

CONFORMED COPY

LOAN NUMBER 3996 PH

Loan Agreement

(Transmission Grid Reinforcement Project  
Currency Pool Loan)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

NATIONAL POWER CORPORATION

Dated May 15, 1996

LOAN NUMBER 3996 PH

CURRENCY POOL LOAN AGREEMENT

AGREEMENT, dated May 15, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank") and NATIONAL POWER CORPORATION (the "Borrower").

WHEREAS 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 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 to be provided to the Borrower by the Bank pursuant to the terms of this Agreement (the "Loan") and to undertake such other obligations as set forth in the Guarantee Agreement;

WHEREAS: (A) by an agreement of even date herewith between the Borrower and the Bank (the Floating Rate Single Currency Loan Agreement), the Bank has agreed to provide a loan equal to one hundred fifty million dollars (\$150,000,000) (the Floating Rate Single Currency Loan) to assist in the financing of the Project on the terms and conditions set forth in the Floating Rate Single Currency Loan Agreement;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Floating Rate Single Currency Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Floating Rate Single Currency Loan and to undertake such

other obligations as set forth in the Floating Rate Single Currency Guarantee Agreement;

(C) the Borrower has obtained from the Asian Development Bank (the "ADB") a loan (the "ADB Loan") in an amount equivalent to two hundred and forty four million dollars (\$244,000,000) to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the "ADB Loan Agreement") dated November 27, 1995, entered into between ADB and the Borrower;

(D) the Borrower has obtained from the Kreditanstalt fur Wiederaufbau (the "KfW") a loan (the "KfW Loan") in an amount equivalent to fifty million ninety eight thousand Deutsche mark (DM 50,098,000) to assist in financing Part A of the Project, on the terms and conditions set forth in an agreement (the "KfW Loan Agreement") dated December 14, 1995, entered into between KfW and the Borrower; and

(E) the Borrower intends to contract from the Export-Import Bank of Japan (the "JEXIM") a loan (the "JEXIM Loan") in an amount equivalent to two hundred and forty four million dollars (\$244,000,000), to assist in financing Part A of the Project, on the terms and conditions set forth in an agreement (the "JEXIM Loan Agreement") to be entered into between the JEXIM and the Borrower;

WHEREAS 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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purposes of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) 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) "Charter" means the Borrower's constituent instrument (R.A. No. 6395), dated September 10, 1971, as amended to the date of this Agreement, published in the Guarantor's Official Gazette, dated February 7, 1972, establishing the Borrower as a state-owned power generation company duly authorized and operating under the Guarantor's laws and regulations;

(b) "Energy Plan" means the Guarantor's plan for reforming its power sector and promoting energy sufficiency, both at the national and local levels, to be implemented by the Guarantor and its electricity power generation and transmission utilities and related power entities, as set forth in the "Philippines Energy Plan 1994-2010," issued by the Guarantor's Department of Energy in 1994, as such plan may be revised from time to time;

(c) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's or Guarantor's financial years, which period commences on January 1 and ends on December 31, in each calendar year, and the term "Fiscal Years" means, collectively, each of said Fiscal Year;

(d) "FIRSC Loan Account" means the account referred to in Section 2.02(a) of the Floating Rate Single Currency Loan Agreement;

(e) "RAP-1" means the Resettlement Action Plan, dated December, 1995, approved by the Borrower pursuant to Resolutions Nos. 95-199 and 95-255 of its Board of Directors, dated September 11, 1995 and November 8, 1995, respectively, for carrying out the compensation, resettlement and rehabilitation of all persons who are involuntarily resettled or whose rights to land and other assets are compulsorily acquired under Part A of the Project; the term "RAP-2" means the detailed resettlement action plan referred to in paragraph B.2 (i) of Schedule 5 to this Agreement, as such plan may be amended from time to time by agreement between the Bank and the Borrower; and "RAPs" means RAP-1 and RAP-2 collectively; and

(f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement, and "FIRSC Special Account" means the account referred to in Section 2.02 (b) of the Floating Rate Single Currency Loan 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 one hundred million dollars (\$100,000,000), 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 and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank specifically authorized for this purpose by 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000, 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-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 months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six 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-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 semi-annually 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. (a) 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 (i) with due diligence and efficiency, (ii) in a manner consistent with the Energy Plan, (iii) in conformity with appropriate administrative, financial, engineering and public utility practices, and (iv) 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.

(b) Without limitation upon the provisions of paragraph (a) of

this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. 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.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date, or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

#### 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, financial, engineering and public utility 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 engineering, financial and public utility 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. The Borrower shall not, without the Bank's prior consent, 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, power, 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 October 1 in each Fiscal Year a proposed power development program, 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 program referred to in paragraph (a) of this Section; and

(c) promptly thereafter, take all measures required on its part to carry out, during the next following Fiscal Year, such program for said year as shall have been agreed upon among the Guarantor, the Bank and the Borrower.

#### ARTICLE V

##### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and separate

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) and the records and accounts 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 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) The Borrower shall establish and maintain power tariff structures or levels sufficient for it to earn: (i) an annual return of not less than seven percent (7%) of the average current net value of the Borrower's fixed assets in operation in its Fiscal Year 1996 and eight percent (8%) in each Fiscal Year thereafter; and (ii) revenues sufficient to cover its estimated debt service requirements during each such Fiscal Year.

(b) Before December 1 in each of its Fiscal Years, 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 sub-paragraphs (a)(i) and (ii) of this Section 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 said sub-paragraphs (a)(i) or (ii) for its 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 annual return shall be calculated by dividing the Borrower's net operating income for the Fiscal Year in question by one half (1/2) of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that Fiscal Year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to operations.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes, and provision for depreciation in a manner consistent with generally accepted accounting principles.
- (v) The term "current net value of the Borrower's fixed assets in operation" means the total gross value of the Borrower's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
- (vi) 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. 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.
- (vii) The term "debt service requirements" means the aggregate amount of repayments (including payments out of sinking funds, if any,) of, and interest and other charges on, debt.
- (viii) 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 market 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.

(e) For the purpose of calculating the rate of return specified in paragraph (a) of this Section, the Borrower shall carry out, not later than December 31, in each Fiscal Year, a revaluation of its fixed assets in operation, in accordance with sound and consistently applied methods of valuation, acceptable to the Bank.

Section 5.03. (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 (i) during each Fiscal Year up to and including Fiscal Year 1999, shall be at least equal to the estimated debt service requirements of the Borrower in such year on all debt of the Borrower, including the debt to be incurred; (ii) and for each Fiscal Year thereafter shall be at least one and three-tenths (1.3) times said estimated debt service requirements of the Borrower in such year.

(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. 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.

- (ii) 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 and taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iii) 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, incurred in the generation of revenues in Sub-section (A) above.
- (iv) 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.
- (v) 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.
- (vi) 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 market 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 5.04. The Borrower shall prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Bank for information, not later than December 31 in each Fiscal Year, its projections in respect of its capital expenditures and of the demand for power supplied by it, and its financial projections, all for the next following five (5) Fiscal Years.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The Charter 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.

(b) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of any loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Bank, that: (A) such



suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the agreement providing therefor ; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

(b) The event specified in subparagraph (b)(i) of Section 6.01 of this Agreement shall occur, subject to the provisions of subparagraph (b)(ii) of that Section.

#### ARTICLE VII

##### Effective Date; Termination

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

(a) that all conditions precedent to the effectiveness of each of the Floating Rate Single Currency Loan Agreement, the ADB Loan Agreement, the JEXIM Loan Agreement and the KfW Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) that the RAPs have been duly approved by the Borrower and all necessary corporate and governmental approvals and actions have been obtained or taken, as the case may be, to enable the RAPs to be implemented in accordance with their terms.

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 President 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 (MCI)  
66145 (MCI)

For the Borrower:

National Power Corporation  
Quezon Avenue  
Diliman, Quezon City  
Republic of the Philippines

Cable address:

NAPOCOR

Telex:

742-40120 (PM)

Manila

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/ Nicholas C. Hope  
Acting Regional Vice President  
East Asia and Pacific

NATIONAL POWER CORPORATION

By /s/ Raul Ch. Rabe  
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan  
and the FIRSC Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan and the FIRSC Loan, the allocation of the amounts of the Loan and the FIRSC 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)	Amount of the FIRSC Loan (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods under Parts A.2, A.4 and A.5 and Part C of the Project	24,800,000	37,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(2) Goods and related instal- lation under Part A.1 (b) and (c) of the Project	46,000,000	69,000,000	85%
(3) Goods and related instal- lation under Part B of the Project	18,000,000	27,000,000	95%
(4) Works under Parts A.4 and A.5 of the Project	3,200,000	4,800,000	75%
(5) Consultants' services and training under	2,000,000	3,000,000	100%

the Project		
(6) Unallocated	6,000,000	9,000,000
	<hr/>	<hr/>
TOTAL	100,000,000	150,000,000
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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 of the proceeds of the Loan and the FIRSC Loan 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 exceeding the equivalent of twenty million dollars (\$20,000,000), may be made in respect of the Project on account of payments made for expenditures before that date but after February 1, 1996.

4. The Bank may require withdrawals from each of the Loan Account and the FIRSC Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works valued at less than five million dollars (\$5,000,000) equivalent each; and goods valued at less than one million dollars (\$1,000,000); (b) the employment of consulting firms valued at less than one hundred thousand dollars (\$100,000) equivalent each; (c) the employment of individual consultants valued at less than fifty thousand dollars (\$50,000) equivalent each; and (d) training; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to (i) assist in meeting demand for electric power within the territory of the Guarantor by expanding and reinforcing the Borrower's power transmission and local dispatch systems; (ii) promote private sector participation in the operation of said transmission systems; and (iii) support the continued restructuring of the Borrower.

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

Part A: Extending the Borrower's extra high voltage (EHV) transmission systems in northwest Luzon and western Visayas through:

(1) Construction in Luzon of (a) a 230 kilovolt (kV) double circuit transmission line from Masinloc to Labrador, (b) 500 kV transmission lines from Labrador to San Manuel and San Jose; and (c) a 230 kV double circuit transmission line from Sual to Labrador.

(2) Rehabilitation of the transmission line between Naga and Tayabas in Luzon.

(3) Construction of the 500/230 kV substations at Labrador, and San Manuel and expansion of the 500/230 kV substation at San Jose.

(4) Upgrading of about eight 230/115-69 kV substations in Luzon.

(5) Upgrading of the 138/69 kV subtransmission systems in Negros, Panay and Cebu in Visayas.

Part B: Establishment of the Borrower's national load dispatch center including the provision of expert design and training services, load dispatch facilities, and communications and protection equipment.

Part C: Carrying out of a program to establish the Borrower's transmission activities as a separate profit center with a view to establishment as a separate corporate entity, through the provision of expert services and training, management information systems facilities and office equipment and the construction of new physical premises for said center.

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The project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
August 15, 2001	1,940,000.00
February 15, 2002	2,010,000.00
August 15, 2002	2,080,000.00
February 15, 2003	2,150,000.00
August 15, 2003	2,225,000.00
February 15, 2004	2,305,000.00
August 15, 2004	2,385,000.00
February 15, 2005	2,465,000.00
August 15, 2005	2,555,000.00
February 15, 2006	2,640,000.00
August 15, 2006	2,735,000.00
February 15, 2007	2,830,000.00
August 15, 2007	2,930,000.00
February 15, 2008	3,030,000.00
August 15, 2008	3,135,000.00
February 15, 2009	3,245,000.00
August 15, 2009	3,360,000.00
February 15, 2010	3,475,000.00
August 15, 2010	3,600,000.00
February 15, 2011	3,725,000.00
August 15, 2011	3,855,000.00
February 15, 2012	3,990,000.00
August 15, 2012	4,125,000.00
February 15, 2013	4,270,000.00
August 15, 2013	4,420,000.00
February 15, 2014	4,575,000.00
August 15, 2014	4,735,000.00
February 15, 2015	4,900,000.00
August 15, 2015	5,070,000.00
February 15, 2016	5,240,000.00

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\* The figures in this column represent the amount in 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 before maturity	0.30
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: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines of Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the "Guidelines").

###### Part B: International Competitive Bidding

1. Except as provided in Part C of this Section, goods and related installation works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and related installation works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### (a) Prequalification

Bidders for the 500 kV transmission line under Part A (1) (b) and (c) of the Project and for the national load dispatch center facilities under Part B of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

###### (b) Grouping of Contracts

To the extent practicable contracts for goods and related installation works shall be grouped in bid packages estimated to cost five million dollars (\$5,000,000) equivalent or more each.

###### (c) Preference for Domestically Manufactured Goods

The provision of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereof shall apply to goods manufactured in the territory of the Guarantor.

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Works estimated to cost five hundred thousand dollars (\$500,000) equivalent or less per contract, and sixteen million dollars (\$16,000,000)

equivalent or less in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for (i) works and (ii) goods estimated to cost the equivalent of \$5,000,000 and \$1,000,000 or more respectively, the procedures set forth in paragraphs 2 and 3 of Appendix 1 of the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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"). 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.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than one hundred thousand dollars (\$100,000) equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than fifty thousand dollars (\$50,000) equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to one hundred thousand dollars (\$100,000) equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to fifty thousand dollars (\$50,000) equivalent or above.

SCHEDULE 5

Implementation Program

A. Reporting

Without limitation or restriction upon the provisions of Section 9.07 of the General Conditions, the Borrower shall, on each March 31, June 30, September 30 and December 31 in each Fiscal Year, beginning with Fiscal Year 1996, furnish to the Bank for its review and comment a quarterly report, of such scope and detail as the Bank may reasonably require, on the progress achieved to date in implementing the Project.

B. Land Acquisition and Resettlement

1. The Borrower shall take all measures necessary to ensure that all persons shall be resettled or otherwise compensated in accordance with RAP-1.

2. To that end, the Borrower shall: (i) prior to undertaking any resettlement or compulsory acquisition of property under Part A of the Project, submit to the Bank for its approval a detailed resettlement action plan relative to such resettlement or acquisition; (ii) implement said resettlement action plan; (iii) maintain operational procedures adequate to enable it to monitor and evaluate on a regular basis, in accordance with indicators acceptable to the Bank, the carrying out of the RAPs; (iv) prepare and furnish to the Bank not later than April 30, July 31, October 31 and January 31 in each Fiscal Year during which resettlement activities are carried out, a report, of such scope and in such detail as the Bank shall reasonably request, on the monitoring and evaluation activities carried out pursuant to subparagraph (iii) of this Section, together with any additional measures proposed to further the progress in the carrying out of the RAPs; and (v) promptly take all such measures referred to in subparagraph (iv) of this Section, taking into account the comments and the views of the Bank thereon.

C. Corporate Restructuring

For the purposes of Part C of the Project, the Borrower shall (i) carry out a time-bound action plan acceptable to the Bank of the establishment of the Borrower's transmission activities as a separate corporate entity; and (ii) establish, by March 31, 1997, or such other date as the Bank and the Borrower may otherwise agree, a holding company possessing a legal personality, attributes, functions, and resources acceptable to the Bank.

D. Tariff Restructuring

The Borrower shall, not later than October 31, 1996, submit for approval by the Guarantor's Energy Regulatory Board proposals, in form and substance satisfactory to the Bank, for a revised electricity tariff rate structure designed, inter alia, to incorporate long run marginal cost principles, to remove cross-subsidies between electricity grids, and to introduce appropriate charges for wheeling and ancillary services in the Luzon grid.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories 1, 2, 3, 4, and 5 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 into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to two hundred thousand dollars (\$200,000) until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of five million dollars (\$5,000,000).

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 deposit into the Special Account of an amount or amounts 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 into 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;

(b) If the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 5.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) If, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) Once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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.

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