

CONFORMED COPY

LOAN NUMBER 3702 PH

(Leyte-Cebu Geothermal Project -- PNOC)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 11, 1994

LOAN NUMBER 3702 PH

GUARANTEE AGREEMENT

AGREEMENT, dated March 11, 1994, between REPUBLIC OF THE PHILIPPINES (the "Guarantor") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

WHEREAS: (A) The Guarantor and the Philippine National Oil Company (the "Borrower"), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement between the Bank and the Borrower, have requested the Bank to assist in the financing of the Project;

WHEREAS: (B) By the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to sixty-four million dollars (\$64,000,000), on the terms and conditions set forth in the Loan Agreement, but only on the conditions that the Guarantor agree to guarantee the obligations of the Borrower in respect of such Loan as provided in this Agreement, and that PNOC-EDC agree to undertake such obligations toward the Bank as are set forth in the Project Agreement; and

WHEREAS: (C) The Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower and the Project Agreement with PNOC-EDC, has agreed so to guarantee such obligations of the Borrower and PNOC-EDC.

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 and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. Without limitation or restriction upon any of its other obligations under this Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

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

ARTICLE III

Other Covenants

Section 3.01. Without limitation or restriction upon the provisions of Article II of this Agreement, and except as the Bank shall otherwise agree, the Guarantor shall carry out a periodic review and take all such measures necessary on its part (including, but without limitation, adjustments of the structure or levels of the oil, electricity and steam tariffs of the Borrower) and on the part of the Borrower and PNOC-EDC, as the case may be, as shall enable PNOC-EDC to produce revenues sufficient to ensure that PNOC-EDC shall comply at all times with its current assets to current liabilities ratio, debt-equity ratio and debt service coverage obligations, pursuant to the provisions of Sections 4.02, 4.03 and

4.04 of the Project Agreement, respectively.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Secretary of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Secretary of Finance
Department of Finance
Manila
Republic of the Philippines

Cable address:

SECFIN
Manila

Telex:

40268
CB-CONF

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).

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.

REPUBLIC OF THE PHILIPPINES

By /s/ Raul Ch. Rabe

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

Acting Regional Vice President
East Asia and Pacific



