MANILA LRT LINE 1 SOUTH EXTENSION PROJECT

Transaction Overview

1. The Opportunity

The Light Rail Transit Authority (**"LRTA"**) is inviting prospective bidders to participate in the international competitive tender for the development of the Manila LRT Line 1 South Extension Project, which covers (a) the financing, design, construction and installation of a 11.7 kilometer extension to the existing 15-kilometer LRT Line 1 system (**"Existing System"**) of the LRTA, from its present terminus at Baclaran station, through the cities of Parañaque and Las Piñas in Metropolitan Manila to the municipality of Bacoor in the Province of Cavite (**"Extension"**), (b) the integration of the Extension with the Existing System (**"Integrated System"**), (c) the integrated operation and maintenance of the entire System, and (d) the provision of enhancement works on the System (the **"Project"**).

2. Implementing Agency

The Light Rail Transit Authority ("LRTA") is a wholly-owned government corporation created on 12 July 1980 by virtue of Executive Order (**"EO"**) No. 603, as amended.[1] The LRTA is primarily responsible for the construction, operation, maintenance and/or lease of light rail transit systems in the Philippines. The LRTA is an agency attached to the Department of Transportation and Communications (**"DOTC"**).

The LRTA owns, manages and operates two light rail systems[2] serving Metropolitan Manila. The Light Rail Transit System Line No. 1 (**"Line 1"**), which is the subject of the current Project, consists of 15 kilometers of an elevated railway system which runs from Baclaran in Pasay City to Monumento in Caloocan City. It is considered to be the first LRT system in Southeast Asia.

3. Project Background

The Project was originally approved by the Government of the Philippines ("**GOP**") as a negotiated Joint Venture Agreement ("**JVA**") between the **LRTA** and SNC Lavalin International Inc ('**SLII**'), acting through a special purpose company named the Manila Bay Area Rapid Transit Corp. or **"MBART"**, using the LRTA Charter as the legal basis. The negotiated nature of the contract, however, came under scrutiny the following year and a decision was amicably reached between the Parties to subject the Project to a price test under the Philippine Build-Operate-Transfer Law (**"BOT Law"**). For this purpose, an unsolicited proposal was submitted by SLII to the LRTA in 2004, and forthwith earnest negotiations ensued between the Parties with the

[1] By EO No. 830 (September 1982) and EO No. 210 (July 1987).

[2] The Light Rail Transit System Line No. 2 (**"Line 2"**) is a 13.8-kilometer mass transit line that traverses five cities in Metro Manila namely Pasig, Marikina, Quezon City, San Juan and Manila along the major thoroughfares of Marcos Highway, Aurora Boulevard, Ramon Magsaysay Boulevard, Legarda and Recto Avenue.

International Finance Corporation (**"IFC"**) acting as lead transaction advisor for the LRTA. The Parties, however, failed to reach agreement on major transaction issues, and instead agreed to mutually terminate negotiations and the unsolicited process.

On 3 May 2006, the LRTA, SLII and MBART executed an agreement terminating the joint venture and the unsolicited proposal. In consideration for the payment by the LRTA of certified development costs previously incurred by SLII/MBART, the LRTA was released and discharged from all future claims by SLII/MBART in relation to the joint venture. In addition, SLII/MBART transferred possession and ownership of all project information and data to the LRTA, and agreed not to prevent or obstruct the conduct by the LRTA of a competitive tender process for the Project.

4. Project Rationale

The termination of the unsolicited proposal process with SLII/MBART paved the way for the Project to be restructured as a solicited transaction, promoting transparency and competition for the contract, and allowing government to provide direct support in order for user fares to be set at socially-acceptable levels while at the same time enhancing Project bankability and sustainability.

The rationale for implementing the Project continues to subsist. Metropolitan Manila continues to rapidly grow as a megacity, fuelled by in-migration of population and a large natural growth rate. With most of Metro Manila already developed to high densities the increase in population is causing rapid peri-urbanization of its outer areas. Manila is bounded to the east and west by the Laguna de Bay and Manila Bay, respectively. Therefore, new development is constrained to either the north or south of the conurbation. LRT Line 1 was the first light rail scheme in Manila and runs north-south through its central area, along Taft and Rizal Avenues. This older area of the city is one of the most heavily developed with high densities along most of the corridor. Massive urban regeneration projects to restore Manila's physical infrastructure and facilities have been undertaken by the City Government, and are expected to be further pursued in the medium-term to allow the city to regain its competitiveness. The southern coastal corridor of Manila, on the other hand, continues to experience consistent growth and plans are in place for further reclamation of part of Manila Bay. This will further increase population and employment in this area and exacerbate road congestion. The increase in population has led to severe congestion on an already overstretched road network leading to long and unpredictable journey times. Many of Manila's major roads experience gridlock in the peak periods.

5. Sectoral and Policy Linkages

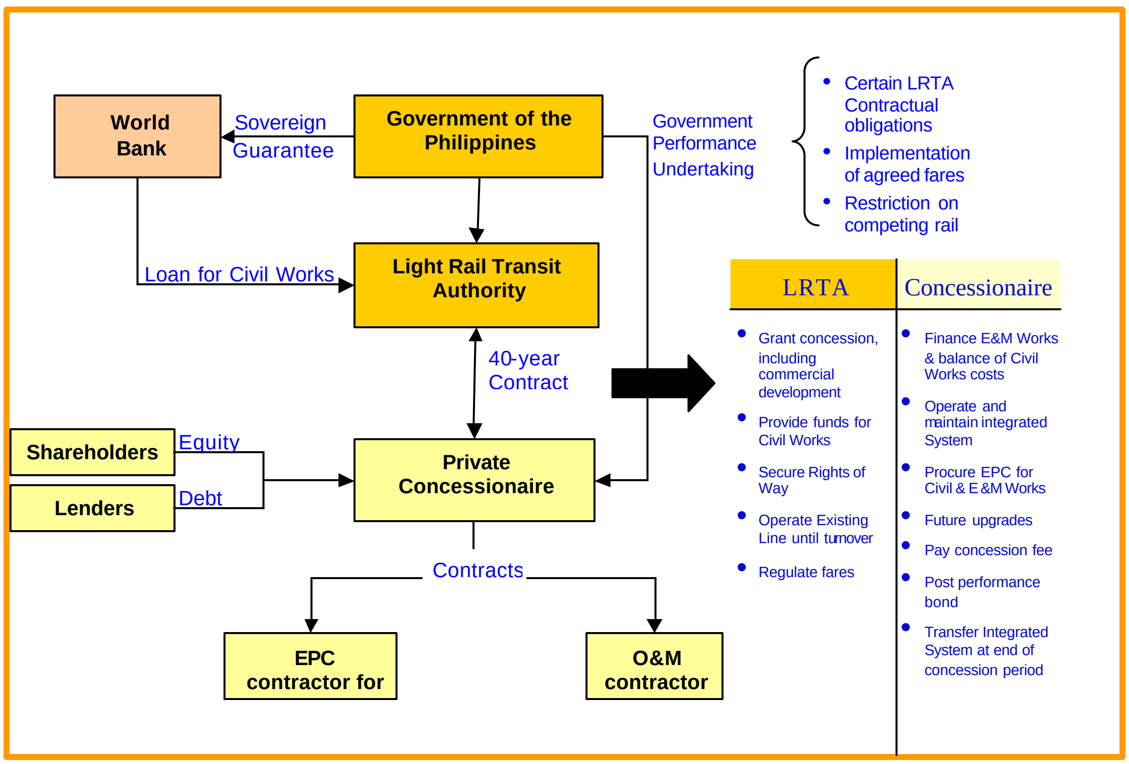
The Project forms part of the current strategic mass rail transit development program envisioned for Metro Manila which consists of the following high priority investments:

- LRT Line 1 Capacity Expansion Project (Phase II),
- LRT Line 1 Modernization Phase II Project,
- MRT Line 2 Extension Project, and

- LRT Line 1 North Extension, which would link Line 1 to MRT Line 3

The Manila LRT Line 1 South Extension is a priority infrastructure project of the National Government in support of the National Government's aggressive 5-year program to develop infrastructure and public services in the country as a major strategy to regain global competitiveness. Its implementation is consistent with President Gloria Macapagal-Arroyo's 10-Point Agenda and the strategic framework for the transportation sector embodied in the Medium-Term Philippine Development Plan (2004-2010) and in the Medium-Term Public Investment Program (2005-2010). In her July 2006 State of the Nation Address, the President specifically reaffirmed the Project's status as a priority development under the Metro Luzon Urban Beltway Development Program, which is aimed at decongesting Metro Manila and promoting growth in the adjoining provinces. It has also been identified as an integral link of the Rail Transit Network under the Metro Manila Urban Transportation Integration Study.

6. Concession Structure



6.1 *Legal Framework for Concession*

LRTA Charter

Pursuant to its charter - Executive Order No. 603 (1978), as amended - the LRTA is the government-owned-and-controlled corporation that undertakes and holds the franchise for the construction, operation, maintenance, and/or lease of light rail transit systems in the Philippines, for the purpose of meeting the transportation requirements of the country. The Project is being implemented in pursuit of the LRTA's corporate purpose, legal authority and franchise.

For the attainment of its primary purpose, the LRTA was expressly granted under its charter the power and discretion to enter into contracts and to employ an agent or contractor to perform all actions which the LRTA may lawfully carry out.[3] This power to appoint an agent or contractor serves as the LRTA's principal legal basis for engaging and permitting the Concessionaire to extend, upgrade, operate and maintain the LRT Line 1 system. The grant of concession therefore will not involve the transfer of the LRTA's franchise to operate the LRT Line 1 system, whether by sale, lease or assignment. In line with applicable Philippine laws and jurisprudence, the Concessionaire will not be required to obtain a separate franchise for itself.

6.2 Project Structure

The Project will be structured and implemented as a Contract-Add-and-Operate ("**CAO**") arrangement, which is a Build-Operate-Transfer ("**BOT**") variant as defined and allowed under the BOT Law.[4] Under this contractual scheme, the Concessionaire will enter into a Concession Agreement with the LRTA for a period of forty (40) years (including the period for construction) pursuant to which the Concessionaire will be required to extend the Existing System and will be permitted to operate and maintain the Integrated System and collect fares from all users upon acceptance by LRTA of the Integrated System. Financing support, up to a maximum amount of US$260 million (in 2005 prices), for the Civil Works component of the Project will be extended by the Philippine Government, and which will be the subject of competition for the tender for the concession.

In consideration for allowing the Concessionaire to possess and use the existing rail assets, the LRTA will be paid an annual concession fee. At the end of the Concession Period, the Concessionaire will hand over the integrated System (including the new civil works and electro-mechanical systems) to the LRTA at no cost.

6.3 Scope of Concession

The Project shall require the Concessionaire to implement and provide the Civil Works, E&M Works, Services, and System Enhancement Works.

Civil Works

The Civil Works refer to the design, procurement, engineering, construction, completion, testing, and commissioning by the Concessionaire of (a) 11.7 kilometers of new track commencing from the Baclaran end of the existing track, traversing the municipalities of Parañaque and Las Piñas, and ending in Bacoor, Cavite, including a stabling depot at the southern end of the extension, (b) eight (8) new passenger stations (c) integration of the Extension with the Existing System.

---

[3] Executive Order No. 603, as amended, Section 4.

[4] Republic Act No. 6957, as amended by Republic Act No. 7718.

E&M Works

Financing and implementation of the E&M Works shall be the responsibility of the Concessionaire. The E&M Works include:

(a) the design, procurement, engineering, construction, completion, testing and commissioning of a new electrical and mechanical system, except that the E&M Works do not include provision of rolling stock; and

(b) the integration of the new electrical and mechanical system with the existing electrical and mechanical system.

In order to enable the Concessionaire to carry out the Civil Works and E&M Works, the LRTA shall turnover the Existing System to the Concessionaire. Prior to such turnover, the LRTA shall be responsible for the operation and maintenance of the Existing System.

Services

The Concessionaire shall, at its own cost, operate, maintain, renew and finance the System and provide services during the Concession Period, which shall include:

(a) train services, which means the operation of the rolling stock on the System and the provision of passenger information on the rolling stock; and

(b) station services, which means the services which consist of the operation of the stations, including the provision of access to and egress from trains which stop at the stations, passenger information, facilities and services for the purchase and issue of tickets and reasonable levels of personal security for passengers.

System Enhancement Works

Unless otherwise waived by the LRTA, the Concessionaire will be obliged to carry out predefined System Enhancement Works consisting of:

(a) the design, procurement, engineering, construction, completion, testing, integration and commissioning of seventy-two (72) additional light railway vehicles (**"LRVs"**) and additional ticket machines;

(b) the refurbishment and subsequent replacement of the existing rolling stock;

(c) the replacement and upgrading of parts of the electrical and mechanical system and track; and

(d) the construction and commissioning of a satellite depot to store the additional trains and provide light maintenance facilities.

The LRTA shall permit the Concessionaire unimpeded use of the Existing System to facilitate the carrying out of the works by the Concessionaire. Also, the acquisition of the land and rights of way required for the Project shall also be the responsibility of the LRTA.

On or before the required operations start date, the LRTA shall be responsible for completing the Capacity Expansion Program, which contemplate such works as will ensure that the capability, condition and capacity of the Existing System is such as to enable the Existing System to accommodate ridership levels of up to forty thousand (40,000) pphpd not later than the required operations start date.

During the operating period, the LRTA shall monitor the Concessionaire's operation and maintenance of the System and enforce compliance with pre-specified service level requirements for the train and station services. Failure of the Concessionaire to comply with such standards will make it liable for financial penalties, backed by a performance security, in addition to being obliged to rectify its failure or breach.

6.4 Concession Period

The Concessionaire will be granted a forty (40)-year concession period, inclusive of the construction period (**"Concession Period"**). At the end of the Concession Period, the Concessionaire shall transfer the System to LRTA in good condition.

The Concession Period may, however be extended under certain circumstances, such as (a) upon agreement of the parties; (b) at the election of the Concessionaire, if the LRTA requires the Concessionaire to upgrade the Integrated System prior to the date stipulated in the Concession Agreement; or (c) at the option of the Concessionaire, when an event or matter which is wholly or mainly motivated by the pursuit of political purposes and within the reasonable control of any competent authority (**"Political Event"**) materially impedes the performance of its obligations under the Concession Agreement.

6.5 Capital Expenditures

The LRTA and the Concessionaire will each fund a portion of the up-front capital expenditure requirements of the Project.

The LRTA's share of the upfront capital costs shall be used to co-finance the completion of the Civil Works. The amount of this upfront government subsidy - which amount shall be the subject of the bid - shall not exceed US$260 Million, expressed in 1 January 2005 prices and before accounting for inflation and interest during construction (both costs shall be assumed by the LRTA). This amount represents the maximum government contribution that will be provided by the LRTA/Philippine government to the Project. The LRTA will also be responsible for funding cost over-runs arising from its fault or delay, or scope change. The LRTA will also finance and provide the land and all rights of way necessary for the Project.

The Concessionaire will fund the balance of the upfront capital costs (required for the balance of the financing for the Civil Works and the full amount of financing required for, the E&M Works and the System Enhancement Works) through commercial loans and sponsor equity at a leverage of not more than 70:30 debt/equity ratio.

Each party will bear its own financing costs, which includes upfront costs and interest during construction and debt service.

6.6 Fare Structure

Fares shall be set by the LRTA, which shall be responsible for obtaining all necessary governmental consents and approvals necessary for setting and changing fares.

The fare structure shall be as follows:

(a) a boarding fare of PhP 8.0 in 2005 prices, and

(b) a distance fare of PhP 0.8/km in 2005 prices.

Fares shall increase every contract year in line with the Philippine CPI reported for the previous year, provided that no single nominal increase in average fare shall exceed twenty-five percent (25%) of the previous year's average fare. In addition to the adjustments for inflation, fares shall also be further adjusted by a real increase of 1.5% for the next five (5) years beginning 2006 and by 1% every year thereafter.

The concession agreement shall also provide for the other instances when the LRTA may validly adjust fares. Adjustments should not adversely impact ridership on the Integrated System. In relation to the LRTA's fare-setting function, the concession agreement shall also set out the circumstances which would entitle the Concessionaire to compensation from the LRTA.

6.7 Revenues

During the operations period, the Concessionaire shall be entitled to collect and receive the Concessionaire Revenue which shall consist of the following -

(a) one hundred percent (100%) of the System Ridership Revenue;[5]

(b) one hundred percent (100%) of the Commercial Development Revenue[6] up to the specified threshold amount, which is set at 10% of System Ridership Revenue; and

(c) fifty percent (50%) of the Commercial Development Revenue which exceeds the specified threshold amount, which is set at 10% of System Ridership Revenue.

---

5 "System Ridership Revenue" means any amount collected as a fare.

6 "Commercial Development Revenue" is any amount generated in respect of:

(a) exploitation of the System (including advertising on the System but excluding the operation of the Services) and

(b) payments (whether by way of rent, license fee or otherwise) from shops, stalls or other retail outlets at stations.

6.8 Concession Fees

The Concessionaire shall pay the LRTA a fixed concession fee of two percent (2%) of System Ridership Revenue per annum, payable starting on the third (3^{rd}) year of operations. The concession fee shall be payable to the LRTA if the annual minimum ridership threshold of seventy percent (70%) of the base case ridership projections (as determined by an independent specialist jointly appointed by the Concessionaire and the Authority) for each contract year of operations is achieved.

6.9 Government Performance Undertaking

By way of government support, the LRTA shall obtain an absolute, unconditional and irrevocable national government performance undertaking guaranteeing the payment by the LRTA of its share of the cost of the Civil Works and to guarantee faithful compliance by the LRTA of all of its other principal obligations under the Concession Agreement, particularly:

(a) implementation of the proper fares;

(b) obligation not to allow any governmental authority to authorize the construction or operation of any competing passenger rail transport system within the Project Zone[7] during the Concession Period;

(c) acquisition of necessary land rights and peaceful use and occupation of the Project land during the Concession Period;

(d) unimpeded use and possession of the Existing System and the Civil Works; and

(e) obligation to pay certain sums due and payable to the Concessionaire under the pertinent circumstances and specific conditions provided in the Concession Agreement.

6.10 Site Acquisition

SLII previously identified the right-of-way (**"ROW"**) requirements for the Project. The LRTA has reviewed the SLII plans to identify precisely which parcels of land are involved and the areas required for purchase/easement as part of the ROW. These would include the land required for the guideway, stations, intermodal facilities, depot and other accesses.

For the plots affected, land prices have been estimated based on zonal, fair market and independent appraiser-determined (Cuervo Appraisers, Inc.) values.

Work on the parcellary surveys has been commenced by the LRTA's consultant - Engineering and Development Corporation of the Philippines.

[7] **"Project Zone"** means the area whose radius is half of one kilometer from every point along the route of the new track.

6.10.1 Public ROW

The publicly-owned-and-controlled land is estimated to account for some twenty-seven percent [27%] of the total area, or forty percent [40%] of the aggregate zonal value, of the required ROW. A substantial portion is owned and/or controlled by the Department of Public Works and Highways (**"DPWH"**) and the former Public Estates Authority (now the Philippine Reclamation Authority or **"PRA"**). In terms of area, the PRA owns/controls twelve percent (12%) of the total land area required for the Project, or a total of 28,560 square meters; while DPWH owns fifteen percent (15%) or a total of 35,697 square meters.

The procurement strategy for publicly-owned/controlled lands required for the extension is to secure for the LRTA the ownership or right-of-way over such lands, at no cost to the LRTA, by entering into the necessary legal arrangements with the relevant government agencies/entities. For this purpose, the LRTA is in the process of finalizing and executing a Memorandum of Agreement with both the DPWH and the PRA, granting the LRTA the right to use the their lands for the Project.

6.10.2 Private ROW

Informal discussions with private property owners have been commenced by the LRTA for the purpose of determining whether such owners are amenable to a negotiated sale of their respective lands. To date, some twenty-eight (28) private property owners (out of 66) have expressed their willingness to sell their lands to the LRTA. The LRTA is currently ascertaining the fair market values of the lands affected which in turn would constitute its initial offer price for such properties.

A Php1.5 billion budget is programmed under the 2007 General Appropriations Act (**"GAA"**) to support LRTA's acquisitionof private ROW.

6.10.3 Relocation of Informal Settlers

Initial census and tagging of informal settlers, mostly residing along the banks of the Parañaque River, was previously conducted by SLII in 2003. LRTA will conduct a revised census shortly, the consultancy contract for this activity is targeted to be awarded by May 2007. The study is expected to be completed in three (3)-months time. The LRTA will also be coordinating with the National Housing Authority and the Housing and Urban Development Coordinating Council for the proper resettlement of affected households in accordance with applicable laws.

7. Government Approvals Obtained

The following government approvals have been obtained for the Project -

(a) **NEDA-ICC-CC**. On 13 December 2006, the Investment Coordination Committee-Cabinet Committee ("ICC-CC") of the NEDA approved the implementation of the Project, confirming that it is included in the list of priority projects submitted to the ICC pursuant to the BOT Law.

(b) **DOF.** On March 12, 2007, the Project was officially endorsed by the DOF to the World Bank for funding assistance to cover the LRTA's/GOP's share of the upfront capital cost.

(c) **ECC.** An Environmental Compliance Certificate (**"ECC"**) for the Project was issued by the Environmental Management Bureau-Department of Environment and Natural Resources on 11 December 2002. The ECC shall remain valid until 11 December 2007.

8. Procurement Process

8.1 Legal Basis of Procurement

The international competitive bidding for the Project will be conducted in accordance with the procurement rules and procedures set forth in the BOT Law (Republic Act No. 6957, as amended by Republic Act No. 7718) and its Revised Implementing Rules and Regulations (April 2006).

8.2 Procurement Timetable

Unless otherwise changed or notified in writing, the Bidding will be carried out following the timetable indicated below:

Activity	Prescribed Period	Target Date
Publication of Invitation to Pre-qualify and Bid	Once a week for three consecutive weeks	April 30, 2007
Start of Issuance of RFQ		May 15, 2007
Preparation of Pre-qualification Documents	At least 45 calendar days from last date of publication of the invitation to pre-qualify and bid	
Submission and Opening of Pre-qualification Documents		June 30, 2007
Pre-qualification Evaluation	Within 30 days	
Notice to Pre-qualified Bidders and Issuance of RFP	Within 7 days	August 6, 2007
Preparation of Tenders	At least 60 to 120 working days	90 working days (August 6-November 4, 2007)
Pre-bid Conference		August 30, 2007
Submission of Bids/Tenders and Opening of Technical Proposals		November 5, 2007
Evaluation of Technical Proposals	Within 30 days	
Notice to Bidders of Technically Compliant Proposals		December 6, 2007
Opening of Financial Proposals		December 16, 2007
Evaluation of Financial Proposals	Within 15 days	
Contract Award/Notice of Award	7 days for the PBAC to make the recommendation of award; LRTA Board to approve the award; and 7 days for the LRTA to notify the winning Bidder after board	January 21, 2008 (Target date for issuance of notice of award)

Activity	Prescribed Period	Target Date
	approval	
Compliance with Conditions for Award Contract Signing	30 days for the winning Bidder to comply with all the conditions for award 7 days for the winning Bidder and the LRTA to sign the contract from notice of compliance with the conditions for award	 February 28, 2008 (Target)

8.3 Nature of the Procurement Process

The Bidding for the Project will be conducted following the Two-Envelope/Two-Stage System for soliciting proposals under the Revised IRR. The selection process will be administered by the BOT Pre-qualification, Bids and Awards Committee (**"PBAC"**) of the LRTA.

Under the Two-Envelope/Two-Stage System, Bidders are first pre-qualified on the basis of legal, technical and financial eligibility requirements set by the LRTA PBAC. Only those Bidders who pre-qualify will be deemed eligible to participate in the next stage and formally submit their Technical and Financial Proposals to the PBAC on the bid submission deadline.

To be eligible, Bidders must meet certain legal, technical and financial pre-qualification and qualification requirements, all of which shall be specified in the bid documents and are intended to establish a Bidder's legal, technical and financial capacity to implement the Project.

The Pre-qualification Documents, the Technical Proposals, and the Financial Proposals will be evaluated based on their completeness, adequacy and compliance with the prescribed evaluation criteria.