



REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG INGATANG-YAMAN
(BUREAU OF THE TREASURY)
INTRAMUROS, MAYNILA

Funding the Republic

Memorandum

To : **All Government Securities Eligible Dealers**

Date : December 13, 2006

Subject : National Power Corporation
5-year plus 1 day and 10-year Fixed Rate Bonds

Please be advised that the National Power Corporation will auction on December 15, 2006, a minimum of P6.0B five (5)-year plus 1 day and 10-year fixed rate bonds with issue date of December 19, 2006. Below are the indicative terms of the issue:

Issuer	National Power Corporation.
Issue	Fixed rate bonds with tenors of five (5) years and one (1) day and 10 years (the “Five (5)-year Fixed Rate Bonds” and “10-year Fixed Rate Bonds”, respectively) (collectively, the “Fixed Rate Bonds”).
Issue Amount	An aggregate nominal principal amount of P6.0B for the Fixed Rate Bonds. In the event of oversubscription, the Issuer reserves the right to increase the aggregate overall size of the Issue.
ISIN	5-Year plus 1 day – NPCB0511L024 10-Year – NPCB1016L014
Form of Issue	The Fixed Rate Bonds will be issued in scripless form and will be registered with the Registry of Scripless Securities (“RoSS”) of the Bureau of the Treasury (“BTr”). The bonds shall be negotiable and exempt from the registration requirement of the Securities Regulation Code.
Joint Issue Managers	Deutsche Bank AG (Manila Branch) and The Hongkong and Shanghai Banking Corporation Limited.
Registrar, and Fiscal and Paying Agent	Bureau of the Treasury.
Interest	The rate of interest determined through a Dutch Auction on the Auction Date to be participated by the GSEDs. Interest shall be payable on each semi-annual interest payment date, which shall be equivalent to the interest rate multiplied by outstanding nominal principal amount, and calculated on a 30/360-day count basis.
Status of the Bonds	<p>The Fixed Rate Bonds shall constitute the direct, unconditional, unsecured, unsubordinated and general obligations of the Issuer and shall at all times rank <i>pari passu</i> as to priority of payment with all of the Issuer’s other direct, unsecured, and unsubordinated Domestic Indebtedness.</p> <p>The payment obligations of the Republic under the Guarantee shall constitute irrevocable and unconditional obligations of the Republic and, when due, shall rank <i>pari passu</i> at all times in priority of payment with</p>

all other unsecured and unsubordinated Domestic Indebtedness of the Republic, and the full faith and credit of the Republic will be pledged for the performance of the Guarantee.

“Domestic Indebtedness” means any Indebtedness which is denominated or payable by its terms in the lawful currency of the Republic. “Indebtedness” means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed.

Purpose The Issuer shall use the proceeds of the Fixed Rate Bonds to finance its maturing debt obligations, capital expenditures, and for its general funding requirements.

Security The Republic of the Philippines will irrevocably and unconditionally guarantee the due and punctual payment of the Maturity Value including default interest in respect of the Fixed Rate Bonds, whether at maturity, by declaration of acceleration, or otherwise.

Without limiting the generality of the foregoing, and subject to the provisions of Republic Act No. 9136 as may be amended from time to time, the obligations of the Guarantor will not be affected by the transfer to, or assumption by, Power Sector Assets & Liabilities Management Corporation of the Issuer’s obligations under the Fixed Rate Bonds upon which the Guarantee is endorsed. The Guarantor covenants the complete performance of the obligations contained in the Fixed Rate Bonds and the Guarantee.

Issue Price At par.

Mode of Offer Dutch auction. The Issuer reserves the right to accept or reject any or all tenders or parts thereof.

Redemption The Fixed Rate Bonds will be redeemed at their principal amount on the Maturity Date.

Taxes Pursuant to the Issuer’s charter (RA 6395, as amended), the obligations represented by the Fixed Rate Bonds and all payments of any amount on the Fixed Rate Bonds with respect to the Issuer and the Guarantee with respect to the Republic shall be made free and clear of, and without withholding and deduction for, or on account of, any present or future taxes, levies, imposts, duties, assessments, or other charges of whatever nature, imposed, levied, collected, withheld, or assessed by or within the Republic or any department, agency, or other political subdivision or any taxing authority therein or thereof (“Philippine Taxes”) as would have been received by it had no such Philippine Taxes been required to be deducted or withheld.

Documentary Stamp Tax due on the original issuance of the Fixed Rate Bonds shall be for the account of the Issuer.

Trading gains on the Fixed-Rate Bonds shall be exempt from Philippine capital gains tax.

Potential Eligibilities Applications for the confirmation of the Fixed Rate Bonds as being eligible for the following:

- As security for the faithful performance of trust duties (from the BSP)
- As asset reserve for insurance companies (from the IC)

will be filed. The grant of such confirmations are subject to the discretion of the BSP and the IC, respectively.

Ownership of the Bond	Registration and transfer of title to the Fixed Rate Bonds shall be recorded in the RoSS maintained by the BTr. Investors appearing as registered owners in the RoSS shall be treated as the absolute owners of the Fixed Rate Bonds for all purposes. Prospective investors who are not Government Securities Eligible Dealers (“GSEDs”) but wish to register legal title under their own names in the RoSS are advised to make the necessary arrangements with a GSED and the BTr for the opening of the RoSS account
Auction Date	December 15, 2006, 1:00 P.M. via ADAPS
Issue Date	December 19, 2006
Maturity Date	December 20, 2011 and December 19, 2016 for the Five (5)-year Fixed Rate Bonds and the 10-year Fixed Rate Bonds, respectively

Please be guided accordingly.

(Sgd) OMAR T. CRUZ
Treasurer of the Philippines