

repair service and to answer all operator-assisted calls within 10 seconds (now only 70% of calls are answered within that time).

3. That the firm continues to respect the worker's rights and improve their conditions as spelled out in the terms and conditions of the agreement for the modernization of TELMEX signed by the government, the workers union and TELMEX. This agreement specifically takes into account productivity and technological change. Workers also will participate on an equity basis in the company.

4. That it continues to expand and modernize the telephone system according to an annually published five year plan spelling out the minimum coverage and modernization goals. Starting in 1990, the public telephone network will increase from five to ten terminal lines per 100 inhabitants by 1994 and to 20 by 2000; during the first five years TELMEX will install four million new terminal lines, representing a 12% annual increase; starting in 1992, TELMEX will provide telephone service to small rural locations within six months of their request for service and will provide connection to all private and public telecommunications systems in any city with automatic service; the local urban telephone network will be expanded and modernized through the substitution of obsolete switching systems with digital systems (digital technology is expected to represent at least 60% of the telephone network and 100% of the new overlay network in 22 cities by 1994).

5. That it undertakes some technological and industrial research and development on telecommunications technology to foster the company's competitiveness and to increase the technological capacity of the country in the area of telecommunications.

6. That it be owned by majority Mexican citizens. Foreign investment in TELMEX will not be permitted to exceed 49% and no foreign partner will be permitted to hold more than 10% of the capital (foreign investment now represents approximately 25% and is held in the form of non-voting ADR's sold in the U.S. market). In addition to capital, new investors will be expected to provide access to state-of-the-art technology to contribute to TELMEX's expansion program in terms of service quality and efficiency. National private investors will be the majority owners. The analyses of the proposals by investors will take into account their contribution to the company's development, expansion and service quality and its workers security.

TELMEX needs an estimated 9.8 billion dollars within the next six years to revamp its infrastructure, expand and improve service as outlined above. Annual investments since the privatization already amount to \$2.5 billion. Telephone service in Mexico has been characterized by numerous inefficiencies. The new measures are aimed at removing them through modernization, expansion and more efficient utilization. The following are some of the most salient inefficiencies, some of which have already been removed: