

CONFORMED COPY

LOAN NUMBER 4111 PH

Loan Agreement
(Second Subic Bay Freeport Project)
Floating Rate Single Currency Loan

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

SUBIC BAY METROPOLITAN AUTHORITY

Dated July 18, 1997

LOAN NUMBER 4111 PH

LOAN AGREEMENT

AGREEMENT, dated July 18, 1997 between NATIONAL 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; (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 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 for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03 is modified to read: "Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals

from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

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 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) "Corporate Plan" means the Borrower's plan for its overall corporate structure and its strategic role in the development of the SSEZ (as hereinafter defined), referred to in Section 7.01(a) of this Agreement, as such plan may be amended from time to time.

(c) "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.

(d) "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 out of the SSEZ, 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.

(e) "Investment Plan" means the Borrower's investment program and related financing plan, to be prepared and adopted by the Borrower pursuant to the provisions of Section 4.07 of this Agreement.

(f) "PACP" and "PPAC" mean the Property Acquisition and Compensation Plan and the Principles for Property Acquisition and Compensation, each dated July 22, 1996, approved by the Borrower, which set out the policies and procedures governing land and other property acquisition and compensation in connection with the implementation of Parts B and C of the Project respectively and the reporting and monitoring arrangements to ensure compliance with said policies and procedures.

(g) "Power Agreement" means the agreement dated June 30, 1996 between the Borrower and Olongapo City with respect to the carrying out of Part C of the Project.

(h) "Project Affected Person" means a person who, on account of the execution of Part B or Part C of the Project, had or would have (a) his standard of living adversely affected; or (b) his right, title or interest in any house, land (including premises and agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) his business, occupation, work or place of residence or habitat adversely affected; and "Project Affected

Persons" means all persons who qualify as a Project Affected Person.

(i) "Road Maintenance Study" means the study to be carried out under Part D(4) of the Project.

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

(k) "Secured Area" means the lands occupied by the Subic Naval Base and its contiguous extensions as embraced, covered and defined by the 1947 Military Bases Agreement between the Republic of the Philippines and the United States of America as amended, referred to in Section 12 of the Guarantor's Republic Act 7227.

(l) "SSEZ" means the Subic Special Economic Zone as such area is defined and its territory is delineated in Section 12 of the Guarantor's Republic Act No. 7227, which area is subject to the administration and management of the Borrower under the Guarantor's applicable laws and regulations.

(m) "Subic Bay Freeport Laws" 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; 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, 1992.

(n) "Subic Water JV Agreement" means the agreement dated November 24, 1995 between the Borrower, Olongapo City Water District, D.M. Consunji, Inc and Biwater International Limited for the establishment of a company intended to engage in the provision of water and sewerage services and in the establishment, operation and maintenance of water and sewerage facilities and systems in the SSEZ.

(o) "Subic Water" means the company to be established pursuant to the terms of the Subic Water JV Agreement.

(p) "Water Sales Contract" means the agreement for the sale of water to be entered into between the Borrower and Subic Water pursuant to Section G (1) of Schedule 5 to 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 the Loan Agreement, an amount equal to sixty million dollars (\$60,000,000).

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 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 and 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period:

(A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, for other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and Borrower of the LIBOR Base Rate and the LIBOR Total Spread for Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable January 15 and July 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:

(i) carry out the Project with due diligence and efficiency,
(A) in a manner at all times consistent with the Environmental Management Plan and the Land Use Plan, (B) in conformity with sound administrative, commercial, economic, financial and engineering practices, and (C) in accordance with appropriate safety, health and environmental standards acceptable to the Bank; and

(ii) 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 Borrower and the Bank 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 continuing implementation of the objectives 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, commercial, financial, economic and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall conduct its affairs so as to ensure that major corporate decisions, including, without limitation, with respect to its corporate structure, its management structure, each Investment Plan and plans specifying general civilian uses and related economic activities to be promoted in the SSEZ, are consistent with the Corporate Plan.

(b) The Borrower shall (i) not later than October 31, 1998, furnish to the Bank a report, of such scope and in such detail as the Bank may reasonably request, on the progress achieved in the carrying out of the Corporate Plan, together with any proposed revisions thereto; and (ii) not later than June 30, 1999, exchange views with the Bank on such report.

Section 4.03. 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 4.04. 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 4.05. 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 4.06. 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 4.07. 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 carry out promptly the investments proposed for the following Fiscal Year in such Investment Plan 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 accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

(i) have its records and 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 and 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 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 the 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. 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.

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

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 and 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.

Section 5.05. For the purposes of Sections 5.02, 5.03 and 5.04 of this Agreement:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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 times 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.

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 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 Subic Bay Freeport Laws 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: any event specified in Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

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

(a) The Borrower shall have adopted a corporate plan satisfactory to the Bank for its overall corporate structure and its strategic role in the development of the

SSEZ.

(b) The Subic Water JV Agreement shall have become effective in accordance with its terms.

Section 7.02. The following is specified as an additional matter within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion to be furnished to the Bank, namely that the PACP and the PPAC have been duly approved by the Borrower and that all necessary corporate and governmental approvals and actions have been taken, as the case may be, to enable the PACP and the PPAC to be implemented in accordance with their terms.

Section 7.03. 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:

Telex:

INTBAFRAD
Washington, D.C. 64145 (MCI) 248423 (MCI)

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/ Vinay Bhargava

Regional Vice President
East Asia and Pacific

SUBIC BAY METROPOLITAN AUTHORITY

By /s/ Richard Gordon

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 Dollars)	% of Expenditures to be Financed
(1) Works for:		
(a) Part B of the Project	10,000,000	60%
(b) Parts C and D of the Project	26,300,000	60%
(2) Goods for:		
(a) Part B of the Project	2,900,000)	100% of foreign expenditures,
(b) Parts C, D and E of the Project	4,200,000)	100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(3) Consultants' services and training		
(a) for Part B of the Project	3,100,000	100%
(b) for Parts A, C and D of the Project	8,100,000	100%
(4) Unallocated	5,400,000	
	<u>TOTAL</u>	
	60,000,000	

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: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures under Categories (1)(a), (2) (a),

and (3)(a) until (i) the Borrower has obtained a water permit from the Guarantor's National Water Resources Board in accordance with the requirements of Presidential Decree No. 1067 for the proposed extraction of water from the Pamatawan well field under Part B(1) of the Project; and (ii) the Borrower shall have entered into a "heads of agreement" with Subic Water satisfactory to the Bank establishing the principal terms and conditions for the water sales agreement to be entered into by said parties pursuant to Part G(1) of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for (a) goods and works under contracts not exceeding the equivalent of \$500,000; (b) services provided by consulting firms under contracts costing less than \$100,000 equivalent; (c) services provided by individual consultants under contracts costing less than \$50,000 equivalent; 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 objective of the Project is to assist the Borrower in (a) strengthening its institutional capacity to carry out its regulatory, administrative and management mandate with respect to the SSEZ, as set out under the Subic Bay Freeport Laws and (b) improving the provision of infrastructure services in the SSEZ required to support its economic growth.

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: Institutional Strengthening

(1) Strengthening the regulatory, administrative and management capacity of the Borrower through the provision of expert services to assist the Borrower in:

(a) developing strategic freeport policies, including with respect to freeport competitiveness, customs, taxation and investment incentives;

(b) planning and carrying out further commercialization and privatization activities; and

(c) assessing its skills mix needs to carry out its regulatory, administrative and management functions and developing and carrying out appropriate staff training programs.

(2) Strengthening the Borrower's capacity for environmental management, monitoring and regulation through: (a) providing expert services, training and miscellaneous equipment to the Borrower's Ecology Centre for (i) the expansion of community outreach services and the implementation of resettlement and land acquisition and compensation programs; and (ii) the development of community-based forest management, community development and infrastructure improvements in Pastolan Village; and (b) preparing an indigenous people's development plan to address the impact of economic growth in the SSEZ on indigenous people living therein.

Part B: Improving Water Supply

Improving the supply of treated water in the SSEZ through:

(1) detailed engineering and development of the Pamatawan well field, including the construction of approximately 20 wells;

(2) constructing a raw water transmission main from the Pamatawan well field to a water treatment plant at Castillejos and a treated water transmission main from the treatment plant to a pool of storage reservoirs;

(3) constructing an electrical power transmission line to the Pamatawan well field and to the Castillejos treatment plant;

- (4) constructing a water treatment plant and a booster station;
- (5) installing ground water monitoring networks for monitoring the ground water table and water chemistry at the Pamatawan well field;
- (6) reforesting in the Pamatawan River basin to improve the aquifer recharging process;
- (7) carrying out a hydrological study to identify water supply sources to meet the long term water supply needs of Hermosa and Morong; and
- (8) compensating Project Affected Persons.

Part C: Improving Power Distribution

Improving power distribution in the SSEZ by rationalizing and consolidating the power distribution networks in Olongapo City through:

- (1) constructing overhead and underground 69 kV sub-transmission circuits, together with the expansion of five existing, and the construction of one new, 69/13.8 kV substations, to effect the interconnection of the distribution systems of Olongapo City and the Borrower;
- (2) installing 13.8 kV cables to replace damaged cables and to enhance the environment of prime waterside locations in the Secured Area;
- (3) rehabilitating and extending 13.8 kV and LV systems, including replacement of the 4.1 kV system in Olongapo City;
- (4) providing common facilities for an integrated power distribution network, including equipment, storage and maintenance facilities, an administrative office, meter test and repair facilities, office equipment, management information and billing systems and meter test equipment; and
- (5) compensating Project Affected Persons.

Part D: Rehabilitating and Upgrading Roads, Bridges and Related Infrastructure

Improving road capacity and access, rehabilitating bridges, establishing a maintenance program and strengthening the Borrower's capacity to supervise works to enable industrial and commercial development of the Secured Area, through:

- (1) improving roads, including (a) widening Rizal Highway, (b) widening Argonaut Highway, (c) widening the link from Tipo Road to Binitican Bridge and constructing a new SBMA expressway extension and (d) improving signalization and channelization of intersections in the Secured Area;
- (2) rehabilitating and retrofitting (including design, construction and construction supervision of works) the Kalalake, Malawaan, Boton and Binitican bridges;
- (3) carrying out a feasibility study of, and designing, engineering and constructing, a replacement bridge for the Kalaklan bridge;
- (4) carrying out a road maintenance study and thereafter establishing a maintenance management system for roads and bridges and training the Borrower's Public Works Group in its use and in the procurement and supervision of contractors carrying out recurrent and periodic maintenance;
- (5) carrying out a strategic land use study and a road alignment study for the SSEZ to improve traffic flow; and
- (6) improving related infrastructure through (a) conducting detailed surveys of jurisdictional boundaries and installation of metes and bounds monuments, (b) constructing a security fence along part of the Secured Area boundary, carrying out aerial photography and mapping of the SSEZ and (c) establishing a geographical

information system.

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
July 15, 2002	1,260,000
January 15, 2003	1,300,000
July 15, 2003	1,340,000
January 15, 2004	1,380,000
July 15, 2004	1,420,000
January 15, 2005	1,460,000
July 15, 2005	1,505,000
January 15, 2006	1,550,000
July 15, 2006	1,600,000
January 15, 2007	1,645,000
July 15, 2007	1,695,000
January 15, 2008	1,745,000
July 15, 2008	1,800,000
January 15, 2009	1,850,000
July 15, 2009	1,910,000
January 15, 2010	1,965,000
July 15, 2010	2,025,000
January 15, 2011	2,085,000
July 15, 2011	2,145,000
January 15, 2012	2,210,000
July 15, 2012	2,280,000
January 15, 2013	2,345,000
July 15, 2013	2,415,000
January 15, 2014	2,490,000
July 15, 2014	2,565,000
January 15, 2015	2,640,000
July 15, 2015	2,720,000
January 15, 2016	2,800,000
July 15, 2016	2,885,000
January 15, 2017	2,970,000

* The figures in this column represent the amount in dollars to be repaid
except as provided in Section 4.04(d) of the General Conditions.

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 for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and 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 works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification Bidders for works/contracts under Parts B(2) and D(1)(a),(b) and (c), D(2) and D(3) of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Seedlings under Part B(6) of the Project, minor works for bridge rehabilitation under Part D(2) of the Project, the acquisition and installation of a security fence under Part D(6)(b) of the Project, and miscellaneous office equipment and computers estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works Works estimated to cost less than \$10,000 equivalent per contract, up to an amount not to exceed \$50,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning Prior to the issuance of any invitation 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 estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to 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, such contracts

shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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 \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$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 \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Overall Project Management

The Borrower shall maintain a project management structure, including the designation of experienced staff with appropriate delineation of responsibility, satisfactory to the Bank for the overall implementation of the Project.

B. Project Monitoring and Reporting

The Borrower shall:

(1) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Annex to this Schedule 5, the carrying out of the Project and the achievement of the objectives thereof;

(2) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank; (a) by October 31 each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the twelve month period preceding the date of such report; and (b) on or about October 31 1998, a mid-term report, integrating the date and other information contained in reports prepared pursuant to subparagraph (2) (a) above, on the progress achieved in carrying out the Project during the period preceding the date thereof and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(3) review with the Bank, by December 31, 1998, or such later date as the Bank shall request, the report referred to in paragraph (2) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

C. Expert Assistance

The Borrower shall engage consultants in accordance with the provisions of Section II of Schedule 4 to this Agreement: (a) to assist in the financial management and overall procurement requirements of the Project; (b) for the purposes of carrying out Part A of the Project; (c) to carry out the hydrological study under Part B (7) of the Project; (d) to provide design and supervision support under Part D of the Project; (e) to carry out the bridge replacement feasibility study, strategic land use study and the road alignment study under Parts D(3) and D(5) of the Project, respectively; (f) to provide (i) overall advice on road maintenance and scheduling of works and (ii) detailed engineering and construction supervision for civil works carried out under Part D of the Project; and (g) to provide (i) assistance for the monitoring and implementation of resettlement and property acquisition and

compensation plans of the Borrower and (ii) miscellaneous technical support for the Ecology Centre, under Part A (2) of the Project.

D. Studies

The Borrower shall: (a) carry out each of the hydrological study under Part B(7) of the Project, the bridge replacement feasibility study under Part D(3) of the Project, the strategic land use study and the road alignment study under Part D(5) of the Project, and the indigenous people's development plan under Part A (2) of the Project in accordance with terms of reference and a time schedule satisfactory to the Bank, and shall furnish to the Bank for comment each said study, promptly upon its completion; and (b) (i) carry out, and furnish to the Bank for its review, the Road Maintenance Study by no later than December 31, 1997, (ii) review such study with the Bank by no later than March 31, 1998, and (iii) thereafter take appropriate actions to implement the recommendations of said study taking into account the Bank's comments thereon and in accordance with a time schedule satisfactory to the Bank.

E. Property Acquisition and Compensation

The Borrower shall take all measures necessary to ensure that all Project Affected Persons are compensated in accordance with the provisions of the PACP or the PPAC, as the case may be. For the purposes of Part C of the Project, the Borrower shall, prior to undertaking any compulsory acquisition of property under such Part, submit to the Bank for its approval a detailed property acquisition and compensation action plan relative to such acquisition, including resettlement if any, and prepared in accordance with the provisions of the PPAC and thereafter implement such plan as approved by the Bank. The Borrower shall further: (i) maintain operational procedures adequate to enable it to monitor and evaluate on a regular basis, in accordance with the indicators acceptable to the Bank, the carrying out of the PACP and PPAC; (ii) prepare and furnish to the Bank not later than April 30 and October 31 in each Fiscal Year a report, of such scope and in such detail as the Bank shall reasonably request, on such monitoring and evaluation activities carried out together with any additional measures proposed to further the progress in the carrying out of the PACP and PPAC; and (iii) promptly thereafter effectuate all such measures, taking into account the comments and the views of the Bank thereon.

F. Permits

The Borrower shall obtain from the Guarantor's National Water Resources Board a water permit in accordance with the requirements of Presidential Decree No.1067 for the proposed extraction of water from the Pamawatan well field under Part B(1) of the Project.

G. Contractual Arrangements

The Borrower shall:

(1) enter into contractual arrangements, on terms and conditions satisfactory to the Bank by no later than December 31, 1998, for the sale of treated water obtained under Part B of the Project, with Subic Water; and

(2) exercise its rights under the Power Agreement in such manner as to protect the interests of the Borrower and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Power Agreement or any provision thereof.

SCHEDULE 6

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 equal to \$2,000,000 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 equal to \$1,000,000 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 an amount equal to \$30,000,000.

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 for the Special Account for Parts of the Project, 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 Parts of 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 for Parts of the Project 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 respective 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 respective 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.

