

No. 8267

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
MEXICO**

**Guarantee Agreement—*Power Sector Program, 1965/1966*
(with annexed Loan Regulations No. 4 and Loan Agree-
ment between the Bank and the Comisión Federal de
Electricidad and Nacional Financiera, S.A.). Signed at
Washington, on 15 December 1965**

Official text: English.

*Registered by the International Bank for Reconstruction and Development on
21 July 1966.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
MEXIQUE**

**Contrat de garantie — *Programme relatif à l'énergie élec-
trique, 1965/1966* (avec, en annexe, le Règlement n° 4
sur les emprunts et le Contrat d'emprunt entre la Ban-
que et la Comisión Federal de Electricidad et la Na-
cional Financiera, S.A.). Signé à Washington, le 15 dé-
cembre 1965**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement
le 21 juillet 1966.*

No. 8267. GUARANTEE AGREEMENT¹ (*POWER SECTOR PROGRAM, 1965/1966*) BETWEEN THE UNITED MEXICAN STATES AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 15 DECEMBER 1965

AGREEMENT, dated December 15, 1965, between UNITED MEXICAN STATES (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 Comisión Federal de Electricidad and Nacional Financiera, S.A. (hereinafter called the Borrowers), which agreement and the schedules therein referred to are hereinafter called the Loan Agreement,² the Bank has agreed to make to the Borrowers a loan in various currencies equivalent to one hundred and ten million dollars (\$110,000,000), 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 Borrowers 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 Borrowers, has agreed so to guarantee such obligations of the Borrowers;

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 subject, however, to the modifications thereof set forth in Section 1.01 of the Loan Agreement (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations), with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Guarantee Agreement, unless the context shall otherwise require, the terms defined in Section 1.02 of the Loan Agreement shall have the same meanings as therein set forth.

¹ Came into force on 17 January 1966, upon notification by the Bank to the Government of Mexico.

² See p. 136 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Guarantee Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the 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 Borrowers, and each of them, 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 Guarantee Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrowers 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 Borrowers or cause the Borrowers 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 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 or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

As used in this Section (a) the term "assets of the Guarantor" includes assets of the Guarantor or of any of its political subdivisions or of any Agency and (b) the term "Agency" means any agency or instrumentality of the Guarantor or of any political subdivision of the Guarantor and shall include any institution or organization which is owned or controlled directly or indirectly by the Guarantor or by any political subdivision of the Guarantor or the operations of which are conducted primarily in the interest of or for account of the Guarantor or any political subdivision of the Guarantor.

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 imposed taxes 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 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 Guarantee Agreement, the Loan Agreement and the Bonds shall be free from any taxes 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 shall not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrowers of any of the covenants, agreements and obligations of the Borrowers or either of them in the Loan Agreement contained (including all action required on the part of the Borrowers to meet the conditions set forth in Sections 2.04 and 7.01 of the Loan Agreement) or of Centro and IEMSA under the Subsidiary Agreements and shall take or cause to be taken all reasonable governmental action (and all reasonable action by reason of its ownership or control of the Power Sector) which shall be necessary in order

to enable the Borrowers, Centro and IEMSA to perform such covenants, agreements and obligations and meet such conditions.

Section 3.07. (a) The Guarantor, by reason of its ownership or control of Mexlight, covenants that, unless the Guarantor, the Bank and the Borrowers shall otherwise agree, the Guarantor shall prevent Mexlight from (i) issuing any bonds under the Indenture, or (ii) selling, pledging or otherwise negotiating or exchanging bonds of Mexlight amounting to about \$3,370,000 which are now held by Mexlight.

(b) The Guarantor shall, by reason of its ownership or control of IEMSA, prevent IEMSA from voluntarily creating or suffering to be created any mortgage, pledge or other right *in rem* on any of its assets in favor of third parties unless IEMSA shall at the same time create, in favor of the Bank, as security for the payment of such portion of the principal of the Loan and the Bonds, and interest and other charges thereon, as shall be required by IEMSA to carry out Part III of the Project, a mortgage, pledge or other right *in rem*, satisfactory to the Bank, which shall have priority and preference to, and shall rank ahead of, the mortgage, pledge or other right *in rem* first above mentioned, and, in the creation of any such mortgage, pledge or right *in rem*, IEMSA shall make express provision for the submission thereof to the priority, preference and prior rank of the Bank's rights.

(c) Except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall, by reason of its ownership or control of the Power Sector, prevent any of the entities of the Power Sector or any of the subsidiaries of any such entity from disposing of the control of any of its subsidiaries or of the ownership or control of the property or assets of any such entity or subsidiary required for the efficient carrying on of its business and undertaking except to another entity of the Power Sector or to a subsidiary of any such entity, provided that any such subsidiary is also included in the Power Sector.

Section 3.08. The Guarantor covenants that: (a) the indebtedness incurred by it in respect of the purchase of IEMSA's assets will not be met out of funds available from the Power Sector except to the extent that such funds constitute free excess funds not required by the Power Sector for its operations and expansion; and (b) the Guarantor will assist the Power Sector in refinancing, on more adequate terms and conditions, any debt of the Power Sector which, because of the amount or term originally contracted for or otherwise, interferes with the soundness of the Power Sector's financial situation and prospects.

Section 3.09. The Guarantor covenants that it will: (a) set and maintain or cause to be set and maintained rates for the sale of electricity (including the Power Consumption Tax) at such levels as shall be required to provide the Power Sector with revenues sufficient to: (i) cover all operating expenses of the Power

Sector, including adequate maintenance and straight-line depreciation of its gross fixed plant in operation, and (ii) produce an annual return of not less than eight per cent on its total net fixed plant in operation; and (b) cause the agency or agencies of the Guarantor responsible for the setting and adjustment of such rates to effect, when necessary but in any case once a year, a review of such rates in order to verify that such rates are adequate to provide the Power Sector with such revenues.

For the purposes of this Section, in order to reflect a fair and realistic valuation of the Power Sector's assets, "fixed plant in operation" will be determined in accordance with sound accounting practices uniformly applied.

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 Borrowers. Financiera and such person or persons as Financiera 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 :

United Mexican States
c/o Nacional Financiera, S.A.
Avenida Venustiano Carranza 25
Mexico, D.F.
Mexico

Alternative address for cablegrams and radiograms :

Nafin
Mexico City

For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

Section 5.02. Financiera 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.

United Mexican States
By Nacional Financiera, S.A. :

By Alfredo NAVARRETE
Authorized Representative

International Bank for Reconstruction and Development :

By George D. WOODS
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

(*POWER SECTOR PROGRAM, 1965/1966*)

AGREEMENT, dated December 15, 1965, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, party of the first part (hereinafter called the Bank), and COMISIÓN FEDERAL DE ELECTRICIDAD and NACIONAL FINANCIERA, S.A., parties of the second part (hereinafter called the Borrowers).

Article I

LOAN REGULATIONS; SPECIAL DEFINITIONS

Section 1.01. The parties to the 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, subject, however, to the following modifications thereof (said Loan Regulations No. 4 as so modified being hereinafter called the Loan Regulations) :

¹ See above.

(a) The second sentence of Section 3.02 of the Loan Regulations shall apply only to withdrawals pursuant to subsection (a) of Section 2.03 of the Loan Agreement.

(b) Section 4.01 of the Loan Regulations is deleted.

(c) Subparagraph (c) of Section 5.02 of the Loan Regulations is amended to read as follows :

“ (c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrowers or either of them or the Guarantor under the Loan Agreement, the Guarantee Agreement,¹ or the Bonds, or under the Loan Agreements between the Bank and the Borrowers dated January 6, 1949,² January 11, 1952,³ May 5, 1958⁴ and June 20, 1962,⁵ or under any bonds issued thereunder, or under the Guarantee Agreements between the Guarantor and the Bank dated January 6, 1949,² January 11, 1952,³ May 5, 1958⁴ and June 20, 1962.⁵ ”

(d) Section 9.04 is deleted.

(e) Paragraph 6 of Section 10.01 of the Loan Regulations is amended to read as follows :

“ 6. The term ‘ Borrower ’ means the Borrowers, except that as used in Sections 5.02 (b), 5.02 (c), 5.02 (d), 5.02 (e), 5.02 (f), 7.01 and 7.02 such term means the Borrowers or either of them. The term ‘ Guarantor ’ means United Mexican States. ”

(f) Paragraph 11 of Section 10.01 of the Loan Regulations is amended to read as follows :

“ 11. The term ‘ Project ’ means the Expansion Program of the Power Sector or the projects included therein (or any of them, or such groupings of them as the context may require) for which the Loan is granted, as described in the Loan Agreement and as the description thereof shall be amended from time to time by agreement between the Bank and the Borrowers. ”

Section 1.02. Unless the context otherwise requires, the following terms wherever used in the Loan Agreement shall have the following meanings :

(a) The term “ Comisión ” means Comisión Federal de Electricidad.

(b) The term “ Financiera ” means Nacional Financiera, S.A.

(c) The term “ Mexlight ” means The Mexican Light and Power Company, Limited, and Mexlight’s subsidiaries.

(d) The term “ Centro ” means Compañía de Luz y Fuerza del Centro, S.A., a subsidiary of Mexlight, and Centro’s subsidiaries and successors.

(e) The term “ IEMSA ” means Industrial Eléctrica Mexicana, S.A. de C.V., and IEMSA’s subsidiaries and successors.

¹ See p. 126 of this volume.

² United Nations, *Treaty Series*, Vol. 154, p. 3.

³ United Nations, *Treaty Series*, Vol. 159, p. 129.

⁴ United Nations, *Treaty Series*, Vol. 309, p. 3.

⁵ United Nations, *Treaty Series*, Vol. 468, p. 109

(f) The term "Power Sector" means Comisión, Mexlight, Centro and IEMSA, and any other entity which the Guarantor, the Bank and the Borrowers shall agree to include in the Power Sector.

(g) The term "Indenture" means the Indenture of Mortgage dated as of February 1, 1950, between the National Trust Company, Limited, as Trustee, and Mexlight, and includes any indentures supplemental thereto.

(h) The term "Subsidiary Agreements" means the agreements of the Borrowers with Centro and IEMSA referred to in Section 5.02 of the Agreement.

(i) The term "Power Consumption Tax" means the tax established by law of December 31, 1938, of the Guarantor and payable by consumers of electricity on the amounts of their billings, and the proceeds of which are paid over to Comisión for the purposes of Article 5 thereof, and includes any other tax on the use of electricity, the proceeds of which are made available to the Power Sector for the same purposes.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrowers, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to one hundred and ten million dollars (\$110,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrowers 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. Except as the Bank shall otherwise agree, the Borrowers shall be entitled, subject to the provisions of the Loan Agreement, to withdraw from the Loan Account :

- (a) such amounts as shall have been expended for the reasonable cost of goods to be financed under the Loan Agreement and, if the Bank shall so agree, such amounts as shall be required by the Borrowers to meet payments for such goods; and
- (b) the equivalent of a percentage or percentages to be established from time to time by agreement between the Bank and the Borrowers of such amounts as shall have been expended for the reasonable cost of goods required for carrying out the Project described in Schedule 2 to this Agreement and not included in (a) above, such percentage to represent the estimated foreign exchange component of such cost;

provided, however, that no withdrawals shall be made on account of : (i) expenditures prior to January 1, 1965; or (ii) expenditures made in the territories of any country (except Switzerland) which is not a member of the Bank or for goods produced in (including services supplied from) such territories.

Section 2.04. Notwithstanding any other provision of the Loan Agreement, unless the Bank shall otherwise agree, the Borrowers shall not be entitled to make withdrawals from the Loan Account in excess of an amount equivalent to forty million

dollars (\$40,000,000) until the Borrowers have furnished to the Bank evidence satisfactory to it that the Power Sector's rates for the sale of electricity (together with the proceeds of the Power Consumption Tax and other revenue or savings producing measures but excluding all non-revenue producing measures such as public appropriations, contributions, grants and proceeds of taxes and levies other than the proceeds of the Power Consumption Tax) have been set at such levels as are required to produce revenues which would comply with Section 3.09 of the Guarantee Agreement and have become effective; provided, however, that if such evidence has not been furnished by January 31, 1966, or such other date or dates as the Bank shall otherwise agree, the amount of the Loan then remaining unwithdrawn in the Loan Account shall be cancelled.

Section 2.05. Withdrawals from the Loan Account pursuant to subsection (b) of Section 2.03 of this Agreement or in respect of expenditures in the currency of the Guarantor or for goods produced in (including services supplied from) the territories of the Guarantor shall be in dollars or such other currency or currencies as the Bank shall from time to time reasonably select.

Section 2.06. The Borrowers shall pay to the Bank a commitment charge at the rate of three-eighths of one per cent ($\frac{3}{8}$ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.07. The Borrowers 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.

Section 2.08. Except as the Bank and the Borrowers shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrowers 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 2.09. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.10. The Borrowers shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement; provided, however, that to the extent that loans referred to in Section 5.15 of this Agreement are obtained and the proceeds thereof utilized by the Borrowers prior to January 1, 1968, the Bank shall adjust instalments in the column headed "Payment of Principal" in the said Schedule 1 so that, insofar as practicable and without reducing any principal repayments to the Bank on any scheduled repayment date below one million dollars (\$1,000,000), during each six-monthly payment period payments of principal on the Loan (plus payments of principal on such other loans) shall be equal to payments of principal on a principal amount equal to the sum of the principal amount of the Loan and of such other loans, the amounts of such payments to be calculated on the same basis as that used to calculate the instalments in such column of Schedule 1; and provided, further, that in no event shall any such instalments be payable at a date later than November 1, 1985.

Section 2.11. Notwithstanding the provisions of Section 3.03 and 3.04 of the Loan Regulations the Bank and the Borrowers may from time to time agree that any portion of the Loan payable in one currency may be made payable in one or more other currencies and from the date specified in such agreement such portion of the Loan and the principal of any Bond representing such portion of the Loan and any premiums and interest payable on or with respect thereto shall be payable in such other currency or currencies.

Section 2.12. All obligations of the Borrowers under the Loan Agreement and the Bonds, unless such obligations shall have been expressly undertaken by one of the Borrowers, shall be joint and several and the obligation of either of them to comply with any provision of the Loan Agreement is not subject to any prior notice to, demand upon or action against the other. No extension of time or forbearance given to either of the Borrowers in respect of the performance of any of its obligations under the Loan Agreement or the Bonds, and no failure of the Bank or of any holder of the Bonds to give any notice or to make any demand or protest whatsoever to either of the Borrowers, or strictly to assert any right or pursue any remedy against either of them in respect of the Loan Agreement or the Bonds, and no failure by either of the Borrowers to comply with any requirement of any law, regulation or order, shall in any way affect or impair any obligation of the other Borrower under the Loan Agreement or the Bonds.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrowers shall apply the proceeds of the Loan exclusively to financing the cost of goods required to carry out the Project described in Schedule 2 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 Borrowers, subject to modification by further agreement between them.

Section 3.02. Except as the Bank and the Borrowers shall otherwise agree, the Borrowers shall cause all goods financed out of the proceeds of the Loan to be used in the territories of the Guarantor exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrowers shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations. The forms of Bonds referred to in Article VI of the Loan Regulations shall be appropriately modified so as to provide that the obligations on the part of the Borrowers under the Bonds shall be joint and several.

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

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

Article V

PARTICULAR COVENANTS

Section 5.01. The Borrowers shall carry out or cause the Project to be carried out with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices.

Section 5.02. (a) The Borrowers shall enter into Subsidiary Agreements with Centro and IEMSA whereby provision will be made, on terms and conditions satisfactory to the Bank, for the carrying out of Part II of the Project by Centro and Part III thereof by IEMSA and for the technical and financial coordination of Centro and IEMSA with Comisión.

(b) The Borrowers shall not modify, terminate, or fail to enforce the Subsidiary Agreements or give any waiver of any material provision thereof without the prior consent of the Bank.

(c) The Borrowers shall promptly, effectively and in such manner as to protect the interests of the Bank and the Borrowers exercise every power, right and recourse available to them to cause Centro and IEMSA to perform all their obligations under the Subsidiary Agreements.

Section 5.03. Except as the Bank shall otherwise agree, the Borrowers shall, in the carrying out of such parts of the Project as the Bank and the Borrowers shall agree upon, employ or cause to be employed competent and experienced consultants acceptable to, and upon terms and conditions satisfactory to, the Bank.

Section 5.04. Upon request from time to time by the Bank, the Borrowers shall promptly furnish or cause to be furnished to the Bank the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request.

Section 5.05. (a) The Borrowers shall at all times maintain their corporate existence and right to carry on their operations and Comisión shall, except as the Bank shall otherwise agree, take all steps necessary to acquire, maintain and renew all rights, powers, privileges, concessions and franchises which are necessary or useful in the conduct of its business.

(b) Comisión shall operate and maintain its plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound engineering and public utility practices.

(c) Comisión shall at all times carry on its operations, manage its affairs, maintain its financial position, coordinate the frequency unification of the electric power systems of Mexico, and plan or cause to be planned the future electric power expansion of Mexico as required by Article 1 of the Decree of the Guarantor of January 11, 1949 establishing bases for the functioning of Comisión, all in accordance with sound business, financial and public utility principles and practices and under the supervision of experienced and competent management.

Section 5.06. Comisión shall have its financial statements (balance sheet and related statement of earnings and expenses) certified annually by an independent accountant or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than four months after the close of Comisión's fiscal year transmit to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 5.07. (a) The Bank and the Borrowers shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and the Borrowers shall from time to time, at the request of either the Bank or the Borrowers, exchange views through their representatives with regard to the performance by the Borrowers of their obligations under the Loan Agreement, the administration, operations and financial condition of the Borrowers and other matters relating to the purposes of the Loan.

(b) The Borrowers shall furnish or cause to be furnished 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 Borrowers, Centro and IEMSA.

(c) The Borrowers 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 Borrowers of their obligations under the Loan Agreement.

(d) The Borrowers shall : (i) maintain or cause to be maintained records adequate to identify the goods financed out of 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 Borrowers, Centro and IEMSA; and (ii) shall enable the Bank's representatives to inspect the Project, the goods, all other plants, sites, works, properties and equipment of the Power Sector and any relevant records and documents.

Section 5.08. Each of the Borrowers undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any of its assets as security, as to Financiera for any external debt and as to Comisión for any debt, such lien shall *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and in the creation of any such lien express provision shall 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, or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

Section 5.09. The Borrowers 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 the Loan Agreement, the Guarantee Agreement, 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 5.10. The Borrowers 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 the Loan Agreement, the Guarantee Agreement or the Bonds.

Section 5.11. (a) The Borrowers shall insure or cause to be insured with good and reputable insurers all goods financed out of the proceeds of the Loan. Such insurance shall cover such marine, transit and other risks incident to purchase and importation of the goods into the territories of the Guarantor and delivery thereof to the sites of the Project, and shall be for such amounts, as shall be consistent with sound commercial practices. Except as the Bank shall otherwise agree, any indemnity under such insurance shall be payable in the currency in which the cost of the goods insured thereunder shall be payable or in a freely convertible currency.

(b) In addition, Comisión shall, except as the Bank shall otherwise agree, take out and maintain, with good and reputable insurers, insurance against such risks and in such amounts as shall be consistent with sound public utility and business practices.

Section 5.12. Except as the Bank shall otherwise agree :

(a) Comisión shall obtain title to all goods financed out of the proceeds of the Loan free and clear of all encumbrances and the Borrowers shall transfer to Centro or IEMSA, as the case may be, title to all goods required to carry out Part II and Part III of the Project and financed out of the proceeds of the Loan also free and clear of all encumbrances; and

(b) Comisión shall not, without the consent of the Bank, sell or otherwise dispose of any of its property or assets which shall be required for the efficient carrying on of its business and undertaking, including the Project, unless the Borrowers shall first pay or

redeem, or make adequate provision satisfactory to the Bank for payment or redemption of, all of the Loan and the Bonds which shall then be outstanding and unpaid.

Section 5.13. Except as the Bank and Comisión shall otherwise agree, Comisión shall take all such action as shall be necessary or advisable to cause its rates for the sale of electricity (including the Power Consumption Tax) to be set and maintained at such levels as may be necessary to provide Comisión with revenues which, together with the revenues of Centro and IEMSA, would be sufficient to meet the requirements of Section 3.09 of the Guarantee Agreement.

Section 5.14. (a) Except as the Bank shall otherwise agree, Comisión shall not incur any debt if the consolidated net revenues of the Power Sector during the fiscal year next preceding such incurrence or during any later consecutive twelve-month period preceding such incurrence, whichever is the greater, shall be less than 1.4 times the maximum annual requirement for servicing the outstanding consolidated debt of the Power Sector (including the debt proposed to be incurred but excluding any debt to be repaid out of the proceeds thereof) in any later fiscal year of the Power Sector (including the fiscal year in which such debt would be incurred).

(b) The Borrowers shall make provision in the Subsidiary Agreements whereby the provisions of this Section shall be made applicable as required to Centro and IEMSA.

(c) Except as the Bank shall otherwise agree, Financiera shall not incur debt or permit any other entity to incur debt on Financiera's behalf the purposes of which would be directly or indirectly to finance any power generating, transmission or distribution facilities of the Power Sector.

For the purposes of this Section :

1. The term "consolidated debt" shall mean all debt of the Power Sector except: *(a)* debt incurred in the ordinary course of business and maturing by its terms less than one year after the original date of its incurrence, *(b)* debt owed by any entity within the Power Sector to any other such entity, and *(c)* indebtedness in respect of the purchase of IEMSA's assets referred to in Section 3.08 *(a)* of the Guarantee Agreement, but shall include all debt heretofore incurred by Financiera or by any other agency of the Guarantor for the purposes of financing directly or indirectly any power generating, transmission or distribution facilities of the Power Sector.

2. Debt shall be deemed to be incurred on the date of execution and delivery of the loan contract or agreement providing therefor.

3. The term "consolidated net revenues" shall mean the sum of all gross operating revenues of the Power Sector plus the proceeds of the Power Consumption Tax (but excluding public appropriations, contributions, grants and proceeds of taxes and levies other than the proceeds of the Power Consumption Tax) less the sum of all operating, administrative and overhead expenses of the Power Sector (but without deduction of any amounts for service payments on debt or for depreciation, replacement, retirement, or obsolescence of the assets of the Power Sector), such net revenues to be adjusted to take account of any increases in the Power Sector's rates for the sale of electricity or in the Power Consumption Tax in

effect at the time of the incurrence of debt as if such increases had been in effect during the entire fiscal year or twelve-month period to which such revenues relate.

4. Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

Section 5.15. The Borrowers shall make their best efforts to obtain loans and to utilize the proceeds thereof for purposes of the Project from financial institutions outside of Mexico in amounts aggregating not less than the equivalent of thirty-five million dollars, such loans to be on such terms and conditions as shall be satisfactory to the Guarantor, the Bank and the Borrowers.

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) or for the purposes of paragraph (j) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrowers or to either of them, 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 the Loan Agreement or in the Bonds to the contrary notwithstanding.

Section 6.02. The following event is specified for the purposes of paragraph (j) of Section 5.02 of the Loan Regulations: demand shall have been made for repayment in advance of maturity of any of the loans referred to in Section 5.15 of this Agreement by reason of any default on the part of the Borrowers as provided in the relative contractual instruments.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following event is specified as an additional condition to the effectiveness of this Loan Agreement within the meaning of Section 9.01 (c) of the Loan Regulations:

The Subsidiary Agreements, in terms satisfactory to the Bank, have been entered into and have become effective.

Section 7.02. The following is specified as an additional matter, to be included in the opinion or opinions to be furnished to the Bank:

That the Subsidiary Agreements are valid and are binding on the Borrowers, Centro and IEMSA and have become effective.

Section 7.03. If the Loan Agreement and the Guarantee Agreement shall not have come into force and effect by January 15, 1966, the Loan Agreement and the Guarantee Agreement and all obligations of the parties under such Agreements shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly notify the Borrowers and the Guarantor of such date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1967, or such other date or dates as shall be agreed by the Bank and the Borrowers as the Closing Date.

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

(a) For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D.C.

(b) For the Borrowers :

Comisión Federal de Electricidad
Dirección General
Calle de Ródano 14 (séptimo piso)
Mexico 5, D.F., Mexico

Alternative address for cablegrams and radiograms :

Cefelec
Mexico City
and
Nacional Financiera, S.A.
Avenida Venustiano Carranza 25
Mexico, D.F., Mexico

Alternative address for cablegrams and radiograms:

Nafin
Mexico City

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 George D. WOODS
President

Comisión Federal de Electricidad :

By G. MARTINEZ DOMINGUEZ
Authorized Representative

Nacional Financiera, S.A. :

By Alfredo NAVARRETE
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>
November 1, 1969	\$2,090,000	May 1, 1978	\$3,315,000
May 1, 1970	2,145,000	November 1, 1978	3,405,000
November 1, 1970	2,205,000	May 1, 1979	3,500,000
May 1, 1971	2,265,000	November 1, 1979	3,595,000
November 1, 1971	2,330,000	May 1, 1980	3,695,000
May 1, 1972	2,395,000	November 1, 1980	3,795,000
November 1, 1972	2,460,000	May 1, 1981	3,900,000
May 1, 1973	2,525,000	November 1, 1981	4,005,000
November 1, 1973	2,595,000	May 1, 1982	4,115,000
May 1, 1974	2,665,000	November 1, 1982	4,230,000
November 1, 1974	2,740,000	May 1, 1983	4,345,000
May 1, 1975	2,815,000	November 1, 1983	4,465,000
November 1, 1975	2,895,000	May 1, 1984	4,590,000
May 1, 1976	2,975,000	November 1, 1984	4,715,000
November 1, 1976	3,055,000	May 1, 1985	4,845,000
May 1, 1977	3,140,000	November 1, 1985	4,965,000
November 1, 1977	3,225,000		

* 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 of 1%
More than three years but not more than six years before maturity	1 ½%
More than six years but not more than eleven years before maturity	2 ½%
More than eleven years but not more than sixteen years before maturity	3 ½%
More than sixteen years but not more than eighteen years before maturity	4 ½%
More than eighteen years before maturity	5 ½%

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project is the expansion program of the Power Sector for the two-year period 1965 and 1966. Details of the facilities in the Project such as their type, location, capacity, and scheduled completion dates will be as planned by Comisión and determined from time to time by agreement between the Bank and the Borrowers, subject to modification by further agreement between them. The portions of the program to be executed by Comisión, Centro and IEMSA, respectively, will consist of the following :

Part I

Comisión will install new generating, transmission and distribution facilities, and make capital improvements to existing facilities; acquire and utilize special equipment; install street lighting; carry out a rural electrification program; modify all of its own 50-cycle-per-second Central System frequency-sensitive equipment to operate at 60 cycles; supervise the conversion or replacement of 50-cycle frequency-sensitive consumer equipment; and conduct training programs for operating and conversion personnel.

Part II

Centro will carry out minor improvements to its generating plants and will modify all of its own 50-cycle-per-second frequency-sensitive equipment to operate at 60 cycles; complete the 220 kv transmission line ring around Mexico City and construct new transmission lines of 85 kv and lower voltages within its operating area; expand existing substations and build new substations; extend its distribution networks including the electrification of workers' housing projects; install street lighting; and construct miscellaneous buildings and improve existing ones.

Part III

IEMSA will complete the construction of its Mazatlán and Durango generating plants, convert two Francke boilers to gas operation and replace six old boilers with a new installation, and make other minor improvements to its generating plants; construct new transmission lines of 161 kv and lower voltages; build new substations and extend existing substations; install street lighting; extend its distribution networks and construct buildings and improve existing ones.
