In San Salvador the installation of 20,000 lines of automatic exchange equipment distributed over two new main exchanges and two new satellite exchanges; modifications to the existing 7,000-line Centro exchange for its inter-connection and conversion from four to six digit operation; and equipment for long distance, information, repair and other special services.
2. In Santa Ana the installation of a new 4,000-line automatic exchange.
3. In San Miguel the installation of a new 2,000-line automatic exchange.
4. Cable and line networks to connect the subscribers with the exchanges.
5. Microwave installations with subscriber dialing between the cities of San Salvador, Santa Ana and San Miguel plus long distance extensions to Sonsonate, Usulután and Santa Mariá.

The Project is scheduled for completion by July 1967.

LETTER RELATING TO THE LOAN AGREEMENT

ADMINISTRACIÓN NACIONAL DE TELECOMUNICACIONES
SAN SALVADOR, EL SALVADOR

October 1, 1963

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D.C.

Re : *Loan No. 358 ES (Telecommunication Project)*
Section 5.10 of the Loan Agreement

Gentlemen :

We refer to Loan Agreement (*Telecommunication Project*) of even date¹ between us.

Under Section 5.10 of the Loan Agreement the Borrower, in accordance with the principles presently set forth in the law creating it, has covenanted that it will take all steps necessary to earn revenues sufficient *inter alia* " to create a surplus for financing a reasonable portion of planned expansion ".

It is estimated that, until completion of the Project, all revenues that we expect to obtain from our operations at the present level of rates and charges will be needed to cover our operating and administrative expenses, to provide an adequate amount of working capital, to make provision for debt service requirements and to finance such portion of the cost of the Project as might not be covered by borrowed funds and we have agreed that the requirements of the above quoted clause will be satisfied if we obtain at least such revenues and apply them to the above purposes.

For the period after completion of the Project, we have agreed that, on the basis of present estimates of the expansion of our services and of the financial requirements therefor, the above quoted clause of Section 5.10 of the Loan Agreement will be satisfied if rates and charges for our services will provide a rate of return of 9% on our net fixed assets in operation and the resulting surplus will be used for financing the expansion of our facilities.

It is understood that such rate of return in respect of any year shall be computed by relating our net operating income for that year to the mean of the net depreciated cost of our fixed assets in operation at the beginning and at the end of that year. As used herein : (a) the term " net operating income " means gross revenues less all operating and administrative expenses, including adequate maintenance, taxes (if any), and provision for depreciation on all depreciable assets in operation computed in accordance with the straight-line method at an average rate of not less than 4% per annum on the historical cost of such assets; and (b) the term " net depreciated cost of fixed assets " means the historical cost of such assets less accumulated depreciation.

¹ See p. 4 of this volume.

In view of the fact that present estimates are preliminary, we have agreed that we shall review from time to time this matter with the Guarantor and the Bank, at the request of any party, and that on the basis of such reviews we shall make such adjustments in our rates and charges as shall be required to satisfy the provisions of the above quoted clause of Section 5.10 of the Loan Agreement.

Please confirm your agreement with the foregoing by signing the enclosed copy of this letter.

Sincerely yours,

Administración Nacional de Telecomunicaciones :

By Francisco R. LIMA
Authorized Representative

Confirmed:

International Bank for Reconstruction
and Development :

By Orvis A. SCHMIDT
