

July 26, 1999

Hon. Edgardo Espiritu
Secretary
Department of Finance
6/F DOF Building Roxas Boulevard,
Manila

Mr. Federico Puno
President
National Power Corporation
Quezon Avenue, Diliman Quezon City

Dear Secretary Espiritu and Mr. Puno:

Transmission Grid Reinforcement Project (LN 3996 and 3997 PH) Amendment to Loan Agreements

I refer to the Loan Agreements dated May 15, 1996 between the National Power Corporation (the "NPC") and the International Bank for Reconstruction and Development (the "Bank") for the above referenced Project (the "Loan Agreements") and to the Guarantee Agreement dated May 15, 1996 between the Republic of the Philippines (the "Guarantor") and the Bank for the same Projects. I am pleased to inform you that the Bank agrees to amend the Loan Agreements by revising the provisions of LN 3996 as follows:

1. A new paragraph (g) is added to Section 1.02 as follows:

"(g) 'Y2K Problem' means potential problems that might be encountered by computer hardware, software, embedded systems and other components of the Borrower's power supply system in processing year date information for the year 2000 and beyond."

2. Section 5.02 is amended to read as follows:

"Section 5.02 (a) The Borrower shall take all measures, including but not limited to tariff adjustments, cost cutting measures, debt control and equity increases, to earn: (i) an annual return of not less than eight percent (8%) of the average current net value of the

(a) Borrower's fixed assets in operation each Fiscal Year; and (ii) internal cash generation 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, cost cutting measures, debt control and equity increases) 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 (excluding assets being acquired through build operate transfer contracts and recorded according to finance lease arrangements) 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. The average current net value of the Borrower's fixed assets in operation each

Fiscal Year shall be calculated by dividing the Borrower's fixed assets in operation for the Fiscal Year in question by one half (1/2) of the sum of the Borrower's fixed assets in operation at the beginning and at the end of that Fiscal Year.

(vi) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred (including that portion of any such debt payable within one year from the date of any debt-service ratio calculation), provided that debt shall be counted only to the extent that it is drawn down and outstanding. Debt shall be deemed to be incurred 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.

(vii) The term "internal cash generation" means the difference between (A) the sum of revenues from all sources related to operations and net non operating income, and any decrease in working capital (excluding cash and the current portion of long-term debt) and (B) the sum of all expenses related to operations including administration, adequate maintenance and taxes (but excluding depreciation, depletion, amortization of electric plant in service under capital lease, other non-cash operating charges and interest and other charges on debt), and any increase in working capital (excluding cash and the current portion of long-term debt).

(viii) The term "debt service requirement" shall mean the aggregate amount of (A) debt repayments (including lease obligations under build operate transfer contracts and sinking fund payments, if any) and (B) interest and other charges on debt, other than interest and other charges on debt incurred in financing capital expenditures during construction that are financed under any loan to the Borrower.

(ix) 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 rates and payments in lieu of taxes, incurred in the generation of revenues in (A) above."

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 Loans 3996, 3996A and the FIRSC Loan 3997, the allocation of the amounts of the Loans to each Category and the percentage of expenditures for items so

to be financed in each Category:

Category Financed	Loan 3996 (*) Expressed in Dollars	Loan 3996A (FIRSC Loan) Expressed in Yen	Loan 3997 Expressed in Dollars	% of Expenditure to be
(1) Goods under Parts expenditures, A.2, A.4, A.5 and Part C of the Project	17,611,830	438,469,021	31,200,000	100% of foreign 100% of local expenditures (ex-factory cost) and 70% of local
expenditures items procured item				for other
(2) Goods and related installation under Part A.1 (b) and A. 1 (c) of the Project	14,401,788	3,245,462,069	57,000,000	85%
(3) Goods and related installation under:				
(a) Part B.1 of the project	5,136,488,000	44,400,000		95%
(b) Part B.2 of the Project	632,638,000	6,900,000		95%
(4) Works under Parts A.4 and A.5 of the Project	165,036,000	1,800,000		75%
(5) Consultants' services and training under:				
(a) Parts A, of the Project	1,648,138	117,156,535	3,700,000	100% B.1 and
(b) Part B.2 of the Project		27,506,000	300,000	100%
(6) Unallocated	393,243,621	4,700,000		
(7) Unrecovered SA Balance (#)			240,670	
TOTAL	33,902,427	9,090,399,246	150,000,000	

(*) The original amount of Loan 3996 was US\$ 100 million. In June 1998, the undisbursed balance of US\$ 66,097,573.23 was converted into Yen under the SCL and the converted SCL Loan was numbered 3996A. The amounts shown above for Loan 3996 reflect the disbursed amounts at the time of conversion of the undisbursed amount into Yen.

(#) To be charged to categories of expenditures as replenishments are made.

4. A new paragraph 2 is added to Part B of Schedule 2 as follows, and the existing paragraph is numbered as paragraph 1:

"2. Diagnosis of the potential Y2K Problem for the power supply system of the Borrower, and the technical and impact analysis of such problem; and implementation of remediation plans through replacement of non Y2K compliant components, modification of existing systems, and development of contingency plans required to bring the Borrower's power supply system into compliance."

5. A new paragraph 2 is added to Schedule 4, Part C of Section I, as follows:

"2. Goods under Part B.2 of the Project which must be purchased from the original supplier to be compatible with existing equipment and costing \$10,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines."

6. Except as specifically amended by this amendment letter, all provisions of the Loan and Guarantee Agreements otherwise remain in full force and effect.

Please confirm your agreement to the amendments set out above by having authorized representatives of the Borrower and Guarantor sign the form of confirmation set forth herein below, and returning one fully executed original of this amendment letter to us at your earliest convenience and retaining originals of the letter for your records. This amendment letter shall become effective as of the date first above written, once it has been fully executed by all parties thereto.

Sincerely,

By /s/ David Howarth
Acting Country Director, Philippines
East Asia and Pacific Region

CONFIRMED:

REPUBLIC OF THE PHILIPPINES

By /s/ Joel Banares
Authorized Representative

Date: 15 September 1999

NATIONAL POWER CORPORATION

By /s/ FEDEERICO E. PUNO
Authorized Representative

Date: July 13, 2000

