

CONFORMED COPY

LOAN NUMBER 3996 PH

Guarantee Agreement

(Transmission Grid Reinforcement Project  
Currency Pool Loan)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated May 15, 1996

LOAN NUMBER 3996 PH

GUARANTEE AGREEMENT

AGREEMENT, dated May 15, 1996, between REPUBLIC OF THE PHILIPPINES (the "Guarantor") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

WHEREAS: (A) The Guarantor and the National Power Corporation (the "Borrower"), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to an agreement of even date herewith between the Bank and the Borrower (the "Currency Pool Loan Agreement"), have requested the Bank to assist in the financing of the Project;

WHEREAS: (B) By the Currency Pool Loan Agreement, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent one hundred million dollars (\$100,000,000) on the terms and conditions set forth in the Currency Pool Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

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

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, (the "General Conditions") constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to and Section 1.02 of the Currency Pool Loan Agreement have the respective meanings therein set forth.

## ARTICLE II

### Guarantee; Provision of Funds

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

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

## ARTICLE III

### Other Covenants

Section 3.01. The Guarantor shall take, or cause to be taken, all measures necessary on its part to enable the Borrower, promptly as required, to adjust the structure or levels of its tariffs in order to comply with its obligations under Section 5.02 of the Currency Pool Loan Agreement.

Section 3.02. The Guarantor shall, not later than July 30, 1996, present to its Congress for consideration a proposed Omnibus Electric Power Industry Code, which proposed legislation it shall certify as an administration bill.

Section 3.03. The Guarantor shall: (i) take all measures necessary on its part to continue to carry out the restructuring and privatization plans set out in the Energy Plan with due diligence and efficiency; (ii) prepare and furnish to the Bank, not later than June 30 in each Fiscal Year, commencing with Fiscal year 1996, a report, of such scope and in such detail as the Bank may reasonably request, on the progress achieved in the carrying out of said plans during the preceding twelve (12) month period, together with any revisions proposed to be introduced into said plans; and (iii) afford the Bank a reasonable opportunity to exchange views with the Guarantor on each such report.

Section 3.04. The Guarantor shall: (i) not later than October 1 in each Fiscal Year, commencing with Fiscal Year 1996, exchange views with the Bank and the Borrower on each power development program furnished to it by the Borrower pursuant to Section 4.06 (a) of the Currency Pool Loan Agreement; and (ii) thereafter promptly take all measures necessary on its part to enable the Borrower to carry out, in accordance with the provisions of Section 4.06 of the Currency Pool Loan Agreement, such power development program as agreed upon among the Guarantor, the Bank and the Borrower pursuant to said Section.

Section 3.05. The Guarantor shall: (i) not later than June 30, 1996, furnish to the Bank, for its review and comments, a report, of such scope and in such detail as the Bank may reasonably request, on the results of (A) an analysis by the Guarantor of currently existing inefficiencies in the load dispatch within its power sector, and (B) its proposed time-bound action plan for eliminating said inefficiencies, which plan shall include specific steps for the promotion of competition in the generation of power within its territory; and (ii) promptly following the completion of said review by the Bank, implement said action plan with due diligence and

efficiency, taking into account the Bank's views and comments thereon.

ARTICLE IV

Representative of the Guarantor; Addresses

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

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

For the Guarantor:

Department of Finance  
Executive Tower  
Bangko Sentral ng Pilipinas Complex  
Manila  
Republic of the Philippines

Cable address:	Telex:
SECFIN Manila	40268 CB CONF

For the Bank:

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

Cable address:	Telex:
INTBAFRAD Washington, D.C.	248423 (RCA), 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ Raul Ch. Rabe  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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

