Mine-mouth Power Plant Development Opportunities: Preliminary Information Memorandum
PNOEC EC
April 8, 2012

Transaction Advisor:
Important Notice

• This Preliminary Information Memorandum is issued and made available by PNOC Exploration Corporation (“PNOC EC”) through its Joint Venture Selection Committee (“JV-SC”) ahead of the competitive selection process for the proposed joint venture for the development and operation of a coal mine and power plant project with a capacity of between eighty (80) MW to one hundred twenty (120) MW using CFB in Isabela Province (“Proposed Project” or “Project”).

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THIS MEMORANDUM DOES NOT CONSTITUTE A SOLICITATION OF BIDS FOR ANY ASPECT OF THE PROPOSED PROJECTS. SOLICITATIONS OF BIDS AND BIDDING GUIDELINES WILL BE DISTRIBUTED SEPARATELY AT A LATER DATE
Partners are needed for Joint Ventures to develop two mine-mouth power projects in the Philippines

1. Isabela Province, Luzon
   - Lignite coal reserves sufficient to power a 100MW station
   - Various local approvals and environmental compliance gained
   - Partner needed to:
     - Develop the coal mine
     - Develop the power station
     - Operate the coal mine, power station and market electricity

2. Zamboanga Sibuay, Mindanao
   - Existing coal mine with high quality coal reserves
   - Suitable for blending with imported coal
   - Local bituminous coal reserves sufficient to power a 50-100 MW station
   - Urgent and growing need for power in the region
   - Partner needed to:
     - Develop the power station
     - Operate the power station and market the electricity
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Introduction

- This Preliminary Information Memorandum is issued and available by PNOC Exploration Corporation (“PNOC EC”) through its Joint Venture Selection Committee (“JV-SC”) to provide preliminary information on the Proposed Joint Venture for the development and operation of a coal mine and power plant project in Isabela Province and the development and operation of a power plant project in Zamboanga Sibugay Province (jointly the “Proposed Projects” or “Projects”).

- This Memorandum summarizes the key details of the coal mine and power plant projects, including the current market environment for power plants in the Philippines. It also summarizes the intended partner selection process and the regulatory/investment framework.
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PNOC EC is the Government Owned and Controlled Corporation seeking private sector partners for the Projects

- PNOC Exploration Corporation (PNOC EC) is the upstream oil, gas and coal subsidiary of the state-owned Philippine National Oil Company (PNOC)
- PNOC EC was incorporated as a PNOC subsidiary and registered with the Philippine Securities and Exchange Commission on April 20, 1976
- PNOC EC’s shares of stock are 99.79% owned by the Philippine government through PNOC, with the remaining 0.21% held by public shareholders
- PNOC EC currently holds interests in seven petroleum Service Contracts
- PNOC holds Coal Operating Contracts in various parts of the country, namely COC 41 in Zamboanga Sibugay, COC 122 and 141 in Isabela and COC 140 in Surigao del Sur
- PNOC EC also operates coal terminals in Zamboanga Sibugay, Cebu, Batangas, and Tondo, that serve as its handling facilities for local as well as imported coal that the Company supplies to power plants and cement factories in the Philippines
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Isabela
Sibuguey
Isabela Coal Mine and Power Plant Project

- The Isabela Coal Mine and Power Plant Project is envisaged as an open-cast coal mine and mine-mouth power plant employing circulating fluidized bed (CFB) combustion technology.

- PNOC EC is the sole holder of Coal Operating Contract (COC) no. 122 over an area situated in the Municipalities of Benito Soliven, Naguilian and Cauayan within Isabela Province.
  - There are three mine areas (indicated in blue regions in figure) with total reserves of Lignite coal estimated at 28 million metric tonnes (MMT).

- Environmental Compliance Certificate (ECC) from the Department of Environment and Natural Resources (DENR) for:
  - A coal mine with annual mine production of 960,000 MT utilizing open-cast mining method.
  - A 100MW coal-fired thermal power plant using the CFB boiler system.

- Local Government Unit (LGU) endorsements have been received from the City of Cauayan (May 2012) and the four barangays of Cabugao, Casalatan, San Pablo and Sinippil (all Jan 2011).

- The power station is expected to be established in Sitio Buduan, Barangay San Pablo in Cauayan City.

- The DOE has given permission to proceed with a Grid Impact Study.

Source: PNOC EC

Map of the locality of COC 122 in Isabela province
Isabela Coal Mine Project

- Raw Isabela coal is of low rank with a heating value of 4,000 BTU/lb with a total moisture content 55% as mined.
- Based on ASTM Standards, the coal is classified as Lignite-A.
- Studies have shown that the coal is free-draining.
Isabela Power Plant Project

PNOC EC has identified two options for the potential site of the power plant:

• Plant Site A (near river, ◆) is directly adjacent to the Cagayan River in Sitio Buduan, Barangay San Pablo, Cauayan City.

• Plant Site B (near mine site, ■) is within the vicinity of Barangay Cabugao, Cauayan City.
## Isabela Power Plant Project

### Indicative Design Characteristics

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Plant Net Output</strong></td>
<td>100 MW MCR (3 x 35 MW, 2 x 50 MW or single 100 MW)</td>
</tr>
<tr>
<td><strong>Heat rate</strong></td>
<td>11,550 GJ/GWh (HHV)</td>
</tr>
<tr>
<td><strong>Availability</strong></td>
<td>89% (expected forced outage rate 8%)</td>
</tr>
<tr>
<td><strong>Maximum daily coal consumption</strong></td>
<td>2,850 tonnes per day</td>
</tr>
<tr>
<td><strong>Annual coal consumption (Load Factor 0.79)</strong></td>
<td>825,000 tonnes per year</td>
</tr>
</tbody>
</table>

*Source: Advisor estimates*
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The Sibuguey Power Plant Project, a mine-mouth power plant project to employ the CFB combustion technology, is envisioned to supply the power requirement in the Mindanao grid including PNOC EC’s coal mining operations under COC 41 in Zamboanga Sibugay.

PNOC EC has identified two options for the potential site of the power plant:

- Site 1 is within Brgy. Little Baguio, municipality of Imelda and Brgy. Poblacion, municipality of Diplahan.
- Site 2 is within Brgy. Poblacion, municipality of Malangas, adjacent to PNOC EC’s coal yard.

PNOC EC’s production of sub-bituminous to bituminous coal from COC41 is a potential fuel source for the Project. Comprising of six coal blocks, each having an area of about 1,000 hectares, there are existing production, development and exploration areas within the COC, namely:

- Integrated Little Baguio Coal Project is located in Little Baguio, Imelda and Poblacion, Diplahan with about 150 hectares producing coal of about 100,000 MT/year.
- Lumbog Coal Project is in the development stage which is located in Barangays Lumbog and Sta. Barbara, Imelda with an estimated resource of 4.0MMT.
- Malongon Coal and Lower Butong Coal Projects are located further south of Lumbog Coal Project and Barangay Lower Butong, Diplahan respectively. Both are under exploration phase.

Local supplies may be supplemented with coal imported from outside of COC41.
## Sibuguey Power Plant Project

### Indicative Design Characteristics

<table>
<thead>
<tr>
<th></th>
<th>50MW MCR (2 x 25 MW or single 50 MW)</th>
<th>100 MW MCR (2 x 50 MW or single 100 MW)</th>
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</thead>
<tbody>
<tr>
<td><strong>Power Plant Net Output</strong></td>
<td>50MW MCR (2 x 25 MW or single 50 MW)</td>
<td>100 MW MCR (2 x 50 MW or single 100 MW)</td>
</tr>
<tr>
<td><strong>Heat rate</strong></td>
<td>10,300 GJ/GWh (HHV)</td>
<td>10,300 GJ/GWh (HHV)</td>
</tr>
<tr>
<td><strong>Availability</strong></td>
<td>89% (expected forced outage rate 8%)</td>
<td>89% (expected forced outage rate 8%)</td>
</tr>
<tr>
<td><strong>Maximum daily coal</strong></td>
<td>550 tonnes per day</td>
<td>1,080 tonnes per day</td>
</tr>
<tr>
<td><strong>consumption</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual coal consumption</strong></td>
<td>160,000 tonnes per year</td>
<td>315,000 tonnes per year</td>
</tr>
<tr>
<td><strong>(Load Factor 0.79)</strong></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Advisor estimates
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Isabela & the WESM
Sibuguey & the Mindanao grid
Nationally, historical demand growth has been strong, although per capita consumption remains less than other developing countries in South East Asia.
The Philippine power sector reflects a lengthy period of restructuring focused on unbundling NPC and introducing competition to generation.

The Electric Power Industry Act of 2001 (Republic Act 9136 or EPIRA) brought about the restructuring of the electric power industry. It divided the industry into four sectors: generation; transmission; distribution, and supply.

The EPIRA made it clear that the generation sector was not required to secure a franchise, hence it was no longer considered a public utility operation and would no longer be subject to nationality restrictions. Foreign investors are allowed and even encouraged to actively participate in the Philippine electric power industry.

The implementation of the EPIRA led to:

- formation of the Power Sector Assets & Liabilities Management Corporation (PSALM) in 2001 with the remit that included the privatisation of National Power Corporation's (NPC's) generation / transmission assets;
- establishment of the Wholesale Electricity Spot Market (WESM) in 2006 to permit IPPs and PSALM to offer energy into the spot market;
- award of the 50-year franchise to operate and maintain the transmission network to NGCP in 2008; and
- declaration of Retail Competition and Open Access (RCOA) in 2012, which is due to permit licensed Retail Electric Suppliers (RES) [not shown in figure] to supply electricity to contestable customers from mid 2013.
The WESM shares many of its design features with other markets in the region.

**Gross Pool**
- Each generator submits offers for both price and quantity for all energy for central scheduling and dispatch by the Market Operator (currently PEMC).

**Net Settlement**
- Bilateral contract quantities (BCQs) transacted in the pool can be settled outside the market.
- The Market Operator charges line rental on the BCQs to reflect the losses/congestion.

**Locational Marginal Price**
- Marginal price is computed at each Market Network Node to reflect transmission loss and/or congestion.
- Generator bids are adjusted to reflect the losses of supplying energy to their nearest Transmission Network Node.

**Ex-Ante and Ex-Post Pricing Scheme**
- Ex-Ante (forecast) quantities are settled at the ex-ante price and differences between ex-post and ex-ante quantities arising through real-time dispatch are settled at ex-post prices.

**Ancillary Services**
- Ancillary Services are currently contracted by the System Operator (NGCP) outside of the market, although there are long-standing plans for the introduction of reserves trading into WESM.

Source: WESM Rules
In 2006 the WESM commenced operations in the main island grid of Luzon and it has since been expanded to the Visayas in 2006

- The Philippines has three main electrical grids (Luzon, the Visayas and Mindanao) and thousands of other, smaller, relatively isolated islands
  - more than 70% of national demand is in Luzon, mostly in the Metro Manila region
  - Luzon and Visayas are connected by a 440MW HVDC link, which gives Luzon access to Visayas’s geothermal resources and provides Visayas peaking capacity when necessary
- The Wholesale Electricity Spot Market (WESM) commenced commercial operations on 26 June 2006 and it was expanded to include the Visayas on 26 December 2010
- In January 2013 the Department of Energy (DOE) directed the Philippine Electricity Market Corporation (PEMC), current market operator of WESM, to develop and implement an Interim Mindanao Electricity Market (IMEM) as a measure to immediately address the power supply situation in Mindanao

Source: DOE (Department Circular No. 2013-01-0001)
Since its foundation, the WESM has been a volatile, event-driven market.

**Average monthly WESM spot settlement price**

Peso/kWh

- Transformer breakdown and San Jose substation congestion
- Gas curtailments and low hydro
- Plant forced maintenance outages and HVDC link maintenance
- Gas curtailments and plant outages
- Low hydro
- Plant outages and coal limitations
- Plant outages

Note: * Buying price (with 100% surplus)
Source: PEMC (Monthly Summary Reports); TLG analysis
Luzon’s supply-demand balance has swung from shortage in the 1990s to over-supply in the early 2000s, with the system now approaching tighter levels of supply.

**Supply and demand in Luzon (1986-2012)**

- **Demand + Required Reserve**: 4.5%
- **Peak demand**: 4.6
- **Dependable capacity**: 4.6

Note: * Philippine Grid Code previously mandated 23.4% reserve be available, since 2011 it has required 4% for frequency regulation, a quantity equal to the most-loaded unit for contingency reserve and a quantity equal to the second most-loaded unit for dispatchable reserve.

Source: DOE
The DOE predict that peak demand growth of c.4.1% p.a. until 2030 will mean that c.1,500 MW of additional capacity is needed in Luzon by 2018.

Department of Energy’s supply-demand outlook in Luzon

Source: DOE (Draft 2012 PDP, Dec 2012)
Amongst the closest Electric Cooperatives to the proposed site in Isabela are ISELCO I, an “A” category EC, and ISELCO II, which was “B” category

| Key metrics for ISELCO I and II compared to Luzon EC average and MERALCO | For comparison |
|---|---|---|---|
| | ISELCO I | ISELCO II | Luzon EC average* | MERALCO |
| Annual sales (2011 GWh) | 222 | 108 | 112 | 30,314 |
| Proportion by customer type** | | | | |
| - Residential | 48% | 56% | n/a | 31% |
| - Commercial | 23% | 22% | n/a | 39% |
| - Industrial | 23% | 18% | n/a | 30% |
| - Other (inc. streetlights) | 6% | 4% | n/a | <1% |
| Peak demand (2011 MW) | 50.6 | 29.4 | 24.7 | 5,283 |
| Historical sales growth (%CAGR, 2004-11) | 4.1% | 4.1% | 4.6% | 3.0% |
| Planned sales growth (%CAGR, 2011-19) | 3.5% | 5.9% | n/a | 3.5%^ |
| Load factor (2011) | 58.0% | 50.6% | 58.9% | 65.5% |
| WESM membership | Indirect (since Sep-12) | Indirect (since May-12) | n/a | Direct |
| NEA categorisation (2011) | A | n/a (under CDA) | n/a | n/a |
| System loss (2011) | 13.57% | 16.70% | 11.98% | 7.35% |
| Collection efficiency (2011) | 90% | 87% | 95% | c.97% |
| Average purchased power rate (2011 P/kWh) | 6.34 | 6.03 | 6.13 | 5.12 |

Note: * Excluding ECs under Cooperative Development Authority (CDA) and under NEA close monitoring; ** Estimates for ISELCO I from 2010 DDP, ISELCO II from 2011 Capital Expenditure Program (ERC case no. 2012-014RC), MERALCO 2011 actual; ^ Long-term forecast in MERALCO DDP 2011 (ERC case no. 2011-098RC) Source: NEA; DOE; ERC; MERALCO; TLG analysis
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The Mindanao grid continues to experience issues with energy supply security and reliability

- Mindanao is currently not yet connected with the Luzon-Visayas grids
- The Mindanao grid continues to experience issues with energy supply security and reliability
- As a result of generation deficiency or insufficient reserve, NGCP issued 11 red alerts and one yellow alert during the first eight months of 2012
  - red alerts are issued when “the Contingency Reserve is zero, a generation deficiency exists, or there is Critical Loading or Imminent Overloading of transmission lines or equipment”
- A high proportion of installed capacity is often unavailable (37% in the day illustrated to the right)
Supply continues to be dominated by hydro from Agus-Pulangi, although even in a ‘normal’ year this fluctuates significantly and reserve levels are low.

Mindanao power supply-demand situation
(Jan-Oct 2012)

Source: DOE (October 2012)
Amongst the closest Electric Cooperatives to the proposed site in Sibuguey are ZAMSURECO I / II and ZAMCELCO.

### Key metrics for Mindanao ECs and Davao Light

<table>
<thead>
<tr>
<th></th>
<th>ZAMSURECO I</th>
<th>ZAMSURECO II</th>
<th>ZAMCELCO</th>
<th>Mindanao EC average</th>
<th>Davao Light</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual sales (2011 GWh)</strong></td>
<td>150</td>
<td>84</td>
<td>428</td>
<td>140</td>
<td>1,583</td>
</tr>
<tr>
<td><strong>Proportion by customer type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Residential</td>
<td>46%</td>
<td>49%</td>
<td>37%</td>
<td>n/a</td>
<td>33%</td>
</tr>
<tr>
<td>- Commercial</td>
<td>25%</td>
<td>14%</td>
<td>27%</td>
<td>n/a</td>
<td>13%</td>
</tr>
<tr>
<td>- Industrial</td>
<td>13%</td>
<td>21%</td>
<td>16%</td>
<td>n/a</td>
<td>52%</td>
</tr>
<tr>
<td>- Other (incl. streetlights)</td>
<td>16%</td>
<td>16%</td>
<td>20%</td>
<td>n/a</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Peak demand (2011 MW)</strong></td>
<td>33</td>
<td>21</td>
<td>101</td>
<td>30</td>
<td>288</td>
</tr>
<tr>
<td><strong>Historical sales growth (%CAGR, 2004-11)</strong></td>
<td>4.5%</td>
<td>4.3%</td>
<td>1.7%</td>
<td>4.1%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Planned sales growth (%CAGR, 2011-19)</strong></td>
<td>57.8%</td>
<td>57.6%</td>
<td>58.3%</td>
<td>52.8%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Load factor (2011)</strong></td>
<td>57.8%</td>
<td>57.6%</td>
<td>58.3%</td>
<td>52.8%</td>
<td>62.7%</td>
</tr>
<tr>
<td><strong>WESM membership</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>NEA categorisation (2011)</strong></td>
<td>A+</td>
<td>D</td>
<td>B</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>System loss (2011)</strong></td>
<td>11.9%</td>
<td>22.5%</td>
<td>16.9%</td>
<td>11.6%</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Collection efficiency (2011)</strong></td>
<td>101%</td>
<td>84%</td>
<td>97%</td>
<td>97%</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Average purchased power rate (2011 P/kWh)</strong></td>
<td>3.94</td>
<td>4.01</td>
<td>3.93</td>
<td>4.17</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: DOE DDP (2010 – 2019); AboitizPower; NEA
The DOE predict that peak demand growth of c.4.8% p.a. until 2030 will mean that c.300 MW of additional capacity is needed in Mindanao by 2018.

Department of Energy's supply-demand outlook in Mindanao

- The DOE estimate the 2012 shortfall to be 150MW, although there may be higher levels suppressed demand.

Source: DOE (Draft 2012 PDP, Dec 2012)
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<td>b</td>
<td>Outline of the selection process</td>
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<tr>
<td>c</td>
<td>Information available to bidders</td>
</tr>
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</table>
Legal basis of selection process

• As PNOC EC is a Government Owned and Controlled Corporation (GOCC), the international competitive bidding for the Projects will be conducted pursuant to the “Competitive Selection” mode under the Guidelines and Procedures for Entering into Joint Venture (JV) Agreements between Government and Private Entities (JV Guidelines) issued by the National Economic and Development Authority (NEDA) consistent with the Joint Venture Guidelines (Executive Order 423).

• The PNOC EC Board of Directors has given its approval to undertake the development of the Project in partnership with a strategic partner from the private sector and that the selection process shall be consistent with the Competitive Selection Mode of the Guidelines.

• In compliance with the JV Guidelines, the Joint Venture Selection Committee (JV-SC) created by order of the PNOC EC Board of Directors shall administer the process of pre-qualification and selecting partner/s for the Projects.
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Outline of the bidding process

- The selection process for the Projects will be conducted in an open and transparent manner following the two-envelope/two-stage system for soliciting proposals under the NEDA JV Guidelines.

- The general procedure for the bidding process is outlined below:
  - Invitation & Pre-qualification
  - Preparation & Submission of Bid Proposals by Eligible Bidders
  - Post Bid Evaluation
  - Notice of Award & Award
Eligibility Requirements – Technical Capability

Prospective Bidder and each of its Participants must submit a statement under oath and documentary proofs in support of such statement, all of which must be acceptable to PNOC EC, to establish the following capabilities in Project Development, Project Management, Power Plant Operations and, for the Isabela Project only, Coal Mining:

**Project Development Capability**

- the Prospective Bidder or one of its Participants (i) has developed a power plant from inception to financial close, (ii) is in the process of developing a power plant and has at least reached the stage of being in negotiations with banks or financial institutions, or (iii) tried to develop a power plant from inception to near financial close but failed to secure financing.

- The power plant facility subject to the project development must have had a capacity of at least 10MW in a single facility which must be connected to a Grid (i.e., grid is an electricity system where more than one operating power plant is connected) through which it supplies electricity, and such project development must have occurred after 1993.

- In case of failure to meet the above criteria, the Prospective Bidder or one of its Participants has entered into an agreement with at least two people who have had a central role in power station development and must submit letters from each of these people outlining both their respective experience and provisional agreements to enter into employment or contract with the Prospective Bidder should it be declared the Winning Bidder.

**Project Management Capability**

- The Prospective Bidder or one of its Participants has managed and overseen the preparation of detailed engineering design, equipment procurement, construction, testing and commissioning of a power plant up to having the power plant commissioned and declared for commercial operation.

- The power plant facility developed, constructed and commissioned must have a capacity of at least 10MW in a single facility which must be connected to a Grid through which it supplies electricity, and such project management must have occurred after 1993.

- In case of failure to meet the above criteria, the Prospective Bidder must submit a plan on how it intends to manage and oversee the preparation of detailed engineering design, equipment procurement, construction, testing and commissioning of a power plant up to having the power plant commissioned and declared for commercial operation.
Eligibility Requirements – Technical Capability (…continued)

Prospective Bidder and each of its Participants must submit a statement under oath and documentary proofs in support of such statement, all of which must be acceptable to PNOC EC, to establish the following capabilities in Project Development, Project Management, Power Plant Operations and, for the Isabela Project only, Coal Mining:

**Power Plant Capability**

- The Prospective Bidder or one of its Participants is (i) a coal-fired thermal power plant owner, (ii) current coal-fired thermal power plant operator, or (iii) has experience in operating a coal-fired thermal power plant.
- The power plant facility owned or operated must be a coal-fired thermal power plant with an aggregate capacity of at least 10MW in a single facility which must be connected to a Grid through which it supplies electricity.
- In case of failure to meet the above criteria, the Prospective Bidder must submit a plan on how it intends to operate and maintain the power plant in accordance with existing industry standards, Philippine Law, including the Philippine Grid Code and Philippine Distribution Code.

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**Coal Mining Capability (Isabela Project Only)**

- The Prospective Bidder or one of its Participants is (i) an owner of a coalmine, (ii) a current operator of a coalmine, or (iii) has experience in operating a coalmine.
- Coal mine shall refer to mean shall refer to the strip method of mining for coal.
- In case of failure to meet the above criteria, the Prospective Bidder must submit a plan on how it intends to operate and maintain the coal mine of the Proposed Project in accordance with existing industry standards and Philippine Law.

Note that the Prospective Bidder or one of its Participants can meet any of the technical eligibility requirements by causing an Affiliate (of the Prospective Bidder or Participant) which Affiliate has the required experience.
Eligibility Requirements – Financial Capability

The Prospective Bidder and each of its Participants must submit a statement under oath and documentary proofs in support of such statement, all of which must be acceptable to PNOC EC.
Other Eligibility Requirements

- Constitutive Documents
- Certification under oath issued by a duly authorized officer of the Prospective Bidder and each of its Participants as to the designation and authority of the authorized representative/s
- Confidentiality Agreement and Undertaking under oath (if not previously submitted)
- Certified True Copies of the Prospective Bidder and each of its Participants of the:
  - latest and most current copy of the General Information Sheet of the Prospective Bidder as received by the SEC, or its equivalent for non-Philippine resident Prospective Bidders; and
  - latest Audited Annual Financial Statements
- Tax Clearance and other documents as required by:
  - Executive Order No. 398 entitled “Directing Timely and Complete Payment of Taxes as a Precondition for Entering Into, and as a Continuing Obligation in Contracts with the Government, Its Departments, Agencies and Instrumentalities” dated January 12, 2005;
  - Revenue Regulations No. 3-2005 of the Bureau of Internal Revenue with subject “Rule and Regulations Implementing Executive Order No. 398 (EO 398) and Requiring Directing Timely and Complete Payment of Taxes as a Precondition for Entering into, and as a Continuing Obligation in Contracts with the Government”; and
  - Revenue Memorandum Circular No. 16-2005 of the Bureau of Internal Revenue with subject “Clarification to Revenue Regulations No. 3-2005 Implementing Executive Order 398”.
- A letter under oath appointing a natural person having an address in Metro Manila to act as the authorized representative of the Prospective Bidder and all of its Participants authorizing such person to receive all communication, notices and legal process on behalf of the Prospective Bidder and all of its Participants and an acceptance letter under oath by such authorized representative
- Declaration that it is not disqualified or prohibited from participating in any bidding of a Governmental Authority or entering into any kind of contract with a Governmental Authority and that it shall at all times fully comply with Philippine Law
- Submission naming Issuing/Confirming Bank(s) for the issuance of its Proposal Security
- Authority to Verify with the Bureau of Internal Revenue and any other appropriate Governmental Authority
### Tender Process and Participation Fee Schedule

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Tender Process Fee</strong></td>
<td></td>
</tr>
<tr>
<td>• The payment of the Tender Process Fee and submission of the Confidentiality Agreement and Undertaking are pre-requisites for the receipt of the Tender Documents and participation in the Process, including the conduct of due diligence, submission of Eligibility Requirements by an Prospective Bidder, attendance at the Pre-bid Conference and submission of a Proposal by an Eligible Bidder.</td>
<td>*TBA</td>
</tr>
<tr>
<td><strong>2 Participation Fee</strong></td>
<td></td>
</tr>
<tr>
<td>• The submission of a Proposal by an Eligible Bidder is conditioned partially on the payment of the Participation Fee on or before the Participation Fee Deadline.</td>
<td>*TBA</td>
</tr>
</tbody>
</table>

Both the Tender Process Fee and Participation Fee are non-refundable

*TBA – to be announced
## Indicative selection process timeline (as of end April 2013)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publication of Invitation to Express Interest, Pre-qualify and Bid</td>
<td>May 6th 2013</td>
</tr>
<tr>
<td>Proposal Submission Deadline</td>
<td>August 5th 2013</td>
</tr>
<tr>
<td>Opening and Evaluation of First Proposal Envelopes (Technical Proposal) - First Part</td>
<td>Immediately after the Proposal Submission Deadline</td>
</tr>
<tr>
<td>Opening and Evaluation of Second Proposal Envelopes (Financial Bid) of Qualifying Bidders</td>
<td>August 19th 2013</td>
</tr>
<tr>
<td>PNOEC post-Proposal Submission evaluation and verification</td>
<td>Within thirty (30) Business Days from Notification of Highest Bidder</td>
</tr>
<tr>
<td>PNOEC delivery of Award Notice</td>
<td>After PNOEC EC's post-Proposal Submission evaluation and verification</td>
</tr>
<tr>
<td>PNOEC declaration of Highest Bidder as Winning Bidder</td>
<td>After PNOEC EC's delivery of the Award Notice</td>
</tr>
<tr>
<td>PNOEC issuance of Award Notice</td>
<td>After compliance with the requirements of the Final Joint Venture Agreement</td>
</tr>
</tbody>
</table>
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a  Legal basis
b  Outline of the selection process
c  Information available to bidders
Information available to bidders

• As part of this Process, the representatives of Prospective Bidders and Eligible Bidders will – upon accepting the Due Diligence Procedures – be provided with access to the relevant information contained in a physical data room and may be provided with electronic copies of a substantial amount of the material contained in the physical data room.

• The physical data room contains documents and relevant background information relating to the Projects, including but not limited to the following documents:
  – Technical Reports and Pre-Feasibility Studies
  – Competent Person Reports
  – Permits and LGU Endorsements
  – Coal Operating Contract (COC 122 for Isabela)
  – Topographic and Drill Hole Maps (for Isabela)

• Site visits to the suggested sites in Isabela and Sibuguey where the Projects are to be located.

• Prospective Bidders or Eligible Bidders may request additional information in relation to the Proposed Project.

The JV-SC reserves the right to defer answering any question or to decline to answer any question or provide any supplemental information which they consider inappropriate.
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Investment Framework: Taxation

Corporate Income Tax
- Except those already subject to final taxes, the taxable income of the Project Company, in case it is a domestic stock corporation, may be subject to the regular corporate income tax (RCIT) or the minimum corporate income tax (MCIT).
- An RCIT of 30% is imposed upon the taxable income derived by a domestic corporation from all sources, originating from Philippines or abroad. On the other hand, an MCIT of 2% of the gross income is imposed whenever the MCIT is greater than the RCIT for the taxable year. A domestic corporation only becomes subject to MCIT beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations.

Value-Added Tax (VAT)
- VAT is a form of sales tax levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines. It is an indirect tax, which may be shifted on to the buyer, transferee or lessee of goods, properties or services.
- VAT is levied at a rate of twelve percent (12%) of the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged.
- Sales of generated power by a generation company is zero-rated for the purpose of imposition of VAT. Therefore, the income derived by the JV Company from the electricity generated shall be subjected to zero percent VAT.

Local Business Taxes
- Consistent with the principle of local autonomy of Local Government Units (LGUs) under the 1986 Philippines Constitution, LGUs have the authority under the Local Government Code (LGC) to levy taxes, fees and charges within their respective political subdivisions.
- LGUs shall have a share based on the preceding fiscal year from the proceeds derived by any government agency, government-owned or controlled corporation, or private corporation engaged in the utilisation and development of the national wealth based on the following formula whichever will produce a higher share for the LGU:
  - One percent of the gross sales or receipts of the preceding calendar year; or
  - Forty percent of the mining taxes, royalties, forestry and fishery charges and such other taxes, fees or charges, including related surcharges, interests, or fines the government agency or
Foreign Exchange

- Foreign exchange may be bought and sold freely by foreign corporations operating in the Philippines and may be brought into or sent out of the country with few restrictions.

- Foreign investments and profits can also be repatriated in foreign exchange with minimal control from the Bangko Sentral ng Pilipinas (BSP or Central Bank of the Philippines). Registration of foreign investments with the BSP requires proof of inward remittance of the foreign exchange used to fund the investment and has now become essentially an automatic process after the necessary corporate registration has been completed by the Philippine Securities and Exchange Commission. Should the banking system be also used for the payment of royalties, the related royalty contract should be registered with the Technology Transfer Registry of the Bureau of Patents, Trademarks, and Technology Transfer.

Foreign Ownership and Management

- While ownership of a power plant is not subject to nationality requirements, ownership of the land is subject to Constitutional limitations.
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The EPIRA brought about the restructuring of the electric power industry. It divided the industry into four sectors: generation, distribution, transmission and supply. The EPIRA made it clear that the generation sector was not required to secure a franchise, hence it was no longer considered a public utility operation. Therefore, it would no longer be subject to nationality restrictions. Foreign investors are allowed and even encouraged to actively participate in the Philippine electric power industry.

The fundamental law of the land particularly recognizes coal as natural resource that is subject to the control of the Government. Article XII, Section 2 of the Constitution states, “All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration, development, and utilization of natural resources shall be under the full control and supervision of the State. The State may directly undertake such activities, or it may enter into co-production, joint venture, or production-sharing agreements with Filipino citizens, or corporations or associations at least sixty per centum of whose capital is owned by such citizens. Such agreements may be for a period not exceeding twenty-five years, and under such terms and conditions as may be provided by law. xxx xxx xxx.” (emphasis supplied)

The Constitution requires that the exploration, development and utilization of natural resources be subject to control and supervision by the State.

Under E.O. 98 or the Ninth Regular Foreign Investment Negative List dated 29 October 2012, which enumerates investment areas/activities which may be opened to foreign investors, foreign equity of up to forty percent (40%) is allowed for the exploration, development and utilization of natural resources pursuant to the above constitutional provision. Full foreign participation may be allowed through financial or technical assistance agreements with the President.

The Supreme Court as well as the Department of Justice in its have also shed light on the exploration, development and utilization of natural resources as limited under the Constitution in light of power generation. It was held that while the exploration, development and utilization of natural resources is limited to Filipino citizens or corporations or associations of which at least sixty per centum of the capital is owned by Filipino citizens, the resources after having been extracted from the source may be utilized by qualified foreign nationals (in industries such as power generation), since they no longer form part of the natural resources and can be subject to the commerce of man. It is the non-power components and structures in relation to these natural resources (such as dams, reservoirs, etc.) that must be retained and maintained by the government.
• With the intent to systematize and incentivize the exploration, development, exploitation, production and utilization of coal P.D. 972 codified the guidelines on entering into Coal Operating Contracts with the Government. This decree paved the way for the increased use of Philippine coal as a viable energy source subject to laid out parameters meant to be beneficial for both coal operators and the Government through the Energy Development Board (now Department of Energy).

• Under this decree, the exploration, development and production of coal can is undertaken by the Government through the Department of Energy, as successor of the Energy Development Board. The Government, however, is empowered to execute coal operating contracts for the active exploration and exploitation of coal resources, subject to the approval of the President.

• Recognizing the value in further encouraging private sector participation in coal development, P.D. 1174 improved the incentives provided for in P.D. 972 by raising the amount of allowable reimbursement for operating expenses, providing for special allowances, granting of timber rights, water rights and access to government to reserved lands of the government.

• The following are some regulations and guidelines pertaining to coal:
  
  - **Guidelines for Coal Operations in the Philippines (BED Circular No. 81-11-10)**
    This Circular issued on November 26, 1981, sets out the rules and regulations to implement the provision of P.D. 972 as amended by P.D. 1174 on the procedure for filing and processing of applications for coal operating contracts and the financial and technical operations of coal operators as well. Non-compliance with such procedures and other reportorial requirements shall amount to penalties as provided in this Circular.

  - **Coal Mine Safety Rules and Regulations (BED Circular No. 1)**
    This Circular sets forth the rules and regulations promulgated pursuant to Section 9 of P.D. 972 on safety precautions prescribed for underground and surface mine operations covering requirements for exit, escape ways, submission of mine maps, ventilation, allowable limits of toxic and explosive gases, control of coal dust, ground support, rescue organization for emergency situations, fire protection, handling of explosives, health and sanitation facilities and other miscellaneous safety rules.
The following are some regulations and guidelines pertaining to coal (continued):

- **OEA Circular No. 89-08-09**
  Taking over the Bureau of Energy Development, the Office of Energy Affairs specifically defined the areas of coal mining activities that are allowed to be sub-contracted by a coal operating contract (COC) holders. The Circular provided that holders of coal operating contracts shall not transfer, assign, convey, cede, dispose, or subcontract the coal areas awarded to them without the prior approval of the OEA (Section 15, PD 972). Sub-contracting, transfer or assignment may be made only to qualified persons, partnership or corporations provided that they possess the necessary financial resources and technical capability to continue the mining operations in accordance with good coal mining practices appropriate to the geological conditions of the area to enable maximum economic production, avoiding hazards to life, health and property, minimizing pollution to air, land and water, and pursuant to an efficient and economic program of operation, provided however, that the act of extracting coal from the area shall be the sole and exclusive obligation of a coal operating contract holder.

- **BED Circular No. 82-12-12**
  This Circular was issued in order to prevent unauthorized coal mining activities undertaken by persons and entities without valid and subsisting coal operating contracts and to protect legitimate coal operators from such illegal activities which undermine both government and private initiative in meeting the objectives of P.D. 972.

- **BED Circular No. 85-10-03**
  In addition to BED Circular No. 82-12-12 and in order to address rampant unauthorized sales of coal, this Circular emphasized that only holders of validly executed and subsisting coal operating contracts are authorized to undertake coal operations particularly exploring for, extracting and sale of coal resources. The unauthorized extraction and sale of coal constitutes a crime of theft while the purchase of illegally extracted coal constitutes the offense of fencing. Applicants for coal operating contracts are not authorized to explore, extract and sell coal. Such exploration, extraction and/or sell shall be sufficient ground for disapproval of the application, without prejudice to criminal prosecution for theft.

- **BED Circular No. 81-11-09 as amended by OEA CIRCULAR NO. 88-11-15**
  This Circular provides for the tax exemption of spare parts imported which shall be limited to spare parts imported within a particular one calendar year period, the aggregate cost of which shall not exceed Ten Percent (10%) of the specific machinery or equipment were they will be used.

- **BED Circular No. 81-07-07**
  This Circular enumerated additional safety rules and regulations due to increased fatalities among coal mine workers due to mine gas. Coal operators were required to maintain ventilation at no less than 20.00% oxygen level, conduct daily examination of active mines by safety engineers to determine presence of methane and other dangerous gases before the start of every shift, and the installation of methane detectors, among others. Failure to follow these precautions would constitute a ground for suspension or cancellation of the COCs.
The Indigenous People’s Rights Act or IPRA was enacted to ensure the protection of interests for indigenous peoples all throughout the Philippines. This includes provisions protecting rights to property and the environment and natural resources. Below are pertinent provisions of the IPRA which may affect coal operations in Sibuguey or Isabela should there be an affected indigenous community:

- **Sec. 56. Existing Property Rights Regimes.** Property rights within the ancestral domains already existing and/or vested upon effectivity of this Act, shall be recognized and respected.

- **Sec. 57. Natural Resources within Ancestral Domains.** The ICCs/IPs [Indigenous Cultural Communities/Indigenous Peoples] shall have the priority rights in the harvesting, extraction, development or exploitation of any natural resources within the ancestral domains. A non-member of the ICCs/IPs concerned may be allowed to take part in the development and utilization of the natural resources for a period of not exceeding twenty-five (25) years renewable for not more than twenty-five (25) years: Provided, That a formal and written agreement is entered into with the ICCs/IPs concerned or that the community, pursuant to its own decision making process, has agreed to allow such operation: Provided, finally, that the all extractions shall be used to facilitate the development and improvement of the ancestral domains.

- **Sec. 58. Environmental Consideration.** Ancestral domains or portion thereof, which are found necessary for critical watersheds, mangroves wildlife sanctuaries, wilderness, protected areas, forest cover, or reforestation as determined by the appropriate agencies with the full participation of the ICCs/IPs concerned shall be maintained, managed and developed for such purposes. The ICCs/IPs concerned shall be given the responsibility to maintain, develop, protect and conserve such areas with the full and effective assistance of the government agencies. Should the ICCs/IPs decide to transfer the responsibility over the areas, said decision must be made in writing. The consent of the ICCs/IPs should be arrived at in accordance with its customary laws without prejudice to the basic requirement of the existing laws on free and prior informed consent: Provided, That the transfer shall be temporary and will ultimately revert to the ICCs/IPs in accordance with a program for technology transfer: Provided, further, That no ICCs/IPs shall be displaced or relocated for the purpose enumerated under this section without the written consent of the specific persons authorized to give consent.

- **Sec. 59. Certification Precondition.** All department and other governmental agencies shall henceforth be strictly enjoined from issuing, renewing, or granting any concession, license or lease, or entering into any production-sharing agreement, without prior certification from the NCIP that the area affected does not overlap with any ancestral domain. Such certificate shall only be issued after a field-based investigation is conducted by the Ancestral Domain Office of the area concerned: Provided, That no certificate shall be issued by the NCIP without the free and prior informed and written consent of the ICCs/IPs concerned: Provided, further, That no department, government agency or government-owned or -controlled corporation may issue new concession, license, lease, or production sharing agreement while there is pending application CADT: Provided, finally, That the ICCs/IPs shall have the right to stop or suspend, in accordance with this Act, any project that has not satisfied the requirement of this consultation process.” (emphasis supplied)

Should COC 122 or COC 41 or the location of power plants be located on areas comprising part of ancestral domain, the above provisions must be complied with and given consideration before the commencement of Project Power. Should such COCs or the location of the power plants cover areas not within ancestral domain, a Certification Precondition from the National Commission on Indigenous Peoples (NCIP) must be obtained to ensure that the rights of indigenous communities are protected. These can form part of the due diligence documents accessible to the Bidders declared as eligible. Such certification shall also be a useful component in getting JV Partners interested and attracted to the Project.
• The NEDA Joint Venture Guidelines ("JV Guidelines") are a creation of Executive Order 423, Series of 2005, as amended ("E.O. 423"), the most current rules and procedures on the review and approval of government contracts in accordance with the Government Procurement Reform Act (Republic Act 9184, or “GPRA”). E.O. 423 seeks to underscore government ideals and policy on good governance, transparency and accountability through the requirement of awarding of all Government contracts through open and competitive public bidding, save only in exceptional cases. E.O. 423, through Section 8, likewise mandated the issuance of Guidelines and Procedures for entering into Joint Venture Agreements between the Government and Private Entities with the intention of encouraging private investment in Government infrastructure and initiatives. The JV Guidelines sets itself apart from projects under the Build-Operate and Transfer Law, the Government Procurement Reform Act and Official Development Assistance, by allowing the Government an opportunity to divest its investment in the joint venture, allowing the private entity to take the undertaking in its entirety.

• In a renewed effort to primarily stimulate private sector participation in government initiatives, the Guidelines seek to set out mutually beneficial terms and conditions through limited modes of partner selection processes, namely: Competitive Selection, Competitive Challenge, Negotiated Projects or Unsolicited Proposals. It is apparent from E.O. 423 and the Guidelines itself that Competitive Selection is the preferred mode of awarding government contracts. Likewise, based on the nature of Board Approval granted for Project Power, Competitive Selection is the most favoured route for the selection of Joint Venture Partners.

• The above enumerations of Philippine law are not exclusive. In the tender process and implementation of the Projects, all Philippine laws, rules and regulations would have to be complied with by the Parties.
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• All questions, inquiries, correspondences and other communications with respect to these Projects shall be directed to The Lantau Group acting on behalf of their clients, the JV-SC of PNOC EC, in line with their mandate as Transaction Advisors to PNOC EC in the selection process for the proposed joint venture for the development and operation of a coal mine and power plant project.

• Contact details for Transaction Advisor are as follows:

  Ms. Sarah Fairhust  
The Lantau Group (HK) Ltd.  
4602-4606 Tower 1, Metroplaza  
223 Hing Fong Road  
Kwai Fong  
Hong Kong  
Telephone No. (852) 25215501  
Email sfairhurst@lantaugroup.com