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Excellency,

I have the honor to confirm the following understanding recently reached between the Government of the Republic of Korea and the Government of the Republic of the Philippines concerning Korean loans to be extended to the Government of the Republic of the Philippines with a view to supporting its economic development and promoting economic cooperation between the two countries.

1. A loan in Korean won up to the amount of twenty eight billion two hundred and sixteen million won (V*j28,21 6,000,000) (hereinafter referred to as "the Loans") will be extended to the Government of the Republic of the Philippines in accordance with the relevant laws and regulations of the Republic of Korea by the Economic Development Cooperation Fund (hereinafter referred to as "the EDCF") to implement the following projects (hereinafter referred to as "the Projects") according to the following allocation for each project:

Name of Project

Loan Amount
(Million Won)

A.

Luzon Transmission Line and
Substation Project (Luzon Project)

11,322

B.

Second Misamis Oriental Telephone System
Expansion and Modernization Project
(Misamis Project)

8,249

C.

Mindanao Power Transmission Project
(Mindanao Project)

8,645

(1) The Provincial Government of Misamis Oriental is the project executing agency for the Misamis Project.

(2) The Loan for the Mindanao Project will be made in the form of cofinancing with Philippine Power Transmission Project Loans extended by the Asian Development Bank and the Organization for the Petroleum Exporting Countries.

2. (1) The Government of the Republic of the Philippines will entrust the National Power Corporation of the Republic of the Philippines and the Development Bank of the Philippines to act as the Borrower of the Loans on its behalf (hereinafter referred to as the "Borrower"). The National Power Corporation will act as the Borrower of the Loans for the Luzon Project and the Mindanao Project, and the Development Bank will act as the Borrower of the Loans for the Misamis Project.

(2) The Loans will be made available by three loan agreements (hereinafter referred to as "the Loan Agreements") to be concluded between the Borrower and the Export-Import Bank of Korea (hereinafter referred to as "the Bank"), as the Government Agency for the EDCF.

(3) The terms and conditions of the Loans, as well as the procedures for its utilization, will be governed by the Loan Agreements which will contain, inter alia, the following principles:

(a) The repayment period will be twenty (20) years, including the grace period of five (5) years;

(b) The rate of interest will be three and a half (3.5) percent per annum;

(c) The disbursement period will be thirty six (36) months for the Luzon Project, twenty four (24) months for the Misamis Project, and thirty six (36) months for the Mindanao Project, from the date of the signing of the Loan Agreements or such other period as the Borrower and the Bank may agree upon; and

(d) A guarantee for the Loans duly executed by the Government of the Republic of the Philippines shall be delivered to the Bank.

3. (1) The proceeds of the Loans will be used to cover payments to be made by the project executing agency of the Republic of the Philippines to suppliers, contractors and/or consultants of eligible source countries under such contracts as may be entered into between them for procurement of goods and services required for the implementation of the Projects.

(2) The scope of the eligible source countries mentioned in subparagraph (1) above will be agreed upon between the authorities concerned of the two Governments.

4. With regard to the shipping and marine insurance of goods procured under the Loans, the Government of the Republic of Korea and the Government of the Republic of the Philippines shall refrain from imposing any restrictions that may hinder fair and free competition between the shipping and marine insurance companies of the two countries.

5. The Government of the Republic of the Philippines shall endeavour to take necessary measures to facilitate the activities of the Korean nationals involved with the Projects and assist them in obtaining such services and conveniences as may be required to carry out their mission in the Republic of the Philippines.

6. The Government of the Republic of the Philippines shall take the necessary measures to ensure that interest and all other payments due to the Bank in respect to the Loans are made without deductions and withholding of any tax, levies or other imposts of any nature legally due in the Philippines.

7. The Borrower shall take necessary measures to ensure that the facilities constructed with the Loans be maintained and used for the best of the purposes prescribed in this agreement.

8. The two Governments shall, at the request of either party, consult each other on all matters concerning the implementation of the Loan Agreements and take the necessary measures to ensure the most proper and effective utilization of the Loans.

9. This agreement shall remain in force, unless otherwise agreed upon, for the period of repayment by the Borrower.

If the above provisions are acceptable to the Government of the Republic of the Philippines, I further have the honor to propose that the present Note and Your Excellency's Note in reply to that effect shall constitute an Agreement between the two Governments on this matter, which shall enter into force on the date of Your Excellency's Note in reply.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

(Sgd.)

Chani-Choon Lee
Ambassador Extraordinary
and Plenipotentiary of
the Republic of Korea
to the Philippines

RECORD OF DISCUSSION

In connection with the Exchange of Notes between, the Government of the Republic of Korea and the Government of the Republic of the Philippines concerning Korean EDCF loans (hereinafter referred to as "the Loans") to be extended to the Government of the Republic of the Philippines to implement the Luzon Transmission Line and Substation Project, Second Misamis Oriental. Telephone System Expansion and Modernization Project and Mindanao Power Transmission Project (hereinafter referred to as "the Projects"), the representatives of the two Governments wish to record the following:

1. With regard to sub-paragraph (2) of paragraph 3 of the Exchange of Notes concerning the scope of eligible source countries, the representative of the Government of the Republic of Korea stated that:

(1) The eligible source countries for the procurement of goods and services, required for the implementation of the Projects will be the Republic of Korea and the Republic of the Philippines;

(2) The suppliers of goods and/or services necessary for the implementation of the Project shall be selected through limited competitive bidding among Korean suppliers or through other methods of international shopping from Korean suppliers and direct contracting with a Korean supplier to be agreed upon between the Export-Import Bank of Korea (hereinafter referred to as "the Bank") and the Borrower where such limited competitive bidding is inapplicable or inappropriate; and

(3) The goods which contain materials imported from countries other than the eligible source countries shall be eligible for financing under the Loans, if the imported portion is less than fifty percent (50%) of the contract price of such goods. The detailed calculating method of the ratio of such imported portion will be prescribed in the Loan Agreement.

2. The representative of the Government of the Republic of Korea also stated the following:

(1) Should the funds available from the proceeds of the Loans be insufficient for the implementation of the Projects, the Borrower shall make arrangements promptly to provide such funds as shall be needed;

(2) In the event the Borrower fails to make payment of all or any portion of the principal of the Loans or any

other amount when due under the Loan Agreement, the unpaid amount shall bear an overdue Charge at the rate of two percent (2%) per annum above the interest rate specified in the Loan Agreement; and

(3) Other terms and conditions to be specified in the Loan Agreement shall be determined through negotiations between the Bank and the Borrower.

3. The representative of the Government of the Republic of the Philippines stated that it has no objection to the statements mentioned in paragraphs 1 and 2 above.

(Sgd.) (Sgd.)

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His Excellency
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