

CONFORMED COPY

LOAN NUMBER 3745 PH

Loan Agreement

(Subic Bay Freeport Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SUBIC BAY METROPOLITAN AUTHORITY

Dated June 3, 1994

LOAN NUMBER 3745 PH

LOAN AGREEMENT

AGREEMENT, dated June 3, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank") and SUBIC BAY METROPOLITAN AUTHORITY (the "Borrower").

WHEREAS (A): The Republic of the Philippines (the "Guarantor") and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

WHEREAS (B): By an agreement (the "Guarantee Agreement") of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS (C): The Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the "General Conditions") constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:
 - "(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "By-laws" means the Borrower's corporate by-laws as adopted by the Borrower's Board of Directors pursuant to its Resolution No. 93-060, dated July 27, 1993;
- (b) "Ecology Center" means the Center established by the Borrower, pursuant to Section 10 (j) of the Borrower's Rules and Regulations (as referred to in Paragraph (i) hereinafter) for the adoption and implementation of measures and standards for environmental pollution control of all areas under the Borrower's jurisdiction;
- (c) "Environmental Management Plan" means the Plan, to be adopted by the Borrower in form and substance satisfactory to the Bank, setting forth the minimum standards for managing the environmental protection of all land and sea areas under the Borrower's jurisdiction, which Plan is referred to in Sections 4.08 and 7.01 (a) of this Agreement;
- (d) "Environment Procedures Manual" means the Manual, adopted by the Borrower pursuant to its Resolution No. 94-013, dated April 6, 1994, setting forth the modalities and procedures for implementing the environmental standards, policies and regulations of the Borrower, which Manual is referred to in Section 4.08 of this Agreement;
- (e) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;
- (f) "Freeport Status" means the Borrower's legal status and related incentives regime establishing the Borrower as a separate customs territory for the free flow and movement of goods and capital within, into and exported out of the Subic Special Economic Zone, which status is legislated under the Guarantor's laws and regulations pursuant to the provisions of Section 12 of the Guarantor's Republic Act No. 7227 which is referred to in Paragraph (a) hereinabove;
- (g) "Investment Plan" means the Borrower's investment program and related financing plan for the 1994-1998 period, to be prepared and adopted by the Borrower pursuant to the provisions of Section 4.06 of this Agreement;
- (h) "Land Use Plan" means the Plan adopted by the Borrower, pursuant to its Resolution No. 94-013, dated April 6, 1994, specifying the general civilian uses and related economic activities to be promoted within the SBF Area (as such term is defined hereinafter), which Plan is referred to in Section 4.07 of this Agreement;
- (i) "Law" means, collectively, the following act, executive orders and implementing rules and regulations: the Guarantor's Republic Act No. 7227 on Accelerating The Conversion Of Military Reservations Into Other Productive Uses, Creating The Bases Conversion And Development Authority For This Purpose, Providing Funds Therefor And For Other Purposes, dated July

22, 1991 (also known as the "Bases Conversion and Development Act of 1992"); the Guarantor's Presidential Proclamation No. 50 Proclaiming The Adoption And Implementation Of The Subic Conversion Program As A Priority National Program For Economic Development And Directing All Heads Of Departments, Bureaus, Offices, Agencies And Instrumentalities of Government To Support The Program, dated September 18, 1992; the Guarantor's Executive Order No. 62 Prescribing Policies And Guidelines To Implement Republic Act No. 7227, dated February 27, 1993; the Guarantor's Executive Order No. 97 Clarifying The Tax And Duty Free Incentive Within the Subic Special Economic Zone Pursuant To Republic Act No. 7227, dated June 10, 1993; the Guarantor's Executive Order No. 97-A Further Clarifying The Tax and Duty Free Privilege Within The Subic Special Economic and Freeport Zone, dated June 19, 1993; and the Borrower's Rules and Regulations Implementing The Provisions Relative To The Subic Special Economic And Freeport Zone And The Subic Bay Metropolitan Authority Under Republic Act No. 7227, as approved by the Borrower's Board of Directors on November 3, 1992, and as published in the Guarantor's Official Gazette, dated March 8, 1993;

(j) "SBF Area" means the Subic Bay Freeport as such area is defined and its territory is delineated in Section 12 of the Guarantor's Republic Act No. 7227 referred to in Paragraph (j) above, which Area is subject to the administration and management of the Borrower under the Guarantor's applicable laws and regulations; and

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of forty million dollars (\$40,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six (6)-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six (6) months or the second six (6) months of a calendar year.

(d) On such date as the Bank may specify by no less than six (6) months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three (3)-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (a) carry out the Project with due diligence and efficiency: (i) in a manner at all times consistent with the Environmental Management Plan and the Land Use Plan, (ii) in conformity with sound administrative, commercial, economic, financial and engineering practices, and (iii) in accordance with appropriate safety, health and environmental standards acceptable to the Bank; and (b) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. In order to ensure the proper carrying of the works under Part A of the Project, the Borrower shall employ, not later than June 30, 1995, and in accordance with the provisions of Section 3.06 of, and Section II of Schedule 4 to, this Agreement, qualified consultants to assist in supervising the carrying out of said works and in strengthening the Borrower's capabilities in the management and proper development of its

assets and facilities so as to, inter alia, attract viable economic activity to the SBF area, each with responsibilities, qualifications and terms of employment satisfactory to the Bank.

Section 3.03. The Borrower shall, not later than June 30, 1995, appoint a duly qualified Chief Operating Officer possessing the requisite responsibilities, qualifications and terms of employment.

Section 3.04. The Borrower shall, not later than December 31, 1994, furnish to the Bank for its approval: (i) a time-based action plan for the provision of water, sewerage and solid waste management services within the SBF Area; and (ii) a time-based action plan for the recruitment of consultants, in accordance with the provisions of Section 3.06 of, and Section II of Schedule 4 to, this Agreement, and the carrying out of their respective technical assistance services in respect of the institutional strengthening activities under Part B of the Project. Thereafter, the Borrower shall promptly carry out said action plans with due diligence and efficiency and shall at all times take all action necessary to achieve their respective objectives.

Section 3.05. Not later than July 31, 1995, the Borrower shall carry out, jointly with the Bank, a review of the progress achieved by the Borrower in: (i) carrying out the Project; and (ii) implementing its Freeport Status and operating and managing the SBF Area and its facilities.

Section 3.06. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, commercial, economic, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall, at all times, operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, commercial, economic, financial and engineering practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. Except in the ordinary course of business, the Borrower shall not, unless mutually agreed in advance between the Bank and the Borrower, sell, lease, transfer or otherwise dispose of any of its property or assets which are required for the efficient conduct of its operations or the carrying out of the Project.

Section 4.05. The Borrower shall promptly take all measures necessary to acquire, maintain, renew and otherwise exercise all rights, powers, privileges and franchises required for the proper conduct of its operations and carrying out of its obligations under this Agreement.

Section 4.06. The Borrower shall:

(a) Prepare and furnish to the Guarantor and the Bank, not later than March 31 in each Fiscal Year a proposed Investment Plan, of such scope and in such detail as the Bank may reasonably request, to be carried out by the Borrower during the next five (5) following Fiscal Years;

(b) Exchange views with the Guarantor and the Bank on the Investment Plan referred to in paragraph (a) of this Section; and

(c) Thereafter take all measures required on its part (including, without limitation, adoption of the Investment Plan by its Board of Directors) to promptly carry out, during the next following Fiscal Year, such Investment Plan for said year as shall have been agreed upon among the Guarantor, the Bank and the Borrower.

Section 4.07. Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall:

(a) At all times carry out the Land Use Plan with due diligence and efficiency;

(b) Prepare and furnish to the Bank, not later than March 31 in each Fiscal Year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Land Use Plan in respect of the preceding Fiscal Year, together with any revisions proposed to be introduced into the Land Use Plan; and

(c) Exchange views with the Bank on each report prepared pursuant to paragraph (b) of this Section, and thereafter promptly introduce such revisions into the Land Use Plan as shall have been agreed between the Bank and the Borrower.

Section 4.08. Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall:

(a) At all times carry out, through its Ecology Center, the Environmental Management Plan and enforce the Environment Procedures Manual with due diligence and efficiency;

(b) Prepare and furnish to the Bank, not later than March 31 in each Fiscal Year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Environmental Management Plan and enforcement of the Environment Procedures Manual in respect of the preceding Fiscal Year, together with any revisions proposed to be introduced into the Environmental Management Plan and Environment Procedures Manual; and

(c) Exchange views with the Bank on each report prepared pursuant to paragraph (b) of this Section, and thereafter promptly introduce such revisions into the Environmental Management Plan and Environment Procedures Manual as shall have been agreed between the Bank and the Borrower.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain separate records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each Fiscal Year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one (1) year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred:
 - (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
 - (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in

(A) above.

- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.
- (vii) 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, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 70 to 30.

(b) For purposes of this Section:

- (i) The term "debt" shall have the same meaning as in Section 5.02 (b) (i) of this Agreement.
- (ii) Debt shall be deemed to be incurred in the same manner as provided in Section 5.02 (b) (ii) of this Agreement.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) 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 same basis as provided in Section 5.02 (b) (vii) of this Agreement.

Section 5.04. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain a ratio of current assets to current liabilities of not less than 1.2.

(b) Before June 30 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following Fiscal Year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Fiscal Years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses

within the next Fiscal Year.

- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) The term "debt service requirements" shall have the same meaning as in Section 5.02 (b) (v) of this Agreement.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the same basis as provided in Section 5.02 (b) (vii) of this Agreement.

Section 5.05. For the purpose of calculating the amount of equity specified in paragraph 5.03 (iii) of this Section, the Borrower shall carry out, not later than December 31, 1995, a revaluation of its fixed assets in operation, in accordance with sound and consistently applied methods of valuation, acceptable to the Bank.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) The Guarantor, or any other authority having jurisdiction, shall have taken any action for: (i) the disestablishment or dissolution of the Borrower; or (ii) the suspension of any of the Borrower's operations, so as to affect materially and adversely the Borrower's ability to perform any of its obligations under this Agreement or otherwise carry out the Project, or any part thereof.

(b) The Law shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the Borrower's Freeport Status or the operations or the financial condition of the Borrower, or the ability of the Borrower to perform any of its obligations under this Agreement.

(c) The Guarantor, or any other authority having jurisdiction, shall have taken any action, including (but without limitation) the enactment or issuance of legislation, orders or regulations, which may materially and adversely affect, prevent, or otherwise interfere with the Borrower's ability to carry out the Project, or any part thereof, or the performance by the Borrower of any of its obligations under this Agreement.

(d) The By-laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower, or the ability of the Borrower to perform any of its obligations under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) Any event specified in paragraph (a) of Section 6.01 of this Agreement shall occur.

(b) Any event specified in paragraphs (b), (c) or (d) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) The Borrower shall have duly adopted and published the Environmental Management Plan.

(b) The Borrower shall have duly published the Land Use Plan.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Administrator of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT).

For the Borrower:

Subic Bay Metropolitan Authority
SBMA Center
Building No. 229
Waterfront Road
Subic Bay Freeport Zone
Republic of the Philippines

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names 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 /s/ Gautam S. Kaji
Regional Vice President
East Asia and Pacific

SUBIC BAY METROPOLITAN AUTHORITY

By /s/ Raul Ch. Rabe
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods and related installation for Part A (9) of the Project	5,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(2) Works for Part A of the Project, except Part A (9) thereof	24,000,000	90%
(3) Consultants' services for Part (B) of the Project	7,000,000	100%
(4) Unallocated	4,000,000	
TOTAL	<u>\$40,000,000</u>	

2. For the purposes of this Schedule:

(a) The term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) The term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed the equivalent of four million dollars (\$4,000,000), may be made on account of payments made for expenditures before that date but after December 6, 1993.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding the equivalent of two hundred thousand dollars (\$200,000), and for consultants' services under contracts not exceeding the equivalent of one hundred thousand dollars (\$100,000) for firms and fifty thousand dollars (\$50,000) for individuals, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in attracting private investors to the SBF Area by inter alia: (i) improving the infrastructure of, and access to, the area for industrial, commercial and passenger traffic; (ii) maintaining the SBF asset base, including protecting the environment; and (iii) strengthening the Borrower's capacity to manage and administer the SBF Area.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Site Improvements Works Within the SBF Area

1. Constructing a four (4) kilometer ("km") two (2)-lane access road from the Kalalake Bridge to the Kalayaan Gate.
2. Constructing an eighty-two (82) meter two (2)-lane bridge, with pedestrian walkway, linking Rizal Avenue (in the Guarantor's City of Olongapo) to the SBF Area.
3. Constructing two (2) security plazas at the main gate complex (located at the Rizal and Magsaysay Bridges) and at the Kalayaan Gate.
4. Rehabilitating the airport runway, including: (i) mitigating the subsidence at its northeast end; and (ii) reconstructing and widening its southeast taxiway.
5. Rehabilitating the apron at both the passenger and freight operations areas of the airport.
6. Converting: (i) an existing aircraft hangar into an airport passenger terminal; and (ii) an existing building into a freight warehouse.
7. Carrying out structural repairs of the Alava, Rivera and Bravo Wharves and of Pier 1010, including installing a cathodic protection system at the Bravo Wharf and at Pier 1010.
8. Developing on a pilot basis six (6) standard factory building over a 10 hectares land area, including the basic infrastructure therefor.
9. Provision of miscellaneous equipment in respect of the foregoing, including: airport communications equipment and air traffic control equipment suitable to provide minimum Category 1 air traffic control services; security and maintenance equipment; security communications equipment; utility vehicles; electricity and water meters; and emergency generators and pumps.

Part B: Institutional Strengthening

1. Designing and installing: (i) a computerized duty-free purchases merchandise control system, including provision of related computer hardware and software and the training of personnel of the Borrower in the use and maintenance of said system; and (ii) an automated financial management and billing system for the recordation of the Borrower's revenues and punctual processing of its billings.
2. Provision of technical assistance services for the purposes of assisting the Borrower in: (i) preparing zoning regulations and a building design code; (ii) privatizing its water, sewerage and solid waste management services; and (iii) properly organizing and structuring its facilities administration and management functions.
3. Training of the Borrower's personnel: (i) in planning and property development; (ii) customs and taxation policy; (iii) investment promotion; and (iv) miscellaneous Freeport Status related matters.
4. Carrying out an environmental baseline survey to establish the basic environmental conditions within the SBF area and develop a baseline of information on the area's forest lands and bay, and strengthening the environmental management functions of the Ecology Center.

* * * * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 2000	760,000
August 15, 2000	785,000
February 15, 2001	815,000
August 15, 2001	845,000
February 15, 2002	875,000
August 15, 2002	905,000
February 15, 2003	940,000
August 15, 2003	975,000
February 15, 2004	1,010,000
August 15, 2004	1,045,000
February 15, 2005	1,085,000
August 15, 2005	1,120,000
February 15, 2006	1,165,000
August 15, 2006	1,205,000
February 15, 2007	1,250,000
August 15, 2007	1,295,000
February 15, 2008	1,340,000
August 15, 2008	1,390,000
February 15, 2009	1,440,000
August 15, 2009	1,495,000
February 15, 2010	1,550,000
August 15, 2010	1,605,000
February 15, 2011	1,660,000
August 15, 2011	1,725,000
February 15, 2012	1,785,000
August 15, 2012	1,850,000
February 15, 2013	1,915,000
August 15, 2013	1,985,000
February 15, 2014	2,060,000
August 15, 2014	2,125,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years	0.30

before maturity	
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines").

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two (2) pre-disclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A. 1 hereof, goods manufactured in the territory of the Guarantor may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Local Competitive Bidding Procedures

Contracts for works estimated to cost less than the equivalent of two million dollars (\$2,000,000) per contract, up to an aggregate amount not to exceed the equivalent of one million seven hundred thousand dollars (\$1,700,000), may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Shopping Procedures

Contracts for goods estimated to cost less than the equivalent of two hundred thousand dollars (\$200,000) per contract, up to an aggregate amount not to exceed the equivalent of five hundred thousand dollars (\$500,000), may be procured on the basis of comparison of price quotations obtained from at least three (3) suppliers from at least three (3) different countries

eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of fifteen percent (15%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the "Consultant Guidelines").

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

3. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior review by the Bank, or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to contracts with firms estimated to cost less than the equivalent of one hundred thousand dollars (\$100,000) per contract, and to contracts with individuals estimated to cost less than the equivalent of fifty thousand dollars (\$50,000). However, this exception to prior review by the Bank shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to the equivalent of one hundred thousand dollars (\$100,000) or more per contract with firms and to the equivalent of fifty thousand dollars (\$50,000) or more per contract with individuals.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) The term "Eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to one

million dollars (\$1,000,000) to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as

the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

