Loan Agreement
(Leyte - Luzon Geothermal Project - NPC)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL POWER CORPORATION

Dated September 12, 1994
LOAN AGREEMENT

AGREEMENT, dated September 12, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank") and NATIONAL POWER CORPORATION (the "Borrower").

WHEREAS: (A) 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: (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;

WHEREAS: (C) The Borrower intends to contract from the Export-Import Bank of Japan a loan, in an amount equivalent to fifty-six million dollars ($56,000,000) to assist in financing part of the Project on terms and conditions set forth in an agreement (the "Export-Import Bank of Japan Agreement") to be entered into between the Export-Import Bank of Japan and the Borrower;

WHEREAS: (D) The Borrower intends to obtain from the Global Environment Trust Fund a grant, in an amount equivalent to fifteen million dollars ($15,000,000) to assist in financing part of the Project on terms and conditions set forth in an agreement (the "GET Grant Agreement") to be entered into between the Bank, acting as Trustee of the Global Environment Trust Fund and the Borrower;

WHEREAS: (E) The Borrower intends to contract from other external sources of funds (collectively, the Cofinanciers) loans, grants or credits in an aggregate amount equivalent to one hundred thirty-nine million dollars ($139,000,000) to assist in financing part of the Project on terms and conditions set forth in agreements (the "Cofinancing Agreements") to be entered into between the Cofinanciers and the Borrower;

WHEREAS: (F) The Bank has agreed to make a loan to the Philippine National Oil Company ("PNOC") (as hereinafter defined) to assist in the financing of activities related to the Project (the "PNOC-EDC Project"), upon the terms and conditions set forth in a loan agreement of even date herewith (the PNOC Loan Agreement) between the Bank and PNOC, a Project Agreement of even date herewith (the "PNOC-EDC Project Agreement") between the Bank and the
Philippine National Oil Company Energy Development Corporation ("PNOC-EDC") (as hereinafter defined) and a Guarantee Agreement of even date herewith (the "PNOC Guarantee Agreement") between the Guarantor and the Bank; and

WHEREAS: (G) 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) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (1) 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 (Charter No. RA 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) "Efficiency and Operational Improvement Study" means the study, carried out pursuant to the provisions of the Japanese Grant Agreement, dated July 9, 1992, between the Bank, acting as administrator of grant funds provided by Japan, and the Borrower, to strengthen the Borrower's organization, management and operations.

(c) "Energy Sector 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 such Plan was approved by the Office of the President of the Republic of the Philippines on November 17, 1992, and as revised by the Guarantor on January 12, 1993, and as said Plan may be revised from time to time in accordance with the provisions of Section 3.02 (b) (iii) of the Guarantee Agreement.

(d) "Fiscal Year" means the twelve (12)-month period corresponding to any of the Borrower'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.

(e) "Institutional Development Action Plan" means the action plan developed by the Borrower on the basis of the Efficiency and Operational Improvement Study, and agreed with the Bank, as the same may be amended from time to time pursuant to the provisions of Section 4.07 (c) of this Agreement.

(f) "MERALCO" means the Manila Electric Company, a company established and operating pursuant to the Guarantor's Corporation Law, dated March 1, 1906, as amended by the Guarantor's Corporation Code Batas Pambansa Blg. 68, dated May 1, 1980.

(g) "NPC-MERALCO Agreement" means the agreement to be entered into between NPC and MERALCO pursuant to the provisions of Section 7.01 (d) of this Agreement, as said agreement may be amended from time to time.

(h) "NPC-PNOC-EDC Agreement" means the agreement dated May 6, 1994, between the Borrower and PNOC-EDC, pursuant to which PNOC-EDC has undertaken to provide geothermally produced power to NPC necessary for the successful implementation of the Project, and NPC has undertaken to purchase and transmit said power in a manner consistent with the objectives of the Project and the PNOC-EDC Project, as said agreement may be amended from time to time.
(i) "PNOC" means the Philippine National Oil Company, a state-owned oil company established and operating pursuant to the Guarantor's Presidential Decree No. 334, dated November 9, 1973, as amended to the date of this Agreement, establishing PNOC as a state-owned national oil company duly authorized and operating under the Guarantor's laws and regulations, as said Decree may be amended from time to time.

(j) "PNOC-EDC" means the PNOC Energy Development Corporation, established and operating pursuant to the Guarantor's Corporation Code Batas Pambansa Blq. 68, dated May 1, 1980, and PNOC-EDC's Articles of Incorporation and By-Laws establishing PNOC-EDC as a wholly-owned subsidiary of PNOC duly authorized and operating under the Guarantor's laws and regulations, as said Code, Articles and By-Laws may be amended from time to time.

(k) "Power Development Plan" means the Borrower's five (5)-year investment program and related financing plan for the efficient expansion and development of its power generation and transmission systems.

(l) "Relocation and Compensation Plan" means the Borrower's plan, dated March 10, 1994, for relocating and compensating all persons to be displaced by the Project, or any part thereof, so as to ensure the restoration or enhancement of their livelihood and standard of living up to or beyond the levels enjoyed by them prior to the commencement of the carrying out of the Project.

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, various currencies that shall have an aggregate value equivalent to the amount of one hundred and thirteen million dollars ($113,000,000), 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. 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.

Section 2.03. The Closing Date shall be June 30, 1999, 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 semiannually on April 15 and October 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. 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 Sector 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.

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. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) (i) take all measures necessary to ensure that all persons displaced as a result of the Project shall be resettled in accordance with the Relocation and Compensation Plan acceptable to the Bank and designed to improve the living standards of such persons; (ii) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the Relocation and Compensation Plan referred to in subparagraph (i) hereof; (iii) 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 (ii) hereof, together with any additional measures proposed to further the progress in the carrying out of the plan referred to in subparagraph (i) hereof; and (iv) promptly take all such measures referred to in subparagraph (iii) hereof, taking into account the comments of the Bank thereon; and

(b) in order to ensure the proper carrying out of Part B (1) of the Project: (i) employ, not later than December 31, 1994 and in accordance with the provisions of Section 3.02 of this Agreement, consultants to assist in strengthening the capabilities of the environmental management and social engineering departments of the Borrower; and (ii) recruit, not later than December 31, 1994, and thereafter at all times maintain on its staff, at least five qualified and experienced professionals with expertise in law, environmental management and social sciences.
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. Except in the ordinary course of business, 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, powers, 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 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) thereafter, take all measures required on its part, promptly to carry out during the next following Fiscal Year, such Power Development Program for said year as shall have been agreed upon among the Guarantor, the Bank and the Borrower.

Section 4.07. Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall:

(a) carry out the Institutional Development Action Plan with due diligence and efficiency;

(b) prepare and furnish to the Bank, not later than December 31 in each Fiscal Year, a report, in form and substance satisfactory to the Bank, on the progress achieved in the carrying out of the Institutional Development Action Plan in respect of the preceding Fiscal Year, together with any revisions proposed to be introduced into the Institutional Development Action Plan; and

(c) exchange views with the Bank on each report prepared pursuant to paragraph (b) of this Section, and thereafter promptly introduce such revisions into the Institutional Development Action Plan as shall have been agreed between 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) 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 separate 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) Except as the Bank shall otherwise agree, the Borrower shall earn, for Fiscal Year after Fiscal Year 1993, an annual return of not less than eight percent (8%) of the average current net value of the Borrower's fixed assets in operation.
(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 paragraph (a) 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 paragraph (a) 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 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 payments in lieu of 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 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.
(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 for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

(i) 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.

(ii) 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.

(iii) 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.
(iv) 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 Sub-section (A) above.

(v) 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.

(vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve 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.

(vii) 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 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. Without limitation upon the provisions of Sections 5.02 and 5.03 of this Agreement, the Borrower shall take all measures necessary on its part to revise its tariff structure so as to introduce and charge tariffs designed to reduce peak demand for electric power supplied by the Borrower in a manner acceptable to the Bank.
Section 5.05. Without limitation upon the provisions of Sections 9.06 and 9.07 of the General Conditions, Section 4.06 of this Agreement, and this Article V, the Borrower shall prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Bank for information: (a) not later than April 30, July 31, October 31 and January 31 in each Fiscal Year, a report on the progress of the Project; and (b) not later than June 30 and December 31 in each Fiscal Year, its projections in respect of capital expenditures and of demand of power supplied by it, and its financial projections, all for the next following 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 or the NPC-PNOC Agreement or the NPC-MERALCO Agreement 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) The proceeds of the financing provided under the Cofinancing Agreements shall have failed to become available to the Borrower in accordance with the schedule of required availability agreed to between the Bank and the Borrower; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, 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 such agreement; 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.

(d) Either of the parties to the NPC-PNOC-EDC Agreement shall have failed to perform any of its respective obligations under the NPC-PNOC Agreement.

(e) The right of PNOC to withdraw any of the proceeds of the PNOC Loan under the PNOC Loan Agreement shall have been suspended by the Bank.

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

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

(b) The event specified in paragraph (c) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

(c) Any event specified in paragraph (d) or (e) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.
ARTICLE VII

Effective Date; Termination

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

(a) All conditions precedent to the effectiveness of the PNOC Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(b) All conditions precedent to the effectiveness of the Export-Import Bank of Japan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(c) All conditions precedent to the effectiveness of the GET Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

(d) The Borrower and MERALCO have entered into an agreement, whereby the Borrower shall undertake to supply, and MERALCO shall undertake to purchase, suitable quantities of electric power over a specific period of time, all on terms and conditions satisfactory to the Bank.

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
Telex: 248423 (RCA), 82987 (FTCC), 64145 (WUI) or 197688 (TRT).

For the Borrower:

National Power Corporation
Quezon Avenue
East Triangle, 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

/\ /
Callisto Madavo

By
Ath'g
Regional Vice President
East Asia and Pacific

NATIONAL POWER CORPORATION

/\ /
Amb. Raul Ch. Rabe

By
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and related installation for Part A (2) of the Project</td>
<td>33,100,000</td>
<td>50% of foreign expenditures, 50% of local expenditures (ex-factory cost) and 50% for installation services</td>
</tr>
<tr>
<td>(2) Goods and related installation for Part A (3) of the Project</td>
<td>20,900,000</td>
<td>37% of foreign expenditures, 37% of local expenditures (ex-factory cost) for goods and 37% for installation services</td>
</tr>
<tr>
<td>(3) Goods and related installation for Part A (4) of the Project</td>
<td>52,400,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(4) Consultants' services for Part A of the Project</td>
<td>1,400,000</td>
<td>50%</td>
</tr>
<tr>
<td>(5) Consultants' services for Part B (2) of the Project</td>
<td>5,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>113,000,000</td>
<td></td>
</tr>
</tbody>
</table>
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:

(a) No withdrawals 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 to exceed eleven million three hundred thousand dollars ($11,300,000), may be made on account of payments made for expenditures before that date but after October 1, 1993; and

(b) no withdrawals shall be made in respect of Categories (1), (2), and (3) until after the Bank shall have communicated to the Borrower its acceptance of evidence that the Borrower’s tariff structure has been revised in accordance with the provisions of Section 5.04 of 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 goods, works and services under contracts not exceeding two hundred thousand dollars ($200,000) equivalent, 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: (1) strengthen the efficiency of the energy sector; (2) assist in meeting the rapidly increasing demand for electrical power within the Guarantor’s Luzon Island by expanding and reinforcing the Borrower’s systems for the transmission of geothermally generated electric power; (3) strengthen the Borrower’s institutional capabilities and financial viability; and (4) promote private sector participation in geothermal power generation projects within the Guarantor’s territory.

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:

Carrying out of a program to interconnect the electrical power systems of Leyte and Luzon Islands with a high voltage direct current transmission network, consisting of:

(1) Construction of a 440 megawatt 350 kilovolt monopolar facility, consisting of two converter stations, one at Ormoc in the Leyte Island and the other at Naga in Luzon Island, and related remote electrode stations;

(2) Construction of 2 cable terminal stations, one at Cabacungan on Leyte Island and the other at Matnog on Luzon Island, and provision and installation of about 19 kilometers of high voltage direct current submarine cables across the San Bernadino Strait in order to link said terminal stations;

(3) Construction of: (a) about 442 kilometers of twin circuit high voltage direct current overhead transmission lines from the two converter stations to be constructed under the Project to their respective cable terminal stations constructed under the Project, and (b) electrode lines linking the 2 converter stations to be constructed under the Project to their respective remote electrode stations; and

(4) Rehabilitation of the transmission line between Naga and Tayabas in Luzon Island.
Part B:

(1) Carrying out of a program to strengthen the environmental and social engineering departments of the Borrower; and

(2) Preparation of designs for a hydroelectric power project at Casecnan in Luzon Island.

* * *

The Project is expected to be completed by June 30, 1998.
## SCHEDULE 3

**Amortization Schedule**

<table>
<thead>
<tr>
<th>Date</th>
<th>Payment Due</th>
<th>Payment of Principal (expressed in dollars)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 15, 1999</td>
<td></td>
<td>2,140,000</td>
</tr>
<tr>
<td>April 15, 2000</td>
<td></td>
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<td>2,300,000</td>
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<td>2,560,000</td>
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<td>October 15, 2002</td>
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<td>2,650,000</td>
</tr>
<tr>
<td>April 15, 2003</td>
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<td>2,750,000</td>
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<tr>
<td>October 15, 2003</td>
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<td>2,850,000</td>
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<td>2,950,000</td>
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<td>3,655,000</td>
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<td>3,790,000</td>
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<td>5,820,000</td>
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<tr>
<td>April 15, 2014</td>
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<td>6,030,000</td>
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</table>

*The figures in this column represent 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:

<table>
<thead>
<tr>
<th>Time of Prepayment</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:</td>
</tr>
<tr>
<td>Not more than three years</td>
<td>0.15</td>
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<tr>
<td>before maturity</td>
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</tr>
<tr>
<td>More than three years but not</td>
<td>0.30</td>
</tr>
<tr>
<td>more than six years before</td>
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<td>more than eleven years before</td>
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<td>More than eleven years but not</td>
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<td>maturity</td>
<td></td>
</tr>
<tr>
<td>More than sixteen years but not</td>
<td>0.90</td>
</tr>
<tr>
<td>more than eighteen years before</td>
<td></td>
</tr>
<tr>
<td>maturity</td>
<td></td>
</tr>
<tr>
<td>More than eighteen years before</td>
<td>1.00</td>
</tr>
<tr>
<td>maturity</td>
<td></td>
</tr>
</tbody>
</table>
SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines").

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured within the territory of the Guarantor may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.
Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:
   
   (a) With respect to each contract estimated to cost the equivalent of three million dollars ($3,000,000) or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.
   
   (b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.
   
   (c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of fifteen percent (15%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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.
CERTIFICATE

I hereby certify that the foregoing is a true copy of
the original in the archives of the International Bank
for Reconstruction and Development.

[Signature]
FOR SECRETARY