

**TITLE OF THE PROJECT:**  
**International Economic Association for the construction  
of telecommunications network infrastructure in Cuba.**

***Objective of foreign investment.***

Contract of International Economic Association for the construction of telecommunications infrastructure for ETECSA, which allows the growth of fixed and mobile access lines, and the development of broadband connectivity in Cuba, which constitutes the alternative to follow as a support to the implementation of the "Comprehensive Policy for the Improvement of the Computerization of the Cuban Society".

***Business scope.***

Implement an International Economic Association Agreement (CAEI), between the Cuban Society for Telecommunications CUBATEL S.A. and a foreign investor, who guarantees access to financing for the acquisition of the necessary means and equipment, as well as training in new technologies in the deployment of access networks for the construction of telecommunications network infrastructure, guaranteeing the achievement of high standards. of quality in the services provided by the company, which can be certified by national and international organizations and subsequently be able to enter the international market.

To provide the services, the CAEI will subcontract labor to CUBATEL S.A, guaranteeing the means of transportation, technological equipment, tools and supplies for the execution of the activities, these being the property of the CAEI during its validity.

The services to be executed would correspond to the demands studied with ETECSA for the 2022-2032 period. For this, a Framework Contract for the construction of Telecommunications Networks would be concluded between the contracting parties of the AEI and ETECSA Contract, and the corresponding annual operating contracts adjusted to the needs of the client in terms of telecommunications networks of both copper cables, optical fiber, mobile base stations and the necessary access networks throughout the national territory, in addition to the execution of civil works related to the scope of the contract.

ETECSA will be responsible for defining and approving the technology to be installed in each project, and although the materials necessary for the executions are not considered in this study, because they will initially be supplied by ETECSA, the International Economic Association Contract (CAEI) Once constituted, it will negotiate the supply of materials related to the works that it will execute, to guarantee their continuity with high productivity and thus deliver the projects as "turnkey".

The development of the investment is concentrated in four stages, each corresponding to a calendar year (2023-2026) based on the deployment of the services presented by ETECSA and the need for means and forces that guarantee the amounts to be executed for years.

In such period, the acquisition of specialized technological and transportation equipment is projected for the execution of the projected services, the constructive conditioning of premises, furniture, fixtures and office equipment, as well as computer means and other equipment.

Taking into account the demands for ETECSA services, an evaluation has been carried out for each of them (fixed lines, mobile lines and transport network), the activities to be carried out and the number of people needed by brigades, as well as the productivity to be achieved. achieve in comparison with projects previously executed by CUBATEL SA and based on them, the calculation of the necessary means to achieve the goals demanded by the client.

From the previous estimates, the necessary machinery, transport and specialized equipment and other means for the formation of the company and its divisions have been defined.

***Rationale for the proposal.***

Depending on the deployment of the necessary services presented by ETECSA, the following is projected:

In the first three years the construction of 12,000 fixed copper lines, decreasing to 4,000 lines in the 4th. and 5th. Year and becoming zero the rest of the years, which adds up to a total of 44,000 fixed copper lines.

For FTTH fixed lines, in the 1st. year 5,000 are built, in the 2nd. and 3rd. year 15,000 and in the 4th. year 30,000, a figure that is maintained annually until

the last year, closing with 245,000 new FTTH lines installed..

The construction of 100 new mobile radio base sites in the 1st. year, 150 in the 2nd. year, 200 in the 3rd. year and from the 4th year 250 sites per year until closing in the tenth year of operation.

Upgrades of existing Base Stations for 4G and FWA technology of 150 sites in the 1st. year, 200 in the 2nd. and 3rd. year and from the 4th year, 300 sites per year until closing in the tenth year of operation, completing 2,650 sites in total.

At the same time, the construction in the 1st. year of 400 km of fiber optics for access to sites from the transport network, in the 2nd, 3rd. and 4th. year 500 km each to complete the 1,900 km.

Taking these demands into account, an evaluation has been carried out for each of the requested services (fixed lines, mobile lines and the transport network), the activities to be carried out and the number of people needed per brigade, as well as the productivity to be achieved compared to projects previously executed by CUBATEL SA and based on them, the calculation of the necessary means to achieve the goals demanded by the client.

From the previous estimates, the necessary machinery, transport and specialized equipment and other means for the formation of the company and its divisions have been defined.

**Identification of the parties and their participation**

Participation in this project is proposed by the Cuban side to the Cuban Society for Telecommunications, Cubatel S.A., a technology integrator company for the construction of telecommunications and computer networks belonging to the Information Technology and Communications Business Group (GEIC) of the Ministry of Communications. With more than 25 years of experience in the sector as a builder of telecommunications networks.

Since its creation, it has had a specialized staff, which has allowed it to grow its client portfolio and strengthen the company's image abroad.

It provides services tailored to the needs of the client in areas such as design, development of engineering projects as well as the construction of infocommunication networks, and we range from technological civil works to the installation and commissioning of equipment and systems. of management

Its mission, we offer comprehensive Telecommunications services, with high professional benefits for the development and modernization of the country's telecommunications networks, aimed at satisfying the needs of our clients, in harmony with the environment.

His vision; Be efficient in providing comprehensive telecommunications services, with high professional performance for the development and modernization of the country's telecommunications networks, aimed at meeting the needs of our customers, in harmony with the environment.

The foreign Party should preferably have experience in the operation of machinery and equipment for the construction of telecommunications network infrastructure and that it also guarantees:

-Access to the necessary financing to jointly cover all activities from the development of projects to the construction of networks, including the acquisition of the necessary materials, equipment and machinery.

-Access new technologies in the deployment of access networks, which allow increasing the experience of CUBATEL S.A. in the construction of network infrastructure and continue developing the professional training of its specialists.

-Achieve high quality standards in the services provided by the company, which can be certified by national and international organizations and subsequently be able to enter the international market

**The contributions of the Parties:**

CUBATEL SA will contribute the usufruct right of the property and land where the headquarters of the AEI will be located and the cash in national currency (CUP) required for working capital, which will cover all the expenses to be executed within the national territory in this currency in the period corresponding to the first quarter of operations; such as salaries and rental of premises, including the costs associated with the pre-investment studies of the project. The foreign party will guarantee the cash required for working capital in freely convertible currency (USD) in the first quarter.

Participation in the contributions does not condition the distribution of benefits according to agreement between the parties, which will receive equal remuneration of the profits generated (50% for each one).

CONTRIBUTIONS	TOTAL	Year1	
	MCUP	MCUP	MUSD
Parte Cubana	5,722.2	5,722.2	193.2
Efectivo	1,085.6	1,085.6	-
Derechos	4,636.6	4,636.6	193.2
% de participación	32%		
Parte Extranjera	12,000.0	12,000.0	500.0
Efectivo	12,000.0	12,000.0	500.0
Activos Intangibles	-	-	-
% de participación	68%		
<b>Total Aportes</b>	<b>17,722.2</b>	<b>17,722.2</b>	<b>693.2</b>

The Initial Investment Cost is not fully covered by the contributions of the Parties, therefore it is necessary to resort to external financing.

**Foreign investment modality**

The modality is an International Economic Association Contract oriented to the construction of infrastructure for telecommunications networks.

The International Economic Association Agreement (CAEI) will have as its corporate purpose in terms of its fundamental activity:

Provide technical-professional projection, design, engineering, consulting and integrated project management services; construction, assembly and start-up services, as well as the supply of materials and associated equipment for networks and computer and telecommunications systems.

**Term or period of validity.**

The term of 10 years of validity of the association (2023-2032) is proposed, counted from the registration in the corresponding registry of the Chamber of Commerce of the Republic of Cuba and may be extended by unanimous agreement de la Partes y con arreglo a lo previsto en la legislación vigente.

**Estimated investment amount**

The investment process necessary for the start of AEI operations estimated requires the contribution of usufruct rights of land and buildings by CUBATEL SA and the contribution of cash by both parties to meet the initial needs of working capital necessary for the start of operations. The initial investment cost amounts to 171003.9 MCUP, of which 7079.9 MUSD. In addition to the needs identified for the start-up of the business, more investments required to fully assume the demand for the projected services are projected for three years. In this sense, the total investment program responds to:

	Año 1	Año 2	Año 3	Año 4
Construcción y Montaje	5,600.0			
Equipos y maquinarias	147,681.7	177,333.5	37,496.6	72,343.1
Derechos	4,636.6			
Otros	1,397.2			
<b>TOTAL</b>	<b>159,315.5</b>	<b>177,333.5</b>	<b>37,496.6</b>	<b>72,343.1</b>

The external financing will contribute to the execution of the investment in the first two years and the rest will be assumed through the cash flows generated by the operation of the business.

All figures are reflected in thousands of Cuban pesos, and reference is made to the component in US dollars that is required to undertake the

investment process.  
Exchange rate: 1 USD = 24 CUP

The currency of payment to the AEI is the national currency with a liquidity backing (USD) of 60% of the services.

The prices have been estimated based on the agreements reached by the parties, the expected levels of activity and the behavior of the national market.

An annual revenue growth rate is estimated based on demand projections.

The expected positive results of the business are confirmed through the main Investment indicators used in the Study, which are the Net Present Value (VAN), the Internal Rate of Return (TIR), the Recovery Period (PER, simple and discounted), and the Return on NPV (RVAN), based on a 12% update rate.



Considering the sector in which the business will develop its activity, a discount rate of 12% is used. The rate of return obtained, according to the assumptions used, far exceeds the different discount rate variants analyzed, as shown in the following table.

The expected recovery period places the beginning of obtaining positive flows at the beginning of year 3, which can be considered a rational term, taking into account that the investment process is executed in year 1 itself, beginning to generate income simultaneously

VAN (MMCUP)	Tasa de descuento	PER	
		RVAN Descuento	(años)
215.2	20%	0.57	3.0
161.9	25%	0.45	3.0
121.0	30%	0.34	3.0

By updating the cash flows obtained annually, the investment begins to be recovered near the end of year 3.

In addition, for each peso invested, 0.85 CUP of return is generated.

Net profits of 576.9 MMCUP (24.03 MMUSD) will be obtained throughout the projected horizon. Net profit margin averages 60 cents

**Location:**

The International Economic Association Agreement (CAEI), will be constituted with legal domicile in the place to be provided by the Cuban Party, in Callejón de la Pastora No.3 between Ave. Camagüey and railway line, Cerro municipality, Havana, at protection of Law 118 of Foreign Investment of March 29, 2014 of the National Assembly of People's Power, its complementary provisions and the Commercial Code of the Republic of Cuba and will also comply with the rules and regulations contained in the provision of the commission empowered by the Executive Committee of the Council of Ministers that authorizes its constitution, with the provisions of its association agreement and in the clauses of the contract. In addition, the use of CUBATEL SA's own facilities for storage and preservation of media and machinery, located in Callejón de Andrade and Prensa Latina Km 1½, Marianao municipality, Havana province, is planned. If necessary, warehouses would be leased throughout the country to national companies, for the necessary materials during the execution of the works.

**Present situation of the** This International Economic Association Agreement (CAEI) corresponds to the

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**industry**

demands studied with ETECSA for the period 2023-2032, where 100% of the networks built would be owned by ETECSA. In the same way, once the CAEI is in execution, at the moment of being able to carry out the corresponding feasibility study, it will be possible to evaluate, with the selected foreign party, the possibility that the CAEI generates its own exports by carrying out similar works. to those that will be developed in Cuba in some Caribbean and Latin American countries. For the execution of these services, of vital importance for the development of the country, it is necessary to create the constructive capacity that CUBATEL SA nor ETECSA possess, for which it is necessary to seek the participation of a foreign company willing to participate and guarantee the required financing.

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**Market Potentials**

Based on the Computerization Policy of Cuban Society, the definition of Broadband in Cuba must evolve in the 2020-2030 period, anticipating progress to Advanced Broadband in 2025 (2048 kbit/s download) and Total Broadband in 2030 (10 mbit/s downlink).

The national potential market that supports the services of this project is distributed throughout the country, and includes not only the population but also the business sector and Bodies of the Central State Administration. For example, based on an estimate in the capital where the population is around 2.5 million inhabitants, with a housing stock of 700,000 households, if we take a penetration rate of only 40%, we would be talking about 280,000 facilities to end customers. If we add to this the business sector, institutions and Bodies of the Central State Administration, the figure exceeds 300,000 services.

Taking into account these projections of the country, the Cuban Telecommunications Company (ETECSA), shares with CUBATEL SA, through the signing of a Memorandum of Understanding, its demand for services until 2032, of which Cubatel undertakes to execute approximately 40 % of its annual demand, which supports the production values of the project.

Once the company consolidates and multiplies its construction capacity, as well as its expertise in the deployment and management of this type of network, the possibilities of executing similar international projects with the participation of the foreign partner with a high level of competence would be high, mainly towards Latin America, knowing that there is a high demand for this type of services in several countries of the region, which are well identified in the company's market profiles.

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