

CONCESSION AGREEMENT

(Service Area East)

between

Metropolitan Waterworks and Sewerage System

and

Manila Water Company, Inc.

dated as of

21 February 1997

Concession Agreement

(Service Area East)

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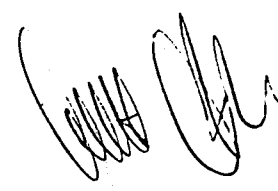
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- Exhibit B Form of Opinion of Special Counsel to the Concessionaire
- Exhibit C Form of Opinion of Office of the Government Corporate Counsel
- Exhibit D Undertaking Letter of Republic
- Exhibit E Technical and Business Assumptions
- Exhibit F Existing MWSS Fringe Benefits



THIS CONCESSION AGREEMENT, dated as of _____, 1997, (this "Agreement") is made between the Metropolitan Waterworks and Sewerage System ("MWSS"), a government corporation organized and existing pursuant to Republic Act No. 6234, as amended, (the "Charter"), and _____, a corporation organized and existing under the laws of the Philippines (the "Concessionaire").

WHEREAS, pursuant to the Charter, MWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Metropolitan Manila, the entire province of Rizal and a portion of the province of Cavite; and

WHEREAS, pursuant to Republic Act No. 8041 (the "National Water Crisis Act of 1995"), as implemented by Executive Order 286 (December 6, 1995) and Executive Order 311 (March 20, 1996), MWSS was mandated to enter into arrangements that will result in the involvement or participation of the private sector in any or all of the segments, operations and/or facilities of the MWSS;

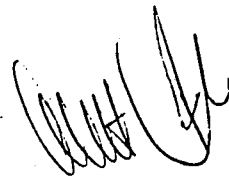
WHEREAS, Article 3(j) of the Charter authorizes MWSS, among other things, to dispose of real and personal property, including rights and franchises, consistent with the purpose for which MWSS was created and reasonably required for the transaction of the lawful business of the same;

WHEREAS, MWSS has determined to grant concessions to private sector corporations, at least 60% of the outstanding capital stock of which is owned and controlled by Philippine nationals, which shall act as contractors to perform certain functions, and as agents for the exercise of certain rights and powers, of MWSS under its Charter, to operate the system of waterworks and sewerage services referred to in the Charter;

WHEREAS, pursuant to a process of open public bidding and selection, the Concessionaire has been awarded the right to enter into this Agreement with respect to the Service Area East, as identified in Schedule 1 hereto (the "Service Area"); and

WHEREAS, MWSS and the Concessionaire wish to record the terms on which the Concessionaire is being granted the right to operate the waterworks and sewerage services in the Service Area for the period specified herein;

NOW, THEREFORE, in consideration of the mutual promises and undertakings described herein, the parties hereto agree as follows:



ARTICLE 1. DEFINITIONS

When used herein, the following terms shall have the meanings ascribed to those terms below:

"Appeals Chairman" means the chairman for the time being of the Appeals Panel.

"Appeals Panel" has the meaning given to that term in Section 12.2 hereof.

"Appropriate Discount Rate" means, at any time, the real (i.e., not inflation adjusted) weighted average cost of capital (after taxes payable by the concession business). In determining the Appropriate Discount Rate, the Regulatory Office shall apply conventional and internationally accepted methods, and in particular shall make estimates of the cost of debt in domestic and international markets, the cost of equity for utility businesses in the Philippines and abroad and shall make adjustments to such estimates to reflect country risk, exchange rate risk and any other project risks. The Regulatory Office, at its sole discretion, may consider the Concessionaire's rate of return, either stated or implied in its bid, in determining the Appropriate Discount Rate.

"Asset Condition Report" has the meaning given to that term in Section 6.5.2 hereof.

"Bulk Water" means any water supplied in bulk.

"C" means the percentage change in the Consumer Price Index for the Philippines as published by the National Statistical Office between July of the Weighting Year and July of the Prior Year.

"Cash Flows" means (i) in the context of historical cash flows, both Receipts and Expenditures efficiently and prudently incurred by the Concessionaire in the course of carrying out its obligations under this Agreement, and (ii) in the context of future cash flows, (A) both anticipated Receipts and Expenditures efficiently and prudently incurred by the Concessionaire in the course of carrying out its obligations under this Agreement and (B) from and after the second Rate Rebasing Date, any Expiration Payment agreed to be paid by MWSS to the Concessionaire on the Expiration Date pursuant to Section 9.4.3; it being understood that Expenditures "efficiently and prudently incurred" does not include, among other things, payments for (X) Disapproved Assets or (Y) fees for management or consulting services required by the Concessionaire in order to carry out its obligations under this Agreement payable to any shareholder or affiliate of the Concessionaire to the extent, in the judgment of the Regulatory Office, that such fees do not represent the best value available in the market for such services.



"CERA" means the Currency Exchange Rate Adjustment of one Peso per cubic meter of water consumed above the Standard Rates as permitted by Section 9.1.

"Charging Year" means any year beginning on January 1 following the first anniversary of the Commencement Date.

"Charter" means the Charter of MWSS set out in Republic Act No. 6234 (as amended), as the same may be further amended or supplemented from time to time.

"Closing Date" means May 6, 1997, or such later date (not to exceed September 30, 1997) on which the conditions set out in Article 15 hereof have been satisfied.

"Commencement Date" means the day immediately following the Closing Date.

"Common Purpose Facilities" means the Facilities upstream of Angat dam established under the UATP project and the Facilities downstream of the auxiliary hydropower plant of Norzagaray, Bulacan, including the Ipo reservoir facilities, the Ipo-Bicti tunnels, Bicti basins and Bicti-Novaliches aqueducts, up to and including the Novaliches portal interconnection Facilities.

"Concession" has the meaning given to that term in Section 2.1 hereof.

"Concessionaire Event of Termination" has the meaning given to that term in Section 10.2.

"Concession Fee" has the meaning given to that term in Section 6.4 hereof.

"Concessionaire" means _____

"Concessionaire Employee" has the meaning given to that term in Section 3.1 hereof.

"Concessionaire Loans" means any indebtedness incurred by the Concessionaire to finance or refinance the construction or refurbishment of the Facilities, or employee severance costs or other transitional costs incurred by the Concessionaire following the Commencement Date related to the Concession.

"Concessionaire Lenders" means the providers of the Concessionaire Loans.

"Connection" has the meaning given to that term in Section 9.5 hereof.



"Connection Charge" has the meaning given to that term in Section 9.5 hereof.

"Consumer Price Index" or "CPI" means, for any year, the Consumer Price Index for the Philippines for that year published by the National Statistical Office of the Republic or such successor index as the parties may agree pursuant to Section 2.4.

"Cost Overruns" means any amount paid by the Concessionaire related to an Existing Project or UATP which is neither covered by an MWSS Loan or identified as Local Component costs in Schedule 9.

"Customer" means (i) as of the date hereof, any customer of MWSS or (ii) thereafter, any customer of the Concessionaire, in each case for the supply of water and/or sewerage services in the Service Area.

"Disapproved Assets" means any assets acquired by the Concessionaire following the Commencement Date which are not, in the reasonable opinion of the Regulatory Office, needed for the efficient and prudent performance by the Concessionaire of its obligations under this Agreement and are so identified in a writing sent to the Concessionaire by the Regulatory Office.

"Dispute Notice" has the meaning given to that term in Section 12.4(i) hereof.

"E" means any Extraordinary Price Adjustment determined in accordance with Section 9.3.

"Early Retirement Incentive Package" means the separation package approved by the Board of Trustees of MWSS pursuant to its resolutions numbered 24-96 dated February 3, 1996 and 68-96 dated April 18, 1996 (providing for computation of benefits based on creditable service in Government).

"Early Termination Amount" has the meaning given to that term in Section 10.3.2.

"Early Termination Date" has the meaning given to that term in Section 10.3.1.

"ESOP" has the meaning given to that term in Section 6.1.4.

"ESOP Shares" has the meaning given to that term in Section 6.1.4(i).

"Event of Force Majeure" has the meaning given to that term in Section 16.10.1.

"Existing Projects" means the projects (or any separable component or project, including only the non-revenue water component of the Umiray Angat



Transbasin Project) in the Service Area identified in Schedule 9, which have been funded by MWSS from bilateral or multilateral sources prior to the Commencement Date.

"Expenditures" means pre-operating and operating expenditures, capital maintenance and investment expenditures, Concession Fees and Philippine business taxes of the Concessionaire (including the Concessionaire's portion of any such items incurred by the Joint Venture), excluding penalties, interest charges on late payments, financing costs, bad debt provisions and depreciation provisions.

"Expiration Date" means May 6, 2022.

"Expiration Payment" has the meaning given to that term in Section 9.4.4.

"Extraordinary Price Adjustment" has the meaning given to that term in Section 9.3 hereof.

"Facilities" means all fixed and movable assets, including Movable Property, required to provide water delivery services and sewerage services in the Service Area but excluding the Retained Assets. For purposes of this definition, it is understood that the Magallanes Sewerage Treatment Plant and related infrastructure shall be a Facility of Service Area East, and the Central Collecting System and related infrastructure shall be a Facility of Service Area West.

"Future Cash Flows" means, for any Rate Rebasing Date, Cash Flows of the Concessionaire expected to arise after such Rate Rebasing Date in the course of carrying out its obligations under this Concession Agreement as at such Rebasing Date, excluding any revision to those obligations that has been the subject of an Extraordinary Price Adjustment determination due to come into effect on such Rebasing Date.

"Grounds for an Extraordinary Price Adjustment" or "GEA" has the meaning given to that term in Section 9.3.1 hereof.

"IPO" has the meaning given to that term in Section 6.1.4(ii).

"Interconnection Agreement" has the meaning given to that term in Section 6.3.

"International Water Operator" means _____ [operator name].

"Inventory" means the spare parts, pipes and accessories, pumps, meters and other similar items owned by MWSS just prior to the Commencement Date related to the Service Area, and any other items allocated to the Concessionaire by MWSS prior to bidding on the Concession from the shared facilities with the Other Operator, as



set forth in the document captioned "Summary of Construction Materials/Office Supplies," undated, distributed December 2, 1996.

"Joint Venture" means the joint venture arrangement to be entered into by the Concessionaire and the Other Operator pursuant to Section 3.8 hereof.

"KKMK" has the meaning given to that term in Section 6.1.1(v).

"LBT" means the La Mesa/Balara Tunnel project - 4. Notwithstanding the geographical location of the LBT project, it shall be treated as an Existing Project of Service Area East.

"Local Component" means the scheduled costs associated with an Existing Project or the UATP project which is not covered by an MWSS Loan.

"Low-Income Customers" means Customers with an annual household income of P 50,000 or less, which amount shall automatically be adjusted on January 1st of each year by the percentage change in the Consumer Price Index for the preceding year.

"Major Dispute" has the meaning given to that term in Section 12.4(ii).

"Minor Dispute" has the meaning given to that term in Section 12.4(ii).

"Movable Property" means the vehicles, furniture, maintenance equipment, computers and other similar items owned by MWSS just prior to the Commencement Date related to the Service Area, and any items allocated to the Concessionaire by MWSS prior to bidding on the Concession from the shared facilities with the Other Operator, as such property shall be designated by MWSS in the document captioned "General Administration Equipment, Physical Inventory," undated, distributed December 2, 1996.

"MWSS" means the Metropolitan Waterworks and Sewerage System.

"MWSS Event of Termination" has the meaning given to that term in Section 10.1.

"MWSS Loans" means the indebtedness listed in Schedule 8 hereto for which MWSS is the primary obligor.

"MWSSSA" means the MWSS Supervisors Association.

"Napocor" means the National Power Corporation, a Government owned and controlled corporation organized and existing under Republic Act No. 6395, as amended.

"National Building Standards" means the building standards promulgated or issued pursuant to the National Building Code (Presidential Decree No. 1096, as amended) and related laws, rules and regulations.

"Net Present Value" means the net present value calculated at a specified date by discounting real Cash Flows expected to occur at and subsequent to that date, and inflating real Cash Flows occurring prior to that date, at the Appropriate Discount Rate, using the same discount rate for Cash Flows occurring at any point during any calendar year.

"New Third Party License" has the meaning given to that term in Section 5.3.

"NIA" means the National Irrigation Administration.

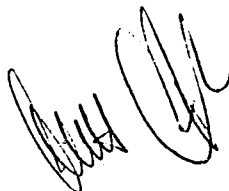
"NWRB" means the National Water Resources Board.

"Opening Cash Position" means (i) with respect to the first Rate Rebasing Date, the Net Present Value as at June 30 following such Rate Rebasing Date of the real Cash Flows occurring between the Commencement Date and such Rate Rebasing Date in connection with the Concessionaire's carrying out its obligations under this Concession Agreement using the Appropriate Discount Rate determined as of the Commencement Date and (ii) with respect to any subsequent Rate Rebasing Date, the Net Present Value as at June 30 following such Rate Rebasing Date of the Cash Flows occurring since the last Rate Rebasing Date together with the Opening Cash Position determined with respect to the last Rate Rebasing Date in connection with the Concessionaire's carrying out its obligations under this Concession Agreement, using the Appropriate Discount Rate determined at the last Rate Rebasing Date. For purposes of calculating the Opening Cash Position, any prior negative Rebasing Convergence Adjustments shall be deemed to have been applied in full in the first Charging Year of the respective Rate Rebasing period, and not over the five year period set forth in Section 9.4.3(ii).

"Other Operator" means _____, in its capacity as the concessionaire appointed pursuant to that certain agreement captioned "Concession Agreement (Service Area East)," between MWSS and _____, dated as of the date hereof.

"Other Operator Employee" has the meaning given to that term in Section 3.1 hereof.

"Other Service Area" means the area in which the Other Operator shall provide water and sewerage services in its capacity as the concessionaire pursuant to that certain agreement captioned "Concession Agreement (Service Area East)," between MWSS and _____, dated as of the date hereof.



"Performance Bond" has the meaning given to that term in Section 6.9 hereof.

"Pesos" or "P" refers to the lawful currency of the Republic of the Philippines.

"Peso Equivalent" has the meaning given to that term in Section 6.4.

"Prior Year" means the year beginning on the first day of January of the year prior to the commencement of each Charging Year.

"Qualified Replacement Operator" means a corporation, or a consortium of corporations, (i) that has the technical and financial capacity to perform all of the obligations of the Concessionaire under this Agreement and (ii) that meets the requirements of Philippine law concerning foreign ownership and management of a public utility.

"R" means any Rebasing Convergence Adjustment determined in accordance with Section 9.4.3.

"Rates Adjustment Limit" means the percentage, either positive or negative, equal to the sum of C, E and R.

"Rate Rebasing Date" means each of January 1, 2003, January 1, 2008, January 1, 2013 and January 1, 2018.

"Rate Rebasing Period" means, in the case of the first Rate Rebasing Period, the period commencing on the Commencement Date and ending on December 31, 2002, and, in the case of subsequent Rate Rebasing Periods, the period commencing on the last Rate Rebasing Date and ending on December 31 of the fifth year thereafter; provided, however, that the last Rate Rebasing Period shall end on the Expiration Date.

"Raw Water" means any untreated water.

"Raw Water Dispute" has the meaning given to that term in Section 12.4(iv) hereof.

"Rebasing Adjustment" has the meaning given to that term in Section 9.4.2.

"Rebasing Convergence Adjustment" has the meaning given to that term in Section 9.4.3.

"Rebasing Dispute" has the meaning given to that term in Section 12.4(iii).

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"Receipts" means all cash receipts from Customers and grants from third parties (including from the Republic) to the Concessionaire, excluding any interest and dividends received by the Concessionaire.

"Regulatory Office" has the meaning given to that term in Section 11.1 hereof.

"Republic" means the Republic of the Philippines.

"Retained Assets" means those assets that are retained by MWSS following the Closing Date, which are set forth in the document captioned "Allocation of Fixed Assets," dated December 6, 1996.

"Retained Employee" has the meaning given to that term in Section 3.1(i).

"Rules" means the arbitration rules of the United Nations Commission on International Trade Law as in effect on the date of this Concession Agreement.

"Service Area" means the area identified as Service Area East on the map attached to Schedule 1 hereto, and "Service Area East" and "Service Area West" means the areas identified as such on the map attached to Schedule 1 hereto.

"Service Area Loans" means the credits listed in Schedule 8 hereto for which MWSS is the primary obligor.

"Service Obligations" means the obligations of the Concessionaire of the kind referred to in Article 5 hereof, as such Service Obligations may be revised from time to time by the Regulatory Office in accordance with this Agreement.

"Shared Facilities" has the meaning given to that term in Section 3.11.

"Sponsor" means _____ [company name].

"Standard Rates" mean the rates set out in Schedule 5 hereto for the supply of water and sewerage services in the Service Area from the Commencement Date, as amended from time to time in accordance with the provisions of Article 9.

"Technical Submission" means the Concessionaire's technical submission submitted to MWSS on January __, 1996 in connection with the bidding for the Concession.

"Termination Date" means the Expiration Date or the Early Termination Date, as the case may be.

"UATP" means the Raw Water conveyance component of the Umiray Angat Transbasin Project, as described in Schedule 9.

"Undertaking Letter" has the meaning given to that term in Section 15.3(iii)(d).

"Weighted Average Rates Increase" means the percentage difference, either positive or negative, between (i) the revenue that would have accrued to the Concessionaire in the Weighting Year had the Standard Rates to be applied in the Charging Year been applied in the Weighting Year and (ii) the revenue that would have accrued to the Concessionaire in the Weighting Year had the Standard Rates applied by the Concessionaire or, as the case may be, MWSS in the Prior Year been applied in the Weighting Year.

"Weighting Year" means the year beginning on the first day of January two years prior to the commencement of each Charging Year.

ARTICLE 2. APPOINTMENT

2.1 Grant of Concession

On the terms and subject to the conditions set forth herein, MWSS hereby grants to the Concessionaire, as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter, the sole right to manage, operate, repair, decommission and refurbish the Facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area (the "Concession"). The Concessionaire shall perform its functions and exercise its rights under this Agreement directly or, in respect of functions and rights delegated to the Joint Venture, through the Joint Venture. The rights and benefits of the Concessionaire under this Agreement shall be deemed to apply with equal force to the Joint Venture to the extent that the Joint Venture is performing functions delegated to it under this Agreement.

2.2 Acceptance of Appointment

On the terms and subject to the conditions set forth herein, the Concessionaire hereby accepts the Concession and its appointment as the Concessionaire hereunder.

2.3 Term of Appointment

The Concession shall take effect on the Commencement Date and, subject to the provisions of Article 10 hereof, shall continue in effect until the Termination Date.

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2.4 Consumer Price Index Adjustments

In the event that the Concessionaire and the Regulatory Office determine that the CPI is for any period not an accurate reflection of the rate of inflation in the Philippines as it relates to this Agreement, the Concessionaire and the Regulatory Office may select an alternative index.

ARTICLE 3. TRANSITIONAL ARRANGEMENTS

3.1 Designation of Employees

- (i) Prior to bidding on the Concession, MWSS shall have provided the Concessionaire with a list of MWSS permanent employees (and salary/benefit levels/length of service) who shall be hired by the Concessionaire effective on the Commencement Date (each a "Concessionaire Employee") and a list of MWSS permanent employees who shall be hired by the Other Operator effective on the Commencement Date (each an "Other Operator Employee"). The list of prospective Concessionaire Employees and Other Operator Employees shall be updated at the reasonable discretion of the Administrator of MWSS within 30 days of the signing hereof such that all current permanent employees of MWSS shall have been designated as either a Concessionaire Employee, Other Operator Employee or retained employee of MWSS (each, a "Retained Employee"). The Concessionaire shall not, without the consent of the Other Operator, hire any Other Operator Employee during a period of one year after the Commencement Date.
- (ii) MWSS shall, within 15 days of the Commencement Date, supply the Concessionaire with information sufficient to permit the Concessionaire to calculate its maximum exposure for severance payments under Section 6.1.2 below.

3.2 Liabilities/Revenues

MWSS shall bear all liabilities, including the collection of accounts receivable, contingent liabilities and liabilities relating to environmental contamination, and shall (subject to Section 3.4) be entitled to receive and to retain all revenues, arising out of the operation of the Facilities prior to the Commencement Date. MWSS

shall, on the Commencement Date, transfer to the Concessionaire all Customer deposits then held by MWSS for Customers in the Service Area.

3.3 Conduct of the Business Pending the Closing

MWSS hereby covenants that, from the date hereof and until the Commencement Date, unless the Concessionaire shall otherwise consent in writing (which consent shall not unreasonably be withheld), MWSS shall conduct the business and operations of MWSS in the ordinary and usual course in a manner consistent with past best practice and, without limiting the generality of the foregoing, MWSS shall:

- (i) use its reasonable efforts to preserve and maintain the Facilities and Inventories;
- (ii) maintain in accordance with its normal best practices all documents, agreements, contracts and other corporate records of MWSS relevant to its business and operations;
- (iii) at all times comply with all material laws, statutes, rules, regulations, orders and directives of any governmental authority having jurisdiction over MWSS or its businesses, except in cases where the application thereof is being contested in good faith or is the subject of an appeal or other legal challenge;
- (iv) give prompt written notice to the Concessionaire of:
 - (a) the commencement of any dispute or proceeding between MWSS and any governmental body which, if determined adversely to MWSS, could reasonably be expected to have a material adverse effect on MWSS' business or financial condition;
 - (b) the occurrence of any material event of default in any material agreement of MWSS or any event which, upon a lapse of time or the giving of notice or both, would become a material event of default under any such agreement;
 - (c) the occurrence of any other event which has or could reasonably be expected to have a material adverse effect on MWSS' business or financial condition;
- (v) not waive any valuable right owed to MWSS or enter into any material contract which could affect the Concessionaire; or



- (vi) not reorganize departments or otherwise revise its organizational structure or employee salaries or benefits in any material fashion, other than any such reorganization consistent with the terms hereof.

3.4 Accounts Receivable

Until the first anniversary of the Commencement Date, the Concessionaire shall have the exclusive right to collect any accounts receivable from Customers for water and sewerage services outstanding as of the Commencement Date. The Concessionaire shall remit to MWSS, on a monthly basis, all amounts collected in respect of such accounts receivable less a collection fee of (i) for any receivable that has been outstanding for 60 days or less as of the Commencement Date, a fee equal to 3% of the amount collected and (ii) for any receivable that has been outstanding for more than 60 days as of the Commencement Date, a fee equal to 6% of the amount collected.

3.5 Inventory

Effective on the Commencement Date, the Concessionaire shall have the right to use any items of Inventory in carrying out its responsibility under the Concession. Any consumable items owned by MWSS and Inventory not identified for use by the Concessionaire shall be subject to the retention or disposal by MWSS and the applicable rules and procedures of the Commission on Audit shall be complied with in the event of any such disposition of assets by MWSS.

3.6 Movable Property

Legal title to all Movable Property in existence at the Commencement Date shall be retained by MWSS. The Concessionaire is hereby granted the right to operate, maintain in good working order, repair, decommission and refurbish the Movable Property required to provide the water and sewage services under this Agreement; provided, however, that upon expiration of the useful life of any such Movable Property as may be determined by the Concessionaire, such Movable Property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Concessionaire.

3.7 Commencement Fee

The Concessionaire shall pay a commencement fee of U.S. \$5 million to MWSS on the Commencement Date.

3.8 Joint Venture

Prior to the Commencement Date, the Concessionaire and the Other Operator shall enter into a joint venture arrangement in such form as they shall select (e.g., a contractual arrangement, a special purpose company incorporated in the



Philippines or other arrangement) (the "Joint Venture"), subject to the approval of MWSS to assure that (i) the Joint Venture arrangement identifies the party which shall bear each material responsibility and liability of the Joint Venture and (ii) the Joint Venture enters into appropriate contractual undertakings with MWSS regarding the Common Purpose Facilities (including recourse to the Performance Bonds of the Concessionaire and the Other Operator). The Joint Venture shall have the responsibility to:

- (i) operate, maintain, renew and, as appropriate, decommission the Common Purpose Facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the Service Area is capable of meeting the Service Obligations (as such obligations may be revised from time to time by the Regulatory Office following consultation with the Concessionaire); and
- (ii) perform such other functions relating to the Concession (and the Concession of the Other Operator) as the Concessionaire and the Other Operator may choose to delegate to the Joint Venture, subject to approval by MWSS.

In addition, the Concessionaire and the Other Operator shall enter into bilateral arrangements relating to the billing and collection for any services provided by either of them in the other's Service Area and interconnection arrangements as provided in Section 6.3.

3.9 Raw Water Supplies

- (i) Arrangements with respect to the terms and conditions of the supply of Raw Water to the Concessionaire and the Other Operator are set forth in the letter from MWSS to NWRB dated November 27, 1996, which letter was acknowledged and approved by the MWSS Board of Trustees on December 2, 1996.
- (ii) Whenever MWSS receives notice of a meeting with NWRB at which an issue affecting the Concessionaire is scheduled to be discussed, MWSS shall promptly give the Concessionaire notice of that meeting and shall make all reasonable efforts to permit a representative of the Concessionaire to attend such meeting and to express views on behalf of MWSS. On any issue put to a vote at any such meeting which affects only the Concessionaire and not the Other Operator, MWSS shall vote in a manner consistent with the Concessionaire's interest. On any issue which affects both the Concessionaire and the Other Operator, MWSS shall vote in such manner as is consistent with the interests of the Concessionaire and the Other Operator.



3.10 Cash and Marketable Securities

MWSS shall retain, and not transfer to the Concessionaire, all cash and marketable securities in existence on the Commencement Date.

3.11 Shared Facilities

The Concessionaire and the Other Operator shall have equal access to those MWSS facilities involved in the provision of water supply and sewerage services in both Service Area East and Service Area West including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records (the "Shared Facilities").

MWSS shall also make its corporate headquarters available to the Concessionaire and the Other Operator during the one-year period beginning on the Commencement Date (subject to renewal with the consent of all parties).

ARTICLE 4. REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of MWSS

MWSS hereby represents and warrants to the Concessionaire as follows:

4.1.1 Corporate Organization

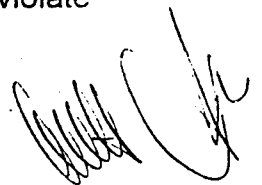
MWSS is a government corporation duly organized, validly existing and in good standing under the laws of the Republic.

4.1.2 Authorization

MWSS has full power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by MWSS and the consummation by MWSS of the transactions contemplated hereby have been duly authorized by all necessary action of MWSS and no further action or proceeding on the part of MWSS is necessary to authorize the execution and delivery by MWSS of this Agreement or the consummation by MWSS of the transactions contemplated hereby. This Agreement has been duly executed and delivered by MWSS and has been approved by the President of the Republic and, under the laws of the Republic in effect as of the date of this Agreement, is a legal, valid and binding obligation of MWSS, enforceable against MWSS in accordance with its terms.

4.1.3 No Violations; No Consents or Approvals Required

- (i) Neither the execution and delivery of this Agreement nor the transactions contemplated hereby will (a) conflict with or violate



any provision of the Charter, (b) conflict with or violate any law, rule, regulation, ordinance, order, writ, injunction, judgment or decree applicable to MWSS or by which any of MWSS' properties or assets are bound or affected or (c) conflict with or result in any breach or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, cancellation or acceleration of, or result in the creation of any lien, charge or encumbrance on any of its assets or properties pursuant to any of the terms, conditions or provisions of, any note, bond, mortgage, indenture, permit, license, franchise, lease, contract, agreement or other instrument or obligation to which MWSS is a party or by which MWSS or any of its properties or assets is bound or affected.

- (ii) Except for the approval of the President of the Republic referred to in Section 4.1.2 above, no notice, declaration, report or other filing or registration with, and no waiver, consent, approval or authorization of, any governmental or regulatory authority or instrumentality is required to be submitted, made or obtained by MWSS in connection with the execution, delivery or performance of this Agreement by MWSS and the consummation of the transactions contemplated hereby.

4.1.4 Financial Statements

The financial statements of MWSS for the fiscal year ending December 31, 1995, previously provided to the Concessionaire, fairly present the financial position of MWSS as of such dates and the results of operations of MWSS for the periods covered by those statements. Since December 31, 1995 there has been no material adverse change in the business, financial position, results of operations or prospects of MWSS. (The representation and warranty contained herein will be deemed to be repeated as of the Closing Date with reference to the financial statements of MWSS dated December 31, 1996.) In addition, the disaggregated pro forma statements with respect to the Concession, the Other Service Area and the retained functions of MWSS previously provided to the Concessionaire have been prepared in a manner consistent with generally accepted accounting principles in the Philippines.

4.1.5 Brokers and Finders

Neither MWSS, nor any of its officials or employees, has incurred any liability for any brokerage fees, commissions, finders' fees or similar fees or expenses in connection with the transactions referred to in this Agreement for which the Concessionaire may be liable.



4.1.6 NO OTHER REPRESENTATIONS OR WARRANTIES

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 4, NEITHER MWSS NOR ANY PERSON ACTING FOR MWSS MAKES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AND MWSS HEREBY DISCLAIMS ANY SUCH REPRESENTATION OR WARRANTY, WHETHER BY MWSS OR ANY OF ITS OFFICIALS, EMPLOYEES, AGENTS OR REPRESENTATIVES OR ANY OTHER PERSON, WITH RESPECT TO THE EXECUTION, DELIVERY OR PERFORMANCE BY MWSS OF THIS AGREEMENT OR WITH RESPECT TO THE TRANSACTIONS CONTEMPLATED HEREBY, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO THE CONCESSIONAIRE OR ANY OF ITS OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES OR ANY OTHER PERSON OF ANY DOCUMENTATION OR OTHER INFORMATION (FINANCIAL OR OTHERWISE) BY MWSS OR ANY OF ITS OFFICIALS, EMPLOYEES, AGENTS OR REPRESENTATIVES OR ANY OTHER PERSON WITH RESPECT TO ANY ONE OR MORE OF THE FOREGOING.

4.2 Representations and Warranties of the Concessionaire

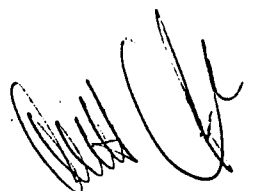
The Concessionaire hereby represents and warrants to MWSS as follows:

4.2.1 Corporate Organization

The Concessionaire is a corporation duly organized, validly existing and in good standing under the laws of the Republic of the Philippines. The Concessionaire has full corporate power and authority to carry on its business as required under the terms of this Agreement and is duly qualified to do business in all jurisdictions where the ownership of its assets or the conduct of its business requires such qualification. The outstanding voting capital stock of the Concessionaire is at least 60% owned by citizens of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Philippines.

4.2.2 Authorization

The Concessionaire has full power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Concessionaire and the consummation by the Concessionaire of the transactions contemplated hereby have been duly authorized by all necessary action of the Concessionaire and no further action or proceeding on the part of the Concessionaire is necessary to authorize the execution and delivery by the Concessionaire of this Agreement or the consummation by the Concessionaire of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Concessionaire and is a legal, valid and binding obligation of the Concessionaire, enforceable against the Concessionaire in accordance with its terms.



4.2.3 No Violations; No Consents or Approvals Required

- (i) Neither the execution and delivery of this Agreement nor the transactions contemplated hereby will (a) conflict with or violate any provision of the Articles of Incorporation or By-Laws of the Concessionaire, (b) conflict with or violate any law, rule, regulation, ordinance, order, writ, injunction, judgment or decree applicable to the Concessionaire or by which any of the Concessionaire's properties or assets are bound or affected or (c) conflict with or result in any breach or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, cancellation or acceleration of, or result in the creation of any lien, charge or encumbrance on any of its assets or properties pursuant to any of the terms, conditions or provisions of, any note, bond, mortgage, indenture, permit, license, franchise, lease, contract, agreement or other instrument or obligation to which the Concessionaire is a party or by which the Concessionaire or any of its properties or assets is bound or affected.
- (ii) No notice, declaration, report or other filing or registration with, and no waiver, consent, approval or authorization of, any governmental or regulatory authority or instrumentality is required to be submitted, made or obtained by the Concessionaire in connection with the execution, delivery or performance of this Agreement by the Concessionaire and the consummation of the transactions contemplated hereby, other than those which have already been obtained and are in full force and effect.

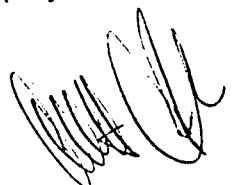
4.2.4 Brokers and Finders

Neither the Concessionaire, nor any of its officials or employees, has incurred any liability for any brokerage fees, commissions, finders' fees or similar fees or expenses in connection with the transactions referred to in this Agreement for which MWSS may be liable.

ARTICLE 5. SERVICE OBLIGATIONS OF THE CONCESSIONAIRE

5.1 General Obligations Regarding the Provision of Water Services

The Concessionaire shall have the obligations set forth in this Article 5 in respect of the provision of water services in the Service Area. The Regulatory Office may defer the implementation of specific Service Obligations in any situation where, in the opinion of the Regulatory Office, such a deferment is warranted in light of unforeseen circumstances (e.g., a material delay in the completion of the UATP project



beyond June 30, 1999 or a material delay in the completion of the LBT project, if such project is amended pursuant to Section 6.13.1(ii)(B) hereof, beyond June 30, 1999).

5.1.1 Water Supply: New Connections

The Concessionaire shall offer water supply services to all existing Customers in the Service Area on the Commencement Date and, in addition, the Concessionaire shall make at least sufficient connections (net of any disconnections) to meet the coverage target percentages of the population in the designated municipality at the time of the target (excluding users who obtain water from a legal source other than the MWSS system) set out in Schedule 2 hereto by the dates specified in that Schedule. Further, the Concessionaire shall provide data and supporting evidence to the Regulatory Office that demonstrates compliance with such coverage targets, along with the method by which such compliance was calculated, prior to each Rebasing Date in accordance with Section 9.4.1.

5.1.2 Continuity of Supply

As soon as practicable, but in any event not later than June 30, 2000, the Concessionaire shall ensure the availability of an uninterrupted 24 hour supply of water to all connected Customers in the Service Area, subject to interruptions resulting from the temporary failure of items of the Facilities (where the Concessionaire acts promptly to remedy such failure) or required for the repair or construction of the Facilities where such repairs or construction cannot be performed without interruption to the supply of water. At all times, such water shall be supplied at a level of positive pressure sufficient to secure the system against the ingress of untreated water or other contaminants; provided, however, that such pressure shall be at a minimum of 11 meters (16 psi) for all areas connected by new primary or secondary conveyance pipelines and, from the tenth anniversary of the Commencement Date, for all pipelines throughout the Service Area. Water pressures shall be determined by measuring service pressure on the Customer's side of the water meter inside of the water meter box.

5.1.3 Obligation to Make Connections to a Water Main

Upon request from the owner or occupant of premises located in the Service Area for a connection to a water main, the Concessionaire shall make such a connection as soon as reasonably practicable. For such connection to a water main located less than 25 meters from the connection point for such main, the Customer shall pay the connection fee set out in Section 9.5(i). For all other connections, the Customer shall pay a fee determined in accordance with Section 9.5(ii).

5.1.4 Drinking Water Quality Standards

The Concessionaire shall ensure at all times that the water supplied to Customers in the Service Area complies with Philippine National Drinking Water



Standards as published by the Department of Health of the Republic (or successor entity responsible for such standards) and prevailing at such time; provided, however, that the Regulatory Office, after consultation with any appropriate governmental authorities, shall have the discretion to consent to a phase-in of compliance with these standards over a period of not more than 12 months from the Commencement Date. The Concessionaire shall observe any requirements regarding sampling, record keeping or reporting as may be specified by law or regulation in the Philippines.

5.1.5 Obligation to Supply Water for Public Purposes

The Concessionaire shall make available an adequate supply of water for fire-fighting and other public purposes as the municipalities comprising the Service Area may reasonably request. The Concessionaire shall not assess a charge for such water used for fire-fighting purposes but may charge for all other water used for public purposes.

5.1.6 Provision of Water Other Than Through a Water Main

The Concessionaire shall make a supply of water available to Customers other than through a water main in circumstances where (i) supplies through a water main have been or will be interrupted for more than 24 hours, or (ii) supplies through a water main have been or will be subject to contamination. The charges for these services shall not exceed the Standard Rates for piped water supplies. In circumstances where no connection to a water main exists, the Concessionaire may make a supply of water available to Customers other than through a water main at a fee equal to the costs reasonably and efficiently incurred by the Concessionaire in supplying such water.

5.2 General Obligations Regarding the Provision of Sewerage Services

The Concessionaire shall have the following obligations in respect of the provision of sewerage services in the Service Area:

5.2.1 Supply of Sewerage Service: New Connections

The Concessionaire shall offer to supply sewerage services to all Customers in the Service Area who have sewerage connections on the date hereof for domestic sewage and industrial effluents compatible with available treatment processes and, in addition, the Concessionaire shall meet the coverage target percentages of the total population in the designated municipality connected to the Concessionaire's water system at the time of the targets set out in Schedule 3 below by the dates specified in that Schedule.



5.2.2 Obligation to Make Connections to a Public Sewer

Upon request from the owner or occupant of premises located in the Service Area for a connection to a public sewer, the Concessionaire shall make such a connection as soon as reasonably practicable. For such connection to a public sewer located less than 25 meters from the connection point, the Customer shall pay the connection fee set out in Section 9.5(i). For all other connections, the Customer shall pay a fee determined in accordance with Section 9.5(ii).

5.2.3 Wastewater Standards

The Concessionaire shall comply with all national and local environmental laws and standards relating to treated wastewater in the Service Area and in accordance with a schedule of compliance provided by the Regulatory Office, as the same may be modified or supplemented from time to time in consultation with the Concessionaire, and the Concessionaire shall have the sole liability for any charges or fines that may be assessed in connection with violations thereof.

5.2.4 Septic and Sanitation Cleaning

The Concessionaire shall offer septic and sanitation cleaning services in the Service Area and, in addition, the Concessionaire shall meet the coverage target percentages of the total population in the designated municipality at the time of the target for such services set out in Schedule 4 below by the dates specified in that Schedule; provided, however, that Customers who request such services of the Concessionaire shall have first priority over those who do not request them. Septic and sanitation cleaning services are defined as the emptying of domestic septic tanks and subsequent sludge disposal at regular intervals of five to seven years.

5.3 Exclusivity

Subject to (i) and (ii) below, the Concessionaire shall have the exclusive right to provide water and sewerage services in the Service Area:

- (i) Any license granted by the NWRB with the consent of MWSS to a third-party provider of water and sewerage services in effect on the Commencement Date shall remain in effect in accordance with its terms.
- (ii) In the event of any application to the NWRB for which MWSS consent is sought by a third party for a license to provide water and sewerage services to a new development after the Commencement Date (a "New Third Party License"), MWSS shall consent to the grant by the NWRB to the Concessionaire of the right to provide



such services to such new development if the Concessionaire agrees to provide such services on (a) substantially similar terms as set forth in the proposed New Third Party License and (b) at the Standard Rates then in effect for such services. If the conditions set out in the previous sentence are not met, or if the Concessionaire voluntarily declines to provide the services to such new development, MWSS may consent to the grant of a license to the third-party service provider for a term not longer than 10 years, subject to revocation upon not less than 60 days' notice to such third party provider if the Concessionaire notifies MWSS and the NWRB in writing that the Concessionaire is in a position to provide such services in accordance with the conditions of this clause (ii)..

To the extent feasible, MWSS shall authorize and facilitate direct communication between NWRB and the Concessionaire with respect to the matters referred to in this Section 5.3.

5.4 Other Customer Service Standards

At all times, the Concessionaire shall provide the highest quality services to its Customers that are practically achievable subject to guidelines issued by the Regulatory Office, including, but not limited to:

- (i) giving prompt responses to Customer inquiries and complaints;
- (ii) giving notices to Customers at least 48 hours in advance of any planned interruptions in water supply;
- (iii) making alternative water supplies available for planned interruptions in service to schools, hospitals and key public buildings, and to all Customers for interruptions in service of more than 24 hours;
- (iv) effecting urgent restoration of water supplies for any unplanned interruptions in service and informing Customers on progress in making necessary repairs and treatment of potentially contaminated supplies;
- (v) taking measures to prevent sewage flooding from the sewerage network; and
- (vi) providing invoices to Customers which clearly identify services, charges, period covered, forms of payment and penalties for late or non-payment.



ARTICLE 6. OTHER OBLIGATIONS OF THE CONCESSIONAIRE

6.1 Employee Matters

The Concessionaire shall have the following obligations in respect of employee matters:

6.1.1 Hiring

- (i) Effective as of the end of business hours on the day prior to the Commencement Date, the employment of each Concessionaire Employee with MWSS shall be terminated and each such Employee shall (upon receipt by MWSS of a release and quitclaim from such Employee) be entitled to:
 - (a) for Concessionaire Employees eligible for retirement, retirement pay in accordance with existing retirement laws (RA 660, 1146 or 1616); and
 - (b) for Concessionaire Employees not eligible for retirement, a severance payment equivalent to one month basic pay for every full year of service.

Such retirement and severance payments shall be the sole responsibility of MWSS.

- (ii) One month prior to the Commencement Date, the Concessionaire shall make an offer to employ each Concessionaire Employee, subject to a probationary period of six months following the Commencement Date, at a salary or pay scale and with benefits at least equal to those enjoyed by such Employee on the date of his or her separation from MWSS. Within a period of six months from the Commencement Date, the Concessionaire, in consultation with the Other Operator, shall effect a new compensation structure comparable to those prevailing in the utilities/infrastructure industry in the Philippines.
- (iii) The Concessionaire shall pay any Concessionaire Employees who do not accept the Concessionaire's offer of employment the difference between the severance pay that they previously received in accordance with clause (i)(b) above and the severance benefits offered by MWSS pursuant to the Early Retirement Incentive Package, without prejudice to any salary adjustment that may be granted by the Republic.

- (iv) The Concessionaire shall hire, on a probationary basis, as of the Commencement Date, all those Concessionaire Employees who accept the offer of employment.
- (v) Not later than six months after the Commencement Date, the Concessionaire will choose which employees to retain on regular status in accordance with the Philippine Labor Code and after due consultation with the Kapatiran ng mga Mangagawa at Kawani sa MWSS ("KKMK") and the MWSS Supervisors Association ("MWSSSA"). KKMK, as the accredited and certified labor union of the rank and file MWSS employees, and MWSSSA shall be recognized, as of the Commencement Date, by the Concessionaire as the representative of the rank and file and supervisory employees, respectively, until such time as an appropriate union has been formed and certified as a bargaining agent. As such, KKMK and MWSSSA may take up with the management of the Concessionaire any and all issues affecting the rights and welfare of their respective members.
- (vi) Those employees retained after six months from the Commencement Date shall then begin employment with the Concessionaire as regular employees. In all cases, the Concessionaire shall recognize and respect the rights of its employees to self organization and collective bargaining.
- (vii) Any Retained Employee who notifies the Concessionaire and MWSS in writing within three years following the Commencement Date of his or her desire to be employed by the Concessionaire shall, upon the release of MWSS, promptly be hired by the Concessionaire and entitled to the same treatment as other Concessionaire Employees under this Section 6.1.

6.1.2 Mandatory Severance Payments

- (i) Concessionaire Employees not retained by the Concessionaire after the six-month probationary period following the Commencement Date shall be paid by the Concessionaire an amount equal to the difference between the severance pay they previously received in accordance with Section 6.1.1(i)(b) above and the severance benefits offered by MWSS pursuant to the Early Retirement Incentive Package, without prejudice to any salary adjustment that may be granted by the Republic;
- (ii) For a period of one year beginning at the end of the six month probationary period from the Commencement Date, any Concessionaire Employee who is affected by any reduction in



personnel (e.g., redundancy, installation of labor saving devices, closure, retrenchment or other authorized causes as provided under the Labor Code) shall be paid separation pay equal to the greater of (a) that prescribed by the Labor Code and (b) the difference between the severance pay they previously received in accordance with Section 6.1.1(i)(b) above and the severance benefits offered by MWSS pursuant to the Early Retirement Incentive Package, without prejudice to any salary adjustment that may be granted by the Republic, whichever is higher.

Severance payments due to Concessionaire Employees under this Section 6.1.2 shall be the sole responsibility of the Concessionaire.

6.1.3 Non-Diminution of Benefits

The Concessionaire shall grant to all Concessionaire Employees employee benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS, particularly those set forth in Exhibit F and the following:

- (i) The Concessionaire shall institute, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan, a welfare fund, to which it shall contribute no less than 5% of the monthly basic salary of a member of the Fund who authorizes the Concessionaire to deduct from his or her monthly basic salary 5% thereof as a contribution to the Fund.
- (ii) The Concessionaire shall permit deductions from the salaries of those employees who are members of ESLA/Health Cooperative and Consumers Cooperative/KKMK and MWSSSA of their contributions for capital subscriptions and loan repayments or membership dues in favor of those institutions. The Concessionaire shall likewise, to the extent feasible, provide to those institutions office facilities free of charge.

6.1.4 Employee Stock Option Plan

The Concessionaire shall, within a period of no more than six months from the Commencement Date, adopt an Employee Stock Option Plan ("ESOP") that over time shall ensure the ownership by its regular employees equal to six percent of the total outstanding capital stock of the Concessionaire. The Concessionaire shall decide whether these shares will be sourced from original Filipino shareholders, an issue of previously authorized but unissued shares or through a capital increase. The ESOP shall have the following features:



- (i) Coverage and Allocation. All regular employees of the Concessionaire and its affiliates shall be entitled to participate in the ESOP. Employees may only subscribe shares under the ESOP (the "ESOP Shares") pursuant to the Annual Stock Purchase Bonus referred to in clause (iii) below. The ESOP shares shall comprise a portion of the Filipino equity ownership of the Concessionaire.
- (ii) Subscription Price. During the first year of the ESOP, the subscription price of each ESOP Share shall be the issued price of the Concessionaire's common shares at the time of incorporation of the Concessionaire. Thereafter, and until an initial public offering (an "IPO") of the Concessionaire's shares is conducted, the ESOP Share subscription price shall be adjusted at the end of each fiscal year by the Concessionaire's external auditors according to established and generally accepted accounting principles applicable to comparable ESOPs in the Philippines.
- (iii) Manner of Payment. The Concessionaire shall grant to every regular employee who has rendered continuous satisfactory service during the full prior year an Annual Stock Purchase Bonus equal to not less than the last basic monthly salary of the employee during that year. This Bonus shall automatically be applied to the purchase of ESOP Shares for the account of that employee. This Bonus shall be paid until all ESOP Shares available for subscription under the ESOP have been subscribed.
- (iv) Vesting. The ESOP Shares shall be issued in the name of the purchasing employees upon full payment for such ESOP Shares.
- (v) Holding Period. For a period of five years from the date of issuance of each ESOP Share, employees may not sell or transfer that ESOP Share. Thereafter, an employee may only sell that ESOP Share to the Concessionaire at a price equal to that determined in the same manner as in Section 6.1.4(ii). Should the Concessionaire conduct an IPO within or after this five-year period, all outstanding ESOP Shares shall be included in the relevant registration statement and each employee holding ESOP Shares may then freely sell or transfer the ESOP Shares held by that employee. In the event of the death of an employee, the balance of the foregoing holding period shall likewise apply to the employee's successors-in-interest.
- (vi) Separation from the Concessionaire. In the event that an employee resigns, retires or is otherwise separated for any reason



(other than death) from the Concessionaire or its affiliates prior to the expiration of the five-year holding period or, if earlier, the implementation of an IPO, the ESOP Shares then held by the resigned, retired or separated employee shall be purchased by the Concessionaire at the then-applicable subscription price under the ESOP.

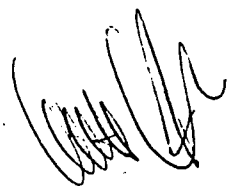
- (vii) Voting Rights. The ESOP shall comprise a class of shares which, during the first five years after commencement of the ESOP, shall have no voting rights except for the matters provided for under Section 6 of the Corporation Code; provided, however, that if the ESOP Shares are included in an IPO during this five-year period, this restriction on voting rights shall automatically terminate.
- (viii) New Employees. Regular Employees who join the Concessionaire after the institution of the ESOP are eligible to participate on a first-come, first-served basis if there are still ESOP Shares available for subscription. Subject to rules to be issued by the Concessionaire, available ESOP Shares may be allocated on a pro-rata basis if it is not possible to grant all such employees a full allocation as provided in Section 6.1.4(i) hereof.

6.2 Taxes

Subject to the Undertaking Letter, the Concessionaire shall be responsible for all income and withholding taxes and other forms of taxes arising from payments by Customers for services rendered on and after the Commencement Date and from any other income associated with the Concession arising on or after the Commencement Date. The Concessionaire shall be responsible for the payment of all documentary stamp taxes payable in connection with the execution of this Agreement and any related agreements or instruments; all customs, import duties and other taxes or assessments relating to the importation into the Philippines of plant and equipment to be used in connection with the Concession; and all local transfer taxes on property acquired through the exercise of rights pursuant to Section 7.2. In addition, the Concessionaire shall pay, for and on behalf of MWSS, or shall reimburse MWSS within 10 days of demand therefor, any real property taxes and other taxes or assessments payable by MWSS on MWSS property or assets in the Service Area used for the supply of water and sewerage services.

6.3 Interconnection

Within thirty days following the date hereof, the Concessionaire shall enter into an interconnection agreement with the Other Operator, in form and substance satisfactory to MWSS (the "Interconnection Agreement"). The Interconnection Agreement shall address the matters summarized in Schedule 10 in a manner consistent with that Schedule.



6.4 Concession Fee

By January 15 of each calendar year, MWSS shall provide the Concessionaire with a schedule of all anticipated amounts due in connection with the Concession Fee payable during that year, as described in (a) and (b) below:

(a) Not later than 14 days prior to the date on which any scheduled payment of principal, interest, fees or other amount is due under an MWSS Loan, MWSS shall notify the Concessionaire in writing of the total amount due on that payment date and of the Peso equivalent thereof (the "Peso Equivalent") calculated at the then prevailing exchange rate. Not later than one business day prior to each such payment date, the Concessionaire shall remit to such account as MWSS shall instruct an amount, in Pesos, exclusive of any penalties or default interest charges not attributable to a late payment of the Concession Fee by the Concessionaire (each such payment being referred to herein as a "Concession Fee"), equal to the sum of:

- (i) 10% of the aggregate Peso Equivalent due under any MWSS Loan which has been disbursed prior to the Commencement Date (including MWSS Loans for Existing Projects and the UATP project) on the relevant payment date set forth on Schedule 8; plus
- (ii) 10% of the aggregate Peso Equivalent due under any MWSS Loan designated for the UATP project which has not been disbursed prior to the Commencement Date on the relevant payment date set forth on Schedule 8; plus
- (iii) 10% of the Local Component costs and Cost Overruns related to the UATP project in accordance with Schedule 9; plus
- (iv) 100% of the aggregate Peso Equivalent due under any MWSS Loan designated for Existing Projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders in accordance with Section 6.13.1(i) or been elected by the Concessionaire for continuation in accordance with Section 6.13.1(ii); plus
- (v) 100% of the Local Component costs and Cost Overruns related to Existing Projects in accordance with Schedule 9.

(b) Not later than five days after the Commencement Date, the Concessionaire shall pay to MWSS the amount of 50 million Pesos, which MWSS shall use and allocate in accordance with Section 11.2 for the establishment and budget of the Regulatory Office during 1997. In addition, the Concessionaire shall pay to MWSS on the first business day of January of each year thereafter an amount equal to one-half of the annual budget for MWSS for that year, provided that such annual budget shall not for any year exceed 200 million Pesos, subject to annual CPI adjustments.

MWSS may request adjustments to the level of the annual contribution of the Concessionaire provided in this Section 6.4(b). If the Concessionaire objects to any such requested revision, it may refer the matter to the Appeals Panel.

Each Concession Fee shall be treated as an Expenditure of the Concession and the Concessionaire's payment obligation in respect thereof shall rank at least pari passu with its unsecured payment obligations under all other debt instruments that may be executed by the Concessionaire. In the event the Concessionaire does not make a timely payment of a Concession Fee, the U.S. dollar equivalent of such unpaid amount may be drawable under the Performance Bond in accordance with Section 6.9 below.

6.5 Asset Management Obligations

The Concessionaire shall have the following obligations concerning the management of the Facilities:

6.5.1 General

During the term of the Concession, the Concessionaire shall:

- (i) operate, maintain, renew and, as appropriate, decommission Facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the Service Area is capable of meeting the Service Obligations (as such obligations may be revised from time to time by the Regulatory Office following consultation with the Concessionaire);
- (ii) repair and correct, on a priority basis, any defect in the Facilities that could adversely affect public health or welfare, or cause damage to persons or third-party property; and
- (iii) ensure that at all times the Concessionaire has sufficient financial, material and personnel resources available to it to meet its obligations under this Agreement.

6.5.2 Asset Condition Disclosure

Not later than the second anniversary of this Agreement, the Concessionaire shall provide a report (the "Asset Condition Report") to the Regulatory Office, in form and substance satisfactory to the Regulatory Office, classifying (on a graded scale) the condition of infrastructure Facilities in the Service Area. This Report shall cover:

- (i) Facilities related to the provision of water supply services, distinguishing among dams, Bulk Water transfer, water treatment

plants, pumping stations, trunk potable water systems, service reservoirs and distribution mains; and

- (ii) Facilities related to the provision of sewerage services, distinguishing among interceptor sewers, other sewers, rising mains, pumping stations, sewage treatment and disposal assets.

The Concessionaire shall update the Asset Condition Report as often as may be reasonably required by the Regulatory Office, but not more frequently than once a year. If the Regulatory Office determines that any asset or improvement is a Disapproved Asset, the Regulatory Office shall promptly notify the Concessionaire of such determination.

6.5.3 Audit

The Regulatory Office shall have the right at any time to commission an independent technical audit of the accuracy and completeness of any Asset Condition Report and/or the Concessionaire's compliance with its obligations under Section 6.5.1 above. The Concessionaire shall cooperate fully with any such audit. The cost of any such audit shall be borne by the Concessionaire and treated as an Expenditure.

6.5.4 Remedial Works

Commencing five years subsequent to the Commencement Date, if, based on an audit report commissioned pursuant to Section 6.5.3 above and any other information coming to the attention of the Regulatory Office, the Regulatory Office reasonably concludes that the Concessionaire is not meeting its obligations under Section 6.5.1 above, then the Regulatory Office shall give the Concessionaire written notice of this conclusion and the Concessionaire shall have 60 days (or such longer period as the Regulatory Office may provide) thereafter to commence appropriate action to correct the problem to the satisfaction of the Regulatory Office. Failing such correction, the Regulatory Office shall have the authority to commission appropriate remedial works by third parties. The costs of such remedial works shall be borne by the Concessionaire but shall not constitute an Expenditure or qualify as a Ground for an Extraordinary Price Adjustment. In the event the Concessionaire does not make a payment within 30 days of written notice pursuant to this Section 6.5.4 of the cost of such remedial works, the U.S. dollar equivalent of such unpaid amount shall be drawable under the Performance Bond in accordance with Section 6.9 below.

6.6 Disconnections

The Concessionaire may disconnect any Connection for the supply of water services or sewerage services in the Service Area if charges billed to the Customer therefor remain unpaid for a period of 60 days after their due date. The Concessionaire shall provide the Customer with not less than seven days' prior written notice of any such disconnection. Upon the payment in full of all outstanding charges

(including late payment penalties and reconnection charges), the Concessionaire shall reconnect any Customer whose services have previously been disconnected within five days following receipt of a request for reconnection.

6.7 Insurance

The Concessionaire shall at its own expense effect and maintain, or require to be effected and maintained, throughout the term of the Concession insurance coverage in such amounts as are reasonable and customary throughout the industry internationally; provided, however, that the Concessionaire shall at all times comply with Administrative Order #141 regarding insurance of Government properties by the General Insurance Funds of the Government Service Insurance System.

6.8 Compliance with Laws

The Concessionaire shall comply with all Philippine laws, statutes, rules, regulations, orders and directives of any governmental authority that may affect the Concession from time to time.

6.9 Performance Bond

On the Commencement Date, and on each Rate Rebasing Date, the Concessionaire shall post a bond, bank guarantee or other security acceptable to MWSS (a "Performance Bond") in favor of MWSS to secure the Concessionaire's performance of its obligations under Section 3.8 (Joint Venture), Section 6.4 (Concession Fee), Section 6.5.4 (Remedial Works), Section 10.3.2 (Early Termination), Section 10.4 (Penalties for Failure to Meet Service Obligations), Section 11.2.2 (Annual Contribution), Section 12.6 (Costs of the Appeals Panel) during the Rate Rebasing Period commencing on that date. The aggregate amount drawable in one or more installments under each such Performance Bond during the Rate Rebasing Period to which it relates is set out below:



<u>Rate Rebasing Period</u>	<u>Aggregate Amount Drawable Under Performance Bond</u> (in U.S. \$ millions) East
First	70
Second	70
Third	60
Fourth	60
Fifth	50

Within 30 days of the commencement of each calendar year, the Concessionaire shall cause the Performance Bond to be reinstated in the full amount set forth above applicable for that year.

Upon not less than 10 days' written notice to the Concessionaire, MWSS may make one or more drawings under the Performance Bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision in the matter.

In the event that any amount payable to MWSS or the Regulatory Office by the Concessionaire hereunder is not paid when due, such amount shall accrue interest at a rate equal to that of a 364 days Treasury Bill for each day it remains unpaid from and including the due date thereof to but excluding the date on which such amount shall be paid (including payment through a drawing under the Performance Bond) in full.

6.10 Procurement

During the course of the Concession, other than with respect to Existing Projects, the Concessionaire shall make available for public tender any contract involving the procurement of goods or services, in one or more installments, having a value in excess of P 250,000,000, which amount shall automatically be adjusted on January 1st of each year by the percentage change in the Consumer Price Index for the preceding year. The Concessionaire, at its sole discretion, shall determine the specifications upon which contractors will bid and the criteria, including price and quality, by which the winning bid is selected.

6.11 Equity Capital

Unless waived in writing by the Regulatory Office:

- (i) until December 31, 2002 (the first Rate Rebasing Date), the International Water Operator and the Sponsor shall each own (directly or through a subsidiary that is at least 51% owned, and controlled, by the International Water Operator or the Sponsor, respectively) at least 20% of the outstanding capital stock of the Concessionaire. After the first Rate Rebasing Date and throughout the Concession, the International Water Operator and the Sponsor shall each own (directly or through a subsidiary that is at least 51% owned, and controlled, by the International Water Operator or the Sponsor, respectively) at least 10% of the outstanding capital stock of the Concessionaire;
- (ii) the Concessionaire shall have an equity paid-in cash capital of not less than P 1 billion at the Commencement Date and by the first anniversary of the Commencement Date shall have an equity paid-in cash capital of not less than P 2 billion; and
- (iii) the Concessionaire shall consider the feasibility of making a public offering of a portion of its equity shares in the Philippines with a view toward broadening the ownership base of the Concessionaire.

6.12 Concessionaire Debt

The Concessionaire shall not, without the prior approval of MWSS, incur any debt or liability that would mature after the Expiration Date.

6.13 Existing Projects/UATP

The Concessionaire shall have the following responsibilities with respect to Existing Projects and UATP:

6.13.1 Existing Projects

- (i) For the Existing Projects set forth on Schedule 9 which MWSS has awarded a contract to a third party through a public tender prior to the Commencement Date:
 - (A) the Concessionaire shall assume supervisory responsibility for such Existing Projects (subject to the provisions of the relevant MWSS Loan documentation); and
 - (B) the interest, principal and fee obligations related to the disbursed amounts of MWSS Loans designated for such



Existing Projects, together with the Local Component costs identified in Schedule 9 and Cost Overruns, shall be covered by the Concession Fee.

- (ii) For Existing Projects set forth on Schedule 9 which MWSS has not awarded a contract to a third party through a public tender prior to the Commencement Date, the Concessionaire shall have the option within 30 days following the Commencement Date to:
- (A) continue with the project design and funding in the same manner as initially contemplated by MWSS and the lender to such Project;
 - (B) amend the project design and funding in collaboration with MWSS and the respective lender to such Project; or
 - (C) notify MWSS and the lender to such Project of the Concessionaire's intent to cancel such Project and its related financing.

In the event the Concessionaire does not cancel such Project pursuant to sub-clause (C) above:

- (1) the Concessionaire shall assume supervisory responsibility for such Existing Project (subject to the provisions of the relevant MWSS Loan documentation);
- (2) the interest, principal and fee obligations related to the disbursed amounts of MWSS Loans designated for such Existing Projects, together with the Local Component costs identified in Schedule 9 and Cost Overruns, shall be covered by the Concession Fee; and
- (3) MWSS and the Concessionaire shall, with the consent of the respective lender, set out in writing the details relating to the exercise of the Concessionaire's supervisory responsibility for such Existing Project.

6.13.2 UATP

- (i) MWSS shall retain supervisory responsibility for the UATP project and the Other Operator shall assist and support, to the best of its ability, MWSS to expedite the completion of the UATP project at or under budget.
- (ii) The interest, principal and fee obligations related to the disbursed amounts of the MWSS Loans designated for the UATP project,



together with related Cost Overruns and the Local Component costs identified on Schedule 9, shall be covered by the Concession Fee.

- (iii) Cost Overruns or any material delay after June 30, 1999 in the completion of the UATP project and the supply of the related incremental Raw Water shall be considered, upon completion of the UATP project, grounds for a deferment of Service Obligations in accordance with Section 5.1 and/or an Extraordinary Price Adjustment in accordance with Section 9.3.1.
- (iv) The Joint Venture shall be responsible for the operation, maintenance and renewal of all related facilities upon completion of UATP.

6.13.3 Performance Penalties

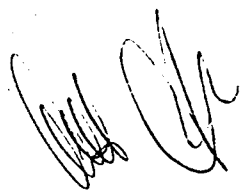
Any liquidated damages or other performance penalties paid to MWSS under any Existing Project or UATP shall promptly be paid over to the Concessionaire and treated as a Receipt under the Concession.

6.14 Technical Submission/Financial Model

The Concessionaire shall provide to the Regulatory Office, not later than 30 days after the Commencement Date, a copy of its Technical Submission. In addition, the financial model supporting the Concessionaire's Rate Bid and Technical Submission (including discount rates, return on equity, projected income statements, balance sheets, sources and uses of funds and relevant ratios) which accompanied the Concessionaire's bid shall be kept in a sealed envelope which may not be opened by the Regulatory Office prior to 30 days after the Commencement Date. The Regulatory Office may treat this information as relevant in carrying out its responsibilities under Article 9 hereof.

6.15 New Assets

Legal title to all fixed assets contributed to the MWSS system in the Service Area by the Concessionaire during the term of the Concession shall remain with the Concessionaire until the Expiration Date (or the Early Termination Date) at which time all right, title and interest in such assets shall automatically vest in MWSS. The Concessionaire may mortgage or create security interests over such assets solely for the purpose of financing (or refinancing) the acquisition or construction thereof; provided, however, that no such mortgage or security interest shall extend beyond the Expiration Date and, provided further, however, that no such mortgage or security interest shall be subject to foreclosure except following an Event of Termination. The Concessionaire shall not, without the prior approval of MWSS, create a security interest of any kind over all or any part of the Facilities to which MWSS has legal title.



Legal title to all Facilities (including any fixed assets resulting from the exercise of rights or powers referred to in Section 7.2 below) other than new assets contributed by the Concessionaire shall remain with MWSS.

ARTICLE 7. OBLIGATIONS OF MWSS

7.1 Cooperation with Concessionaire

Subject to the requirements of the Charter, MWSS shall, upon request of the Concessionaire, cooperate in all reasonable ways to facilitate the Concessionaire's carrying out of its responsibilities under the Concession. Pursuant to the authority given to MWSS by Section 3(h) of the Charter, and subject to the restrictions contained in Section 12 of the Charter, this cooperation shall include, but not be limited to, cooperation with actions undertaken by the Concessionaire to implement changes to the Standard Rates for water and sewerage services as instructed by the Regulatory Office or, as appropriate, by the Appeals Panel.

The cooperation to be rendered by MWSS to the Concessionaire shall not require MWSS or any of its affiliates to finance (or guarantee the financing of) any expenditure required in connection with the Concession, or to undertake any liability in favor of a third party other than those expressly provided for in this Agreement.

7.2 Easements, Eminent Domain, Right of Way and Similar Powers

MWSS hereby appoints the Concessionaire as its agent and representative, for purposes of, among others, Section 3(k) of the Charter, in its name, place and stead, to apply for and exercise its easement, eminent domain, right of way and similar rights and powers given to MWSS under its Charter in connection with infrastructure projects and works undertaken relating to the Concession by the Concessionaire in the Service Area pursuant to this Agreement. The Concessionaire shall be solely responsible for the payment of any compensation to third parties occasioned by the exercise of such rights and powers.

ARTICLE 8. RETAINED FUNCTIONS OF MWSS

8.1 Retained Functions

MWSS shall retain, among others, the following operational responsibilities during the period of the Concession (other than the responsibilities assigned to the Regulatory Office):

- (i) facilitating the exercise by the Concessionaire of its agency powers, upon appropriate notification to MWSS by the Concessionaire as provided in Sections 7.1 and 7.2 above;
- (ii) carrying out accounting and notification functions;
- (iii) monitoring, reporting and administering the MWSS Loans, and performing related functions in connection with the Existing Projects;
- (iv) providing such other services or functions as are assigned by this Agreement, or by the Regulatory Office following the Commencement Date, to MWSS;
- (v) managing and/or disposing of the Retained Assets; and
- (vi) managing and operating UATP.

ARTICLE 9. RATES AND CONNECTION CHARGES

9.1 Standard Rates/CERA Fee

Subject to the limitation of Section 12 of the Charter, Standard Rates may be adjusted from time to time in accordance with the rate adjustment provisions set forth in Sections 9.2, 9.3 and 9.4 below. In the event that the Standard Rates chargeable under this Agreement during any period would exceed the limitation of Section 12 of the Charter applicable to that period, the Charter limitation shall be observed but the Regulatory Office shall treat the excess amount (and interest accrued thereon at the Appropriate Discount Rate) as an Expiration Payment; provided, however, that the Concessionaire may agree to forgo such Expiration Payment in exchange for some other benefit, such as an adjustment to one or more of the coverage targets, that the Regulatory Office may at the time offer to the Concessionaire. Without prejudice to the obligation of MWSS to pay any such Expiration Payment on the Expiration Date, it is the intention of MWSS, should it choose to solicit bids from private parties for the right to operate the system following the Expiration Date, to obtain a lump-sum cash payment from such parties as part of the consideration for the awarding of such rights and to fund any Expiration Payment required by this Section from the proceeds of such cash payment.

The Concessionaire may charge Customers a CERA payment of one Peso per cubic meter of water consumed above the Standard Rates. Although CERA has historically been used by MWSS to adjust for exchange rate movements, that function will be performed through the operation of Section 9.3.1(vi) of this Agreement.



9.2 Rate Adjustments

The Standard Rates for water and sewerage services shall be adjusted each year effective January 1 of each Charging Year, in accordance with (i) the Rates Adjustment Limit forth in Section 9.2.1, (ii) the adjustment principles set forth in Section 9.2.2 and (iii) the procedures set forth in Section 9.2.3.

9.2.1 Rates Adjustment Limit

The Weighted Average Rates Increase implied by the Standard Rates proposed by the Concessionaire in respect of any Charging Year may not exceed the Rates Adjustment Limit.

If in any Charging Year the Weighted Average Rates Increase is less than the Rates Adjustment Limit, that shortfall shall not be recoverable in any way by the Concessionaire in a future Charging Year.

For purposes of calculating Weighting Year revenue, where the Weighting Year is 1996 or 1997, MWSS shall provide to the Concessionaire all information necessary to make the calculation in respect of periods occurring prior to the Commencement Date.

9.2.2 Rate Structure Adjustments

Other than adjustments pursuant to Section 9.2.3 below, all Standard Rates will be revised annually by the same percentage adjustment; provided, however, that the Concessionaire may, subject to the overall Rates Adjustment Limit, propose to the Regulatory Office that certain Standard Rates be revised by different percentage adjustments. In proposing different percentage adjustments, the Concessionaire shall have regard to the following:

- (i) the impact of the proposed adjustment upon the ability of low income domestic households to afford such charges;
- (ii) the desirability of sending economically efficient price signals to Customers;
- (iii) the desirability of reducing cross-subsidies between different Customers or groups of Customers (including cross-subsidies between water and sewerage Customers); and
- (iv) the desirability of removing any cross-subsidy between domestic Customers, as a group, and non-domestic Customers, as a group, as soon as practicable.

9.2.3 Rate Adjustment Procedures

Prior to October 31 of each Prior Year, the Concessionaire shall submit to the Regulatory Office its proposed Standard Rates for the following Charging Year along with sufficient supporting information to enable the Regulatory Office to verify that the proposed Standard Rates is consistent with the Rates Adjustment Limit.

In the event that the annual rate of inflation for any year, as measured by the CPI, shall exceed 12%, the Regulatory Office shall propose amended rules and procedures for the calculation and application of the Rates Adjustment Limit so as to provide for quarterly rate adjustments; such procedures to remain in place until the January 1st next following a calendar year in which the annual CPI is 12% or less; provided, however, that no such quarterly rate adjustment shall be made during the first 12 months after the Commencement Date.

9.2.3.1 Equal Rate Adjustments

Following the submission of proposed Standard Rates in accordance with Section 9.2.3 above, and providing the Concessionaire is proposing that all Standard Rates be revised by the same percentage adjustment, the Regulatory Office shall verify that the proposal complies with the Rates Adjustment Limit and shall notify the Concessionaire accordingly within 15 days. In the event that notification has not been given within 15 days, verification shall be deemed to have taken place.

9.2.3.2 Different Rate Adjustments

Following the submission of proposed Standard Rates in accordance with Section 9.2.3 and if the Concessionaire is proposing that Standard Rates be revised by different percentage adjustments, the Regulatory Office shall notify the Concessionaire of its acceptance or rejection of the proposed Standard Rates, including verification that the proposal complies with the Rates Adjustment Limit, within 30 days. In the event that notification has not been given within 30 days, the Regulatory Office shall be deemed to have accepted the proposed rates and to have verified that they comply with the Rates Adjustment Limit.

In either accepting or rejecting the proposed Standard Rates, the Regulatory Office shall have regard to the principles described in Section 9.2.2 above, and in any case may not withhold approval if the proposed adjustments entail a reduction in cross-subsidies between Customers or groups of Customers and are likely to have no detrimental impact on affordability and economic efficiency.

In the event that the Concessionaire's Standard Rate proposals are rejected by the Regulatory Office, the Concessionaire may submit revised proposals based on uniform percentage adjustments within seven days of notification of the rejection. The Regulatory Office shall verify that the revised proposal complies with the Rates Adjustment Limit and notify the Concessionaire accordingly within 7 days.

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9.2.4 Changes to Basis of Rates

In the event the Concessionaire proposes to make a change (other than one which relates solely to the level of Standard Rates in Section 9.2.3.2 above) to the basis on which the Concessionaire makes or calculates any Standard Rate (including a change in the application of discounts and surcharges to Standard Rates), the Concessionaire shall notify the Regulatory Office and submit sufficient supporting information to enable the Regulatory Office to verify that the proposal is consistent with the Rates Adjustment Limit for that Charging Year.

Upon receipt of such a proposal, the Regulatory Office shall determine within 60 days whether or not to accept the proposal. In the event the Regulatory Office cannot verify whether the proposal is consistent with the Rates Adjustment Limit for that Charging Year, the Concessionaire may either submit an interim Standard Rates adjustment proposal for the following Charging Year, in accordance with Section 9.2.5 below, or defer its proposed change for consideration under the rate adjustment provisions set forth in Section 9.2.

9.2.5 Interim Standard Rate Adjustments

Without prejudice to Section 9.2.3 above, the Concessionaire may at any time make an interim Standard Rates adjustment proposal to the Regulatory Office, for implementation during the Charging Year, but not before the first day of the calendar month following 90 days from submission of such proposal. The Concessionaire shall submit sufficient supporting information to enable the Regulatory Office to verify that the Standard Rates proposal is consistent with the Rates Adjustment Limit.

In verifying that the interim Standard Rates proposal is consistent with the Rates Adjustment Limit, the Regulatory Office shall recalculate the Weighted Average Rates Increase for the Charging Year in which the interim Standard Rates adjustment is to apply as though the interim Standard Rates adjustment had been part of the original proposed Standard Rates for the Charging Year.

The Regulatory Office shall notify the Concessionaire of its acceptance or rejection of the interim Standard Rates proposal, including verification that such proposal complies with the Rates Adjustment Limit, within 30 days.

In either accepting or rejecting the interim Standard Rates proposal, the Regulatory Office shall have regard to the principles described in Section 9.2.2 above, and in any case may not withhold approval if the proposed adjustments entail a reduction in cross-subsidies between Customers or groups of Customers and are likely to have no detrimental impact on affordability and economic efficiency.

In the event that the Concessionaire's interim Standard Rates proposal is rejected by the Regulatory Office, the Standard Rates already agreed for that Charging year shall continue to apply.



9.3 Extraordinary Price Adjustments

It is the intention of the parties that should certain unforeseen events occur during the term of the Concession, rates may be adjusted (up or down) to account for the financial consequences of such events. Such adjustments may occur from time to time as described in this Section 9.3.

In the event that one or more Grounds for Extraordinary Price Adjustment ("GEA"), as defined in Section 9.3.1 below, has occurred or is expected to occur, the Regulatory Office shall either (i) determine, in accordance with Section 9.3.2 below, an extraordinary price adjustment (an "Extraordinary Price Adjustment" or an "E") for the purposes of calculating the Rates Adjustment Limit to be applied to the Standard Rates due to come into effect in the earliest applicable Charging Year or (ii) make an appropriate adjustment to the Service Obligations.

The Concessionaire may at any time require the Regulatory Office to consider circumstances that the Concessionaire believes constitute Grounds for Extraordinary Price Adjustment. The Regulatory Office may also at any time notify the Concessionaire of circumstances that the Regulatory Office believes constitute Grounds for Extraordinary Price Adjustment, as set forth in Section 9.3.1 below.

9.3.1 Grounds for Extraordinary Price Adjustment


A Ground for Extraordinary Price Adjustment ("GEA") means any of the following circumstances (whether or not treated as an Expenditure or Receipt under this Agreement):

- (i) the Regulatory Office, following consultation with the Concessionaire, determines that amendments should be made to the Service Obligations;
- (ii) there is any change in law, government regulation, rule or order, or interpretation thereof, that affects or is likely to affect the Cash Flow of the Concessionaire;
- (iii) the Regulatory Office determines that a breach of this Concession Agreement has occurred and an appropriate remedy has not been made and will not be made;
- (iv) the Concessionaire has been or will be in receipt of a grant or below-market financing from any multilateral or bilateral source that may be used to finance or offset any Expenditures, where such grant or below-market financing was not known or anticipated at the Commencement Date, or at the last Rate Rebasing Date, whichever is the most recent;

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- (v) in the reasonable opinion of the Regulatory Office, a material change has been made to the basis of calculation or definition of the Consumer Price Index or replacement index agreed to pursuant to Section 2.4 above, which would render that index inappropriate for the purposes contemplated by Section 9.2.1 above;
- (vi) without regard to the CERA adjustment referred to in Section 9.1, (a) in respect of any MWSS Loan, a change of more than 2% has occurred after December 6, 1996 (the date of the distribution to the Concessionaire of the technical and business assumptions set forth in Exhibit E) in the rate of exchange between the Philippine peso and the currency in which such MWSS Loan is denominated and (b) in respect of any Concessionaire Loan, a change of more than 2% has occurred after the drawdown date of such Concessionaire Loan in the rate of exchange between the Philippine peso and the currency in which such Concessionaire Loan is denominated, and, in either case, such change in exchange rates has not previously been the subject of an Extraordinary Price Adjustment;
- (vii) there exists an unpaid penalty amount owed by the Concessionaire to the Regulatory Office pursuant to Section 10.4;
- (viii) in the reasonable opinion of the Regulatory Office, the bidding assumptions distributed to the Concessionaire prior to the bid (and attached hereto as Exhibit E) have proven to be incorrect in a material way during any period prior to the first general rate rebasing pursuant to Section 9.4.2;
- (ix) an increase has occurred in the Concession Fee as a result of Cost Overruns for the UATP project;
- (x) the financial performance of the Concessionaire has been materially affected as a result of a delay in the completion of the UATP project beyond June 30, 1999; or
- (xi) the Concessionaire has incurred significant additional costs as a result of an Event of Force Majeure which are not covered by insurance.

In order to qualify for an Extraordinary Price Adjustment to be incorporated into the Rates Adjustment Limit for any Charging Year, notification by the Regulatory Office and/or, as the case may be, the Concessionaire, that one or more GEAs have occurred or are expected to occur shall be made by March 31 of the previous Charging Year.

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9.3.2 Determination of Extraordinary Price Adjustment

Upon determination by the Regulatory Office that one or more GEAs have occurred, the Regulatory office shall, by taking into account all information available at the time, and by making reasonable projections of all factors relevant to the future Cash Flows of the Concessionaire, calculate:

- (i) the Cash Flows which would be caused by the GEA or GEAs (and, for this purpose, the circumstances referred to in Section 9.3.1(iv) and any exchange rate movement of the kind referred to in Section 9.3.1(vi) shall be deemed to affect Cash Flows);
- (ii) the Net Present Value of those Cash Flows as at June 30 of the following Charging Year; and
- (iii) what Extraordinary Price Adjustment, positive or negative, made to the Rates Adjustment Limit for the following Charging Year would cause the Net Present Value as at June 30 of the charging Year of the expected Receipts of the Concessionaire for the period beginning January 1 of that Charging Year until the Expiration Date to change by an amount equal but opposite in sign to the Net Present Value of Cash Flows referred to in (ii) above.

In the event that such calculation indicates that the appropriate Extraordinary Price Adjustment is between zero and plus 1%, then the Regulatory Office shall determine that the Extraordinary Price Adjustment is zero.

The Regulatory Office shall determine what Extraordinary Price Adjustment should be made for any Charging Year by May 31 prior to the beginning of that Charging Year and shall notify the Concessionaire in writing setting out the basis for such determination.

9.3.3 Concessionaire's Right of Appeal

In the event that the Concessionaire:

- (i) has notified the Regulatory Office that, in the opinion of the Concessionaire, one or more GEAs have occurred or are expected to occur but the Regulatory Office has not concurred with that opinion; or
- (ii) objects to the Regulatory Office's determination of an Extraordinary Price Adjustment or adjustment to the Service Obligations, then

the Concessionaire may, not later than June 30 of that year, refer the matter to the Appeals Panel. Within 30 days after any such referral, the Concessionaire and the Regulatory Office shall each file its submission with the Appeals Panel and the Appeals

Panel shall thereafter conduct an investigation into the matter in accordance with Article 12. Consequently, the Appeals Panel shall render a decision as to whether one or more GEAs have occurred and, if so, the appropriate level of Extraordinary Price Adjustment or adjustment to the Service Obligations, by September 30 of the year in which the referral is made.

9.4 General Rate Setting Policy / Rate Rebasing Determination

The maximum rates chargeable by the Concessionaire for water and sewage services hereunder applicable to the period through the second Rate Rebasing Date (subject to interim adjustments as described in this Article 9) are set out in Schedule 5 to this Agreement. It is the intention of the parties that, from and after the second Rate Rebasing Date, the rates for water and sewerage services provided by the Concessionaire shall be set at a level that will permit the Concessionaire to recover over the 25-year term of the Concession (net of any grants from third parties and any possible Expiration Payment) operating, capital maintenance and investment expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service on the MWSS Loans and Concessionaire Loans incurred to finance such expenditures, and to earn a rate of return (referred to herein as the "Appropriate Discount Rate") on these expenditures for the remaining term of the Concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines. The parties further agree that the maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing Date; provided that the Regulatory Office may exercise its discretion to make a general adjustment of such rates on the First Rate Rebasing Date, but, if it does not do so, the Regulatory Office shall implement the assumptions set out in paragraph 2 of Exhibit E on the fifth anniversary of the Commencement Date. It is understood that the determination of the appropriate rate of return will be made separately at the time of each generalized rate rebasing.

It is also the intention of the parties that rates be set in such a way as to provide appropriate efficiency incentives to the Concessionaire, with a view toward benefiting both the Customers and the Concessionaire.

The Regulatory Office shall determine the Rebasing Adjustment to be used for the purposes of calculating the Rates Limit for each of the five Charging Years of each Rebasing Period, in accordance with the provisions set forth below.

9.4.1 Concessionaire's Information

Not later than March 31 preceding each Rate Rebasing Date, the Concessionaire shall supply the Regulatory Office with information on its Expenditures, Receipts, Cash Flows, Opening Cash Position and Future Cash Flows in a form and manner, and covering such time periods, as the Regulatory Office may determine.



The Concessionaire shall also provide such other information as the Regulatory Office may reasonable request or as the Concessionaire may wish to provide.

9.4.2 Rebasing Adjustment

For the purposes of determining the Rates Adjustment Limit to apply to Standard Rates to come into effect on a Rate Rebasing Date commencing with the second Rate Rebasing Date, and the Rates Adjustment Limits for the following four Charging Years, the Regulatory Office shall, by taking into account all information available at the time, and by making reasonable projections of all factors relevant to the future Cash Flows of the Concessionaire, determine:

- (i) the Net Present Value, which may be either positive or negative, of the Opening Cash Position, as at June 30 following that Rate Rebasing Date;
- (ii) the amount, either positive or negative, which if made to the Rates Adjustment Limit for the following Charging Year would cause the Net Present Value of the Future Cash Flows, as at June 30 following that Rate Rebasing Date, to be equal but opposite in sign to the Net Present Value of the Opening Cash Position as determined in (i) above (the "Rebasing Adjustment").

Notwithstanding the foregoing, the Regulatory Office may, in its sole discretion, implement a general rate rebasing consistent with this Section 9.4.2 on the first Rate Rebasing Date if the Regulatory Office determines that circumstances warrant such an action.

9.4.3 Rebasing Convergence Adjustment

The "Rebasing Convergence Adjustment" to be used for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period shall be determined as follows:

- (i) where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
- (ii) where the Rebasing Adjustment is found to be negative, the Rebasing Convergence Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

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The Regulatory Office shall notify the Concessionaire in writing of each of the Rebasing Convergence Adjustments that will apply in respect of the following Rate Rebasing Period by June 30 prior to the Rate Rebasing Date.

9.4.4 Expiration Payment

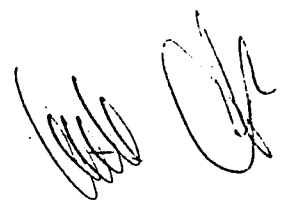
In the event that the Regulatory Office determines, at any time from and after the second Rate Rebasing Date, that the Concessionaire shall incur significant capital expenditures in carrying out the Concessionaire's responsibilities under this Agreement which (in the judgment of the Regulatory Office) should not be recovered through immediate rate adjustments, the Regulatory Office may propose to the Concessionaire that this Agreement be amended to provide for the payment to the Concessionaire on the Expiration Date of a lump-sum amount designed to reimburse the Concessionaire for all or a portion of such unforeseen capital expenditure (the "Expiration Payment"). Any Expiration Payment shall be treated by the Regulatory Office as an anticipated Receipt for purposes of making rate adjustment calculations under this Article 9. Any Expiration Payment may be discharged through the delivery to the Concessionaire of a U.S. Dollar-denominated debt instrument issued by MWSS or by another public-sector entity owned by the Republic but, in either case, with the full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external debt obligations of the Republic, having a cash value equal to such Expiration Payment.

9.4.5 Concessionaire's Right of Appeal

If the Concessionaire disputes a determination by the Regulatory Office made in accordance with Section 9.4.2, the Concessionaire shall have until July 31 prior to the Rate Rebasing Date to refer the matter to the Appeals Panel for determination, as described in Section 12.4 (ii) below.

9.5 Connection Charges

- (i) For connections or reconnections to a water main or a public sewer (each a "Connection") that are both located less than 25 meters from the connection point and are to residential Customers, the Concessionaire shall have the right to charge each Customer requesting such a Connection a fee not to exceed P3,000, which amount shall automatically be adjusted on January 1st of each year by the percentage change in the Consumer Price Index for the preceding year (each a "Connection Charge"). Within three months after the Commencement Date, the Concessionaire shall with the approval of the Regulatory Office promulgate rules that permit payment of Connection Charges in installments over a five-year period by Low-Income Customers.

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- (ii) For Connections to a water main or a public sewer located more than 25 meters from the connection point or for Connections to non-residential Customers, the Concessionaire shall have right to charge each Customer requesting such a Connection a fee equal to the costs reasonably and efficiently incurred by the Concessionaire in making that Connection, including the costs of upgrading or restoring existing connections or metering facilities to acceptable technical standards.

Notwithstanding anything to the contrary in this Section 9.5, there shall be no connection charge for public standpipes.

9.5.1 Notification to Customer

Within five days after receiving a request from a Customer for a Connection, the Concessionaire shall notify the Customer in writing of the proposed charge for making that Connection. Subject to Section 5.1.3 and Section 5.2.2, Connections shall be carried out by the Concessionaire as promptly as may be practicable following the Customer's written acceptance of the related charge. A Customer shall have the right to notify the Regulatory Office if it objects to the charge proposed by the Concessionaire and the Regulatory Office shall determine in its sole opinion whether such Charge is reasonable and notify the Concessionaire whether an adjustment is required.

9.5.2 Authority to Prescribe Maximum Connection Charges

If the Regulatory Office determines at any time that the Concessionaire is setting charges for connections that are inconsistent with the standards set out in Section 9.5(ii) above, the Regulatory Office, upon not less than 30 days' prior written notice to the Concessionaire, shall have the authority to prescribe a schedule of maximum charges consistent with those standards.

ARTICLE 10. EVENTS OF EARLY TERMINATION; PENALTIES

10.1 MWSS Event of Termination

Each of the following events shall constitute an "MWSS Event of Termination" under this Agreement:

- (i) MWSS, acting on its own behalf or at the direction of any Philippine governmental authority, shall make an assignment for the benefit of creditors, petition or apply to any tribunal for a receiver or a trustee for itself or of any substantial part of its property, commence any judicial or other legal proceedings by reason of its financial difficulties under any reorganization,



arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or there shall be commenced against such party any such proceeding which shall remain undismisssed for a period of 60 days, or such party shall by any act indicate its consent to, approval of, or acquiescence in, any such proceeding or the appointment of any receiver of, or trustee for, it or any substantial part of its property, or shall suffer any such receivership or trusteeship to continue undischarged for a period of 60 days; or there shall be any reorganization, arrangement, readjustment of debt, dissolution, or liquidation with respect to such party which does not involve a judicial proceeding and the occurrence of any or all of the above events shall materially impair the rights of the Concessionaire under this Agreement;

- (ii) The Undertaking Letter, or any governmental authorization or approval necessary to enable MWSS perform any of its material obligations under this Agreement, shall be revoked, withdrawn or withheld or shall otherwise fail to be issued or to remain in full force and effect; and
- (iii) MWSS shall fail to perform an obligation under this Agreement of a kind or to a degree that such failure effectively prevents the Concessionaire from carrying out its responsibilities under this Agreement and such failure continues for a period of not less than 30 days after written notice from the Concessionaire to MWSS.

10.2 Concessionaire Event of Termination

Each of the following events shall constitute a "Concessionaire Event of Termination" under this Agreement:

- (i) The Concessionaire shall make an assignment for the benefit of creditors, petition or apply to any tribunal for a receiver or a trustee for itself or of any substantial part of its property, commence any judicial or other legal proceedings by reason of its financial difficulties under any reorganization, arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or there shall be commenced against such party any such proceeding which shall remain undismisssed for a period of 60 days, or such party shall by any act indicate its consent to, approval of, or acquiescence in, any such proceeding or the appointment of any receiver of, or trustee for, it or any substantial part of its property, or shall suffer any such receivership or trusteeship to continue undischarged for a period of 60 days; or there shall be any reorganization, arrangement,



readjustment of debt, dissolution, or liquidation with respect to such party which does not involve a judicial proceeding;

- (ii) The Concessionaire shall fail to perform an obligation under this Agreement of a kind or to a degree such that (a) in the reasonable opinion of the Regulatory Office, such failure amounts to an effective abandonment of the Concession Agreement because it jeopardizes the provision of essential water and sewerage supply services in all or any significant part in the Service Area and (b) such failure continues for a period of not less than 30 days after written notice from the Regulatory Office to the Concessionaire;
- (iii) The Concessionaire shall in the reasonable opinion of the Regulatory Office, fail to perform any material obligation of the Concessionaire set out in this Agreement (other than an obligation described in (ii) above) for which the Regulatory Office shall have determined that a financial penalty pursuant to Section 10.4 would be inappropriate or ineffective, if such failure shall continue for a period of not less than 180 days after written notice from the Regulatory Office to the Concessionaire;

10.3 Early Termination Procedures

10.3.1 Notice

If a Concessionaire Event of Termination shall have occurred and be continuing, the Regulatory Office may give written notice of the early termination of the Concession to the Concessionaire (with a copy to the Appeals Chairman), and the Concession granted hereby shall terminate 60 days after the date of such notice unless such termination is stayed by the Appeals Panel or the Concessionaire Lenders notify MWSS of their intention to exercise their right to nominate a Qualified Replacement Operator pursuant to Section 10.3.2(iii)(A). If an MWSS Event of Termination shall occur and be continuing, the Concessionaire may give written notice of the early termination of the Concession to MWSS (with a copy to the Appeals Panel), and the Concession granted hereby shall terminate on the date set out in such notice (which date shall not be less than 60 days, nor more than 180 days, after the date of such notice) unless such termination is stayed by the Appeals Panel. The date of early termination specified in a notice delivered pursuant to this Section 10.3.1, as such date may be extended by the Appeals Panel as a result of a stay, is referred to herein as the "Early Termination Date".

10.3.2 Early Termination

- (i) Within 30 days after the giving of any notice terminating the Concession pursuant to Section 10.3.1, the Regulatory Office shall determine the amount (the "Early Termination Amount") payable in

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accordance with clause (ii) of this Section 10.3.2 following an MWSS Event of Termination, or payable in accordance with clause (iii) of this Section 10.3.2 following a Concessionaire Event of Termination. The Regulatory Office shall promptly give written notice to each of MWSS, the Concessionaire and the Appeals Panel of the Early Termination Amount and shall furnish a copy of all supporting calculations.

(ii) Following an MWSS Event of Termination:

- (A) the then-outstanding amount of all Concessionaire Loans (including the short-term portion thereof) shall be assumed by MWSS or by another public-sector entity owned by the Republic, but in either case, with a full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external debt obligations of the Republic;
- (B) the Concession (including all fixed assets existing as of the Early Termination Date but excluding all current assets and current liabilities other than the short-term portion of the Concessionaire Loans) shall revert to MWSS for a payment to the Concessionaire (the "Early Termination Amount") equal to an amount, determined by an outside auditor appointed by the Regulatory Office, equal and opposite in sign to the Net Present Value as at the Early Termination Date of the Cash Flows occurring between the Commencement Date and the Early Termination Date less the then-outstanding amount of the Concessionaire Loans (in the event that such Early Termination Amount is a negative number, the Early Termination Amount shall be deemed to be zero); and
- (C) the Early Termination Amount payable by MWSS under this Section 10.3.2(ii) may either:
 - (1) be paid by MWSS in a lump sum payment not later than 45 days after the Early Termination Date or
 - (2) at the option of MWSS, be discharged through the delivery to the Concessionaire of a U.S. Dollar-denominated debt instrument issued by MWSS or by another public-sector entity owned by the Republic but, in either case, with the full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external

debt obligations of the Republic, having a cash value (if discounted in the secondary market on the date of delivery thereof to the Concessionaire) equal to the Early Termination Amount.

(iii) Following a Concessionaire Event of Termination:

(A) All of the Concessionaire's right, title and interest in the Concession shall be assigned by the Concessionaire to a Qualified Replacement Operator (acceptable to the Regulatory Office) nominated by the Concessionaire Lenders; provided, however, that if the Concessionaire Lenders do not nominate such a Qualified Replacement Operator within 6 months of a notice terminating the Concession pursuant to Section 10.3.1, MWSS shall pay to the Concessionaire the Early Termination Amount (set forth in sub-clause (B) below) and the Concession shall thereupon automatically terminate and revert to MWSS with no further liability or obligations on the part of MWSS to the Concessionaire or to the Concessionaire Lenders. In either case, MWSS may draw upon the Performance Bond to recover from the Concessionaire an amount equal to the out-of-pocket costs and expenses incurred by MWSS as a result of such Concessionaire Event of Termination.

(B) In the event that the Concessionaire Lenders do not nominate a Qualified Replacement Operator pursuant to sub-clause (A) above, the Concessionaire and MWSS agree that it would not be feasible to determine the total amount of losses, costs and expenses that MWSS would incur as a result of a Concessionaire Event of Termination. Accordingly, MWSS and the Concessionaire agree that, as a reasonable pre-estimate of such losses, costs and expenses, following a Concessionaire Event of Termination, the Concession (including all current and fixed assets existing as of the Early Termination Date, but excluding any liabilities associated therewith) shall revert to MWSS for a discounted payment, (the "Early Termination Amount"), which shall equal 75 percent of the value of such current assets and 75 percent of the depreciated value of all fixed assets installed by the Concessionaire in the Service Area after the Commencement Date (excluding Disapproved Assets) and all improvements to such fixed assets existing in the Service Area on the Commencement Date, determined as of the Early Termination Date by an outside auditor appointed by the Regulatory Office in accordance

with Philippine generally accepted accounting principles, provided, however, that the Early Termination Amount shall not exceed the then-outstanding Concessionaire Loans and any other indebtedness incurred by the Concessionaire in connection with the Concession and provided further, however, that such Early Termination Amount (or the cash proceeds from the sale of the debt instrument referred to in clause (C)(2) below) shall be applied to repay then-outstanding Concessionaire Loans and any such other indebtedness.

- (C) the Early Termination Amount payable to the Concessionaire by MWSS under sub-clause (B) of this Section 10.3.2(iii) may either:
- (1) be paid by MWSS in a lump sum payment not later than 45 days after the Early Termination Date or
 - (2) at the option of MWSS, be discharged through the delivery to the Concessionaire of a U.S. Dollar-denominated debt instrument issued by MWSS or by another public-sector entity owned by the Republic but, in either case, with a full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external debt obligations of the Republic, having a cash value (if discounted in the secondary market on the date of delivery thereof to the Concessionaire) equal to the Early Termination Amount.

10.3.3 Appeal

- (i) Upon receipt of a notice of early termination pursuant to Section 10.3.1 above (other than a notice which specifies an MWSS Event of Termination of the kind described in Section 10.1(i) or a Concessionaire Event of Termination of the kind described in Section 10.2(i) above), the recipient shall have the right within 30 days thereafter to refer the matter to the Appeals Panel and to seek a stay in connection with such appeal. The Appeals Panel shall have 60 days from receipt of such notice to deliver its determination by written notice to the Regulatory Office and the Concessionaire in accordance with Article 12. Until such determination is made by the Appeals Panel, the Concession shall continue and the parties shall continue to perform their respective obligations hereunder.



- (ii) Either the Concessionaire or MWSS may challenge the calculation of the Early Termination Amount by written referral to the Appeals Panel made within 30 days after receipt of the Regulatory Office's calculation of the Early Termination Amount. The challenging party shall indicate in its referral the amount that it believes is the appropriate termination amount calculated in a manner consistent with Section 10.3.2 above. Within 60 days of any such referral, the Appeals Panel shall either confirm the Early Termination Amount determined by the Regulatory Office or confirm the termination amount proposed by the Challenging Party, whichever the Appeals Panel finds is most consistent with the requirements of Section 10.3.2 above.

10.4 Penalties for Failure to Meet Service Obligations

A failure by the Concessionaire to meet any Service Obligation which continues for more than 60 days (or 15 days in cases where the failure could adversely affect public health or welfare) after written notice thereof from the Regulatory Office to the Concessionaire shall constitute a basis for the Regulatory Office to assess financial penalties against the Concessionaire. The amount of any such penalty shall be equal to 25% of the costs that, in the reasonable opinion of the Regulatory Office, the Concessionaire will incur in order to meet the Service Obligation in question; provided, however, that if the Concessionaire does not meet such Service Obligation within 180 days, the amount of the penalty shall be equal to 50% of such costs. The Concessionaire shall pay any penalties assessed in connection with this Section to the Regulatory Office within 30 days after receipt of a demand therefor. Such penalties shall not be regarded as an Expenditure of the Concession. In the event the Concessionaire fails to make timely payment of an assessment pursuant to this Section 10.4, the Regulatory Office may draw the U.S. dollar equivalent of such unpaid amount under the Performance Bond in accordance with Section 6.9 above or may treat such non-payment as a GEA in accordance with Section 9.3.1. Notwithstanding the foregoing, no penalties will be assessed in respect of any failure to meet water quality standards identified by this Section 10.4 unless such failure continues after 12 months following the Commencement Date. All penalties received by the Regulatory Office pursuant to this Section 10.4 shall be rebated to Customers affected by the Concessionaire's failure to meet Service Obligations in such manner as the Regulatory Office deems appropriate.

ARTICLE 11. REGULATORY OFFICE

11.1 Organization

The MWSS Board of Trustees shall establish and fund a regulatory office (the "Regulatory Office") to be organized and operated in a manner consistent with the

description contained in Exhibit A hereto, subject to such changes thereto that the MWSS Board of Trustees may make from time to time, and shall have the functions and powers described in that Exhibit. Decisions of the Regulatory Office requiring action by the MWSS Board of Trustees, including decisions affecting the level of Standard Rates, shall promptly be submitted to the Board in accordance with Section 7.1 hereof.

11.2 Funding

Not later than 10 days after the Commencement Date, MWSS shall allocate from the Concession Fees received from the Concessionaire and the Other Operator the amount of 100 million Pesos which shall constitute the budget of the Regulatory Office for the year 1997. Not later than January 10 of each subsequent year, MWSS shall allocate from the Concession Fees paid in that year by the Concessionaire and the Other Operator the annual budget for the Regulatory Office and MWSS for that year, provided that such annual budget shall not for any year exceed 200 million Pesos, subject to annual CPI adjustments, 100 million Pesos of which, as so adjusted, shall be allocated by MWSS for the Regulatory Office.

ARTICLE 12. DISPUTE RESOLUTION

12.1 Consultation

The parties hereto agree to use reasonable efforts to resolve any disagreements or disputes concerning the interpretation or implementation of this Concession Agreement through mutual consultation and negotiation.

12.2 Arbitration

All disagreements, disputes, controversies or claims arising out of or relating to this Agreement or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof (including all decisions by the Regulatory Office with respect to the Concession) which cannot be resolved through consultation and negotiation among the parties hereto shall be finally settled by an arbitration panel consisting of three members (the "Appeals Panel") appointed and conducting proceedings in accordance with the arbitration rules of the United Nations Commission on International Trade Law as in effect on the date of this Agreement (the "Rules"), except insofar as the Rules conflict with the provisions of this Agreement.

12.3 Composition of Appeals Panel

Not less than 30 days prior to the commencement of each Rate Rebasing Period, the Concessionaire and the Regulatory Office shall each appoint one member of the Appeals Panel to serve for the following Rate Rebasing Period. If either party

fails to appoint a member within this period, such member shall be appointed by the President (for the time being) of the International Chamber of Commerce. (In the case of disputes between the Concessionaire and the Other Operator, on the one hand, and MWSS, on the other, the Concessionaire and the Other Operator shall jointly agree on the appointment of one member to the Appeals Panel). For matters involving Major Disputes (as defined below), the President (for the time being) of the International Chamber of Commerce shall designate a third member and that third member shall act as the chairman of the Appeals Panel (the "Appeals Chairman"). For matters involving Minor Disputes (as defined below), the two members so appointed shall designate a third member and that third member shall act as the Appeals Chairman. Each member of the Appeals Panel (other than the Appeals Chairman) shall be a resident (but need not be a citizen) of the Philippines. Members appointed to the Appeals Panel shall be individuals of good business reputation who have no prior business connection with any party to this Agreement or with the Other Operator. In the event of the death, incapacity or resignation of any member of the Appeals Panel, the appointing party (including, where appropriate, the President of the International Chamber of Commerce) for such member shall promptly appoint a successor to serve out the unexpired term of such member. An individual may be reappointed to serve on the Appeals Panel for more than one Rate Rebasing Period.

12.4 Procedures

The Appeals Panel shall decide Disputes in accordance with the following procedures:

- (i) Disputes may be referred to the Appeals Panel by any party hereto by providing written notice to the Appeals Chairman of the Appeals Panel and the other parties hereto (each a "Dispute Notice") setting out in reasonable detail the circumstances of such dispute.
- (ii) Disputes related to (A) a Rebasing Dispute (described below), (B) an appeal of the determination of a GEA or Extraordinary Price Adjustment pursuant to Section 9.3.3, (C) an appeal of the calculation of the Termination Amount pursuant to Section 10.3.3, (D) the amount and price of Bulk Water transported from Service Area West to Service Area East, (E) the delegation of responsibilities between the Concessionaire and the Other Operator in the Joint Venture or (F) a contested notice of termination pursuant to Section 10.3.1 (each a "Major Dispute") shall be referred to an Appeals Panel constituted under the chairmanship of a Appeals Chairman appointed by the President of the International Chamber of Commerce. All Disputes other than Major Disputes (each a "Minor Dispute") shall be referred to the Appeals Panel as provided in Section 12.3 above.



- (iii) Dispute Notices referred by the Concessionaire relating to Rate Rebasing Adjustments (each a "Rebasing Dispute") shall include a detailed description of the Concessionaire's alternative proposal for a Rate Rebasing Adjustment for the next Rate Rebasing Period, together with information as to how such Adjustment was calculated. The Regulatory Office shall have 15 days after receipt of notice of a Rebasing Dispute in which to submit to the Appeals Panel the Rate Rebasing Adjustment for the next Rate Rebasing Period determined by the Regulatory Office in accordance with Section 9.4.2 above, together with information as to how such Adjustment was calculated. After making such investigation and conducting such hearings into the matter as the Appeals Panel deems appropriate, the Appeals Panel shall, by not later than September 30 of the year in which a Rebasing Dispute is referred to it, accept either the Rate Rebasing Adjustment as determined by the Regulatory Office or the alternative Rate Rebasing Adjustment proposed by the Concessionaire.
- (iv) Dispute Notices may be referred by the Concessionaire or the Other Operator in connection with matters arising under the Interconnection Agreement or the supply of Raw Water pursuant to Section 3.9 (each a "Raw Water Dispute"). The Raw Water Agreement shall contain a dispute resolution provision submitting all disputes under that Agreement to the Appeals Panel in a manner consistent with this Article 12.
- (v) All disagreements, disputes, controversies or claims referred to the Appeals Panel, other than those involving a Rebasing Dispute, shall be decided in such manner as the Appeals Panel determines in its sole discretion to be appropriate.
- (vi) Except as otherwise set forth herein, the Appeals Panel shall make a decision on any matter referred to it within a period of 90 days from receipt of a Dispute Notice. Such decision period may be extended by mutual agreement of the parties to the dispute. Each decision must have the written concurrence of at least two of the three members of the Appeals Panel.
- (vii) The Appeals Panel may stay any termination of the Concession as notified pursuant to Section 10.2.2 pending its determination of the validity of such termination.
- (viii) The Appeals Panel may retain the services of legal, economic and technical consultants as the Panel deems appropriate.

- (ix) The Appeals Panel proceedings shall be held in English, and the place for the proceedings shall be Manila.
- (x) The Appeals Panel may from time to time adopt procedural rules or guidelines consistent with the terms of this Concession Agreement, and such rules or guidelines shall be binding on the parties hereto.

12.5 Waiver of Right to Appeal

Any decision or award of the Appeals Panel shall be final and binding upon the parties hereto. To the maximum extent permitted by applicable law, each party hereby waives any right to seek any interlocutory or other relief from any judicial or regulatory body, or to appeal or seek the review of an Appeals Panel award by any court, regulatory body or other tribunal. Each of the parties hereto agrees that an award of the Appeals Panel may be enforced against it or its assets wherever they may be found and that judgment upon such award may be entered in any court having jurisdiction thereof. Each such party hereby waives and agrees not to plead any immunity (whether on the basis of sovereignty or otherwise) to which such party or its assets might otherwise be entitled in connection with any such enforcement proceeding.

12.6 Costs of the Panel

- (i) The out-of-pocket costs incurred by the Appeals Panel in connection with any proceeding brought before it relating solely to the Concession (including the fees and expenses of panel members and legal, economic or technical consultants retained by the Appeals Panel), shall be apportioned between the parties as the Appeals Panel shall direct and the Concessionaire's share of such costs shall be treated as an Expenditure. One half of the estimated costs of each proceeding (as determined by the Appeals Panel) shall be due prior to the commencement of such proceeding. The Appeals Panel shall invoice the appropriate party or parties for the balance of such costs within 30 days of delivering its decision in respect of each proceeding and such balance shall be payable within 10 days after receipt of the invoice.
- (ii) The Appeals Chairman shall be entitled to a per diem compensation at such rate as the President of the International Chamber of Commerce may recommend. The other members of the Appeals Panel shall each be entitled to a per diem compensation equal to 2,500 Pesos per day (or portion of a day) while in session. This per diem rate shall automatically be adjusted on January 1st of each year by the percentage change in the Consumer Price Index for the preceding year.

- (iii) In any proceeding in which the Concessionaire, the Other Operator or MWSS are parties, the Appeals Panel shall assess costs ratably to the parties to such proceeding.
- (iv) In the event the Concessionaire does not make timely payment of any charges payable by it pursuant to this Section 12.6., the U.S. dollar equivalent of such unpaid amount may be drawn under the Performance Bond in accordance with Section 6.9 above.
- (v) The Appeals Panel shall be entitled to use the secretarial and administrative support services of the Regulatory Office free of charge.

ARTICLE 13. INFORMATION AND REPORTING REQUIREMENTS

13.1 General Requirement to Provide Information

The Concessionaire shall have a general duty to provide to the Regulatory Office all information that the Regulatory Office may reasonably require in order to permit the Regulatory Office to monitor the performance of the Concessionaire in relation to its obligations under this Agreement. Such information shall include, and not be limited to:

13.1.1 Service Performance Information

The Concessionaire shall provide to the Regulatory Office not more than 30 days following the end of each calendar quarter a report of its performance with respect to the provision of water and sewerage services in the Service Area which shall contain the information specified in Schedule 6 hereto, as such Schedule may be revised by the Regulatory Office from time to time.

13.1.2 Financial Information

The Concessionaire shall provide to the Regulatory Office not later than 60 days following the end of each calendar year a report of the financial performance of the Concession. Such report shall include (i) an analysis of revenue by source and revenue from other sources, (ii) an analysis of operating costs which distinguishes between water supply, sewerage and other services, (iii) an analysis of capital expenditures and investments which distinguishes between water supply, sewerage and other services, and (iv) the other information specified in Schedule 7 hereto, as such Schedule may be revised by the Regulatory Office from time to time.



13.2 Audits

Not less frequently than once a year, the Concessionaire's books and records shall be audited by an independent auditor appointed by, or acceptable to, the Regulatory Office, pursuant to internationally accepted accounting practices. In addition, the Regulatory Office may, upon giving not less than 15 days' prior written notice to the Concessionaire, require that the Concessionaire's books and records relating to the Concession be audited on an interim basis by the Regulatory Office or by an outside auditor. The Concessionaire shall cooperate fully with all such audits.

ARTICLE 14. INDEMNITIES

14.1 Concessionaire Indemnity

The Concessionaire shall indemnify and hold MWSS and its employees, servants and agents harmless from and against any and all liabilities, claims, demands, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) payable to third persons resulting from the operation and maintenance of the Facilities by the Concessionaire, and the performance by the Concessionaire of its obligations under the Concession, on or after the Commencement Date, except to the extent any of the foregoing results from the negligence or willful misconduct of MWSS.

14.2 MWSS Indemnity

MWSS shall indemnify and hold the Concessionaire and its respective employees, servants and agents harmless from and against any and all liabilities, claims, demands, actions, suits, losses, damages, costs and expenses (including reasonable attorney's fees) payable to third persons arising out of the operation and maintenance of the Facilities by MWSS prior to the Commencement Date.

14.3 Procedures for Indemnification

Each of MWSS and the Concessionaire shall promptly notify the other of any claim or potential claim for indemnification pursuant to any of the above Sections in this Article 14 and shall include sufficient information to enable the other party to assess the circumstances relating to such claim or potential claim. Each of MWSS and the Concessionaire shall cooperate fully with the other party in the defense of any such claims. The indemnifying party shall have the right to assume the defense, appeal or settlement of such claims with respect to which indemnity has been invoked within 20 days after receipt of notice thereof from such indemnified party.

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ARTICLE 15. CONDITIONS PRECEDENT

15.1 General Conditions

The obligation of each party hereto to effect the transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Closing Date of the following general conditions:

- (i) no order, statute, rule, regulation, executive order, injunction, stay, decree or restraining order shall have been enacted, entered, promulgated or enforced by any court of competent jurisdiction or governmental or regulatory authority or instrumentality having jurisdiction over the matter that restrains, prohibits or declares illegal the consummation of the transactions contemplated hereby, and no action, suit, inquiry or proceeding shall have been instituted or threatened by any governmental or regulatory authority or instrumentality having jurisdiction over the matter that seeks to restrain, prohibit or declare illegal the consummation of the transaction contemplated hereby; and
- (ii) all waivers, consents, approvals or authorizations required to be obtained from, and all notices, declarations, reports or filings required to be made with, any governmental or regulatory authority or instrumentality in connection with the consummation of the transactions contemplated hereby, shall have been made or obtained.

15.2 Conditions to Obligations of MWSS

The obligations of MWSS to effect the transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Closing Date of the following additional conditions, unless such conditions are waived by MWSS:

- (i) the Concessionaire shall have performed in all material respects the obligations required under this Agreement to be performed by it at or prior to the Closing Date;
- (ii) the representations and warranties of the Concessionaire contained herein shall be true and correct in all material respects at and as of the Closing Date as if made at and as of such date except to the extent that a different time is specifically stated in any such representation and warranty; and
- (iii) MWSS shall have received the documents and instruments set out below:

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- (a) an opinion from special Philippine counsel to the Concessionaire, acceptable to the Office of the Government Corporate Counsel dated as of the Closing Date and substantially in the form attached hereto as Exhibit B;
 - (b) a certificate, dated as of the Closing Date, from a duly authorized officer of the Concessionaire to the effect that the representations and warranties of the Concessionaire contained in this Agreement are true and correct in all material respects as of the Closing Date;
 - (c) all other documents, instruments, writings and other items required to be delivered by the Concessionaire at or prior to the Closing Date pursuant to this Agreement or otherwise reasonably requested by MWSS in connection herewith;
 - (d) certified true copies of resolutions adopted by the Board of Directors of the Concessionaire authorizing the execution, delivery and performance of this Agreement; and
- (iv) the Concessionaire and the Other Operator shall have entered into the Joint Venture.

15.3 Conditions to Obligations of the Concessionaire

The obligation of the Concessionaire to effect the transactions contemplated by this Agreement shall be subject to the satisfaction at or prior to the Closing Date of the following additional conditions, unless such conditions are waived by the Concessionaire:

- (i) MWSS shall have performed in all material respects the obligations required under this Agreement to be performed by it at or prior to the Closing Date;
- (ii) the representations and warranties of MWSS contained herein shall be true and correct in all material respects at and as of the Closing Date as if made at and as of such date except to the extent that a different date is specifically stated in any such representation and warranty;
- (iii) the Concessionaire shall have received the documents and instruments set out below:
 - (a) an opinion from the Office of the Government Corporate Counsel, dated as of the Closing Date and substantially in the form attached hereto as Exhibit C;

Handwritten signatures in black ink, appearing to be initials or names, located in the bottom right corner of the page.

- (b) a certificate, dated as of the Closing Date, from a duly authorized officer of MWSS to the effect that the representations and warranties of MWSS contained in this Agreement are true and correct in all material respects as of the Closing Date;
- (c) a copy of the letter setting forth Raw Water supply arrangements as described in Section 3.9 above;
- (d) an undertaking letter (the "Undertaking Letter") from the Republic signed by the Secretary of Finance setting forth the undertaking of the Republic in connection with the transactions described in this Agreement substantially in the form of Exhibit D hereto;
- (e) copies of the releases and quitclaims referred to in Section 6.1.1(i) above; and
- (f) certified true copies of resolutions adopted by the MWSS Board of Trustees authorizing the execution, delivery and performance of this Agreement.

ARTICLE 16. MISCELLANEOUS

16.1 Assignment

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any rights hereunder shall be assigned by either party hereto, nor shall any party delegate any of its obligations hereunder, without the prior written consent of the other party, and any purported assignment or delegation absent such consent shall be void; provided, however, that the Concessionaire may assign its right to receive any payments or other consideration hereunder (including the right to receive any Termination Amount) as security for Concessionaire Loans.

16.2 Amendments

Any amendment of any provision of this Agreement shall be in a writing signed by the parties and acknowledged by the Republic acting through the Secretary of Finance.

16.3 Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE REPUBLIC OF THE PHILIPPINES.



16.4 Notices

Any notices or other communications required or permitted hereunder or otherwise in connection herewith shall be in writing and shall be delivered personally (including by courier), telexed, sent by facsimile transmission or sent by certified or registered mail, postage prepaid. any such notice shall be deemed given when so delivered personally, or if telexed or sent by facsimile transmission, when so transmitted, or if mailed, upon receipt, as follows:

If to MWSS to:

[]

(with a copy to the Regulatory Office)

Attn:

Facsimile:

If to the Concessionaire to:

[]

Attn:

Facsimile:

If to the Regulatory Office to:

[]

Attn:

Facsimile:

or such other address as the person to whom notice is to given has furnished in writing to the other parties. A notice of change in address shall not be deemed to have been given until received by the addressee.

16.5 Counterparts

This Agreement may be executed in three counterparts or more, each of which when so executed shall be deemed an original, and all of which together shall constitute one and the same instrument.

16.6 Entire Agreement

This Agreement (including any Exhibits, Schedules, documents and instruments referred to herein) constitute the entire agreement and supersede all other prior agreements and understandings, both written and oral, among the parties. Each of the parties undertakes to execute such documents and perform such acts as may reasonably be necessary to give effect to this Agreement.



16.7 Headings

The descriptive headings of the several Articles and Sections of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

16.8 Expenses

Each party hereto shall bear its own expenses in connection with the preparation and negotiation of this Agreement and any related documents.

16.9 Third Party Beneficiaries

Except as otherwise expressly provided herein, this Agreement is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder.

16.10 Force Majeure

No failure or omission to carry out or observe any of the terms, provisions or conditions of this Agreement shall give rise to any claim by any party against another party or be deemed to be a breach or default of this Agreement if the same shall be caused by or arise out of an Event of Force Majeure, as defined below.

16.10.1 Events of Force Majeure

The following events shall constitute an "Event of Force Majeure": any war, declared or not, or hostilities or belligerence, blockade, revolution, insurrection, riot, public disorder, expropriation, requisition, confiscation, nationalization or prolonged obstruction of the exercise of rights or powers referred to in Section 7.2, export or import restrictions, closing of harbors, docks, canals or other assistance to or adjuncts of shipping or navigation of or with any place, rationing or allocation, whether imposed by law, decree or regulation by, or by compliance of industry at the insistence of, any governmental authority of or within the Republic, or (B) fire, unusual flood, drought, earthquake, pollution of Raw Water (other than caused by the act or omission of the party invoking such Event of Force Majeure), volcanic eruption, storm, lightning, tide (other than normal tide), tidal wave, unusually severe weather conditions, perils of the sea, accidents of navigation or breakdown or injury of vessels; accidents to harbors, docks, canals or other assistance to or adjuncts of shipping or navigation, epidemic, quarantine, strikes or combination of workmen, lockouts or other labor disturbances, or any other event, matter or thing wherever occurring, which shall not be within the reasonable control of the party affected thereby; provided, however, that no expropriation, requisition, confiscation, nationalization or prolonged obstruction of the exercise of rights or powers referred to in Section 7.2 by the Republic or any governmental authority of or within the Republic shall constitute an Event of Force Majeure relieving MWSS of any of its obligations hereunder.



16.10.2 Duties of Party Invoking an Event of Force Majeure

The party invoking an Event of Force Majeure shall (i) notify in writing each other party as soon as reasonably possible of the nature of the Event of Force Majeure and the extent to which the Event of Force Majeure suspends the affected party's obligations under this Agreement and (ii) resume performance of its obligations as soon as the effects of the Event of Force Majeure cease to exist.

16.10.3 Minimizing Loss Due to an Event of Force Majeure

The parties will consult with each other and take all reasonable steps to minimize the losses of either party resulting from an Event of Force Majeure.

16.11 Conduct of the Concessionaire Pending the Expiration Date

The Concessionaire hereby covenants that, from the date three months prior to and including the Expiration Date, unless MWSS shall otherwise consent in writing (which consent shall not unreasonably be withheld), the Concessionaire shall conduct the business and operations of the Concession in the ordinary and usual course in a manner consistent with past best practice and, without limiting the generality of the foregoing, the Concessionaire shall:

- (i) use its reasonable efforts to preserve and maintain the Facilities and Inventories;
- (ii) maintain in accordance with its normal best practices all documents, agreements, contracts and other corporate records of MWSS relevant to its business and operations;
- (iii) at all times comply with all material laws, statutes, rules, regulations, orders and directives of any governmental authority having jurisdiction over the Concessionaire or its businesses, except in cases where the application thereof is being contested in good faith or is the subject of an appeal or other legal challenge;
- (iv) give prompt written notice to MWSS of: (a) the commencement of any dispute or proceeding between the Concessionaire and any governmental body which, if determined adversely to the Concessionaire, could reasonably be expected to have a material adverse effect on the Concessionaire's business or financial condition; (b) the occurrence of any material event of default in any material agreement of the Concessionaire or any event which, upon a lapse of time or the giving of notice or both, would become a material event of default under any such agreement; and (c) the occurrence of any other event which has or could reasonably be expected to have a material adverse effect on the Concessionaire's business or financial condition;

- (v) not waive any valuable right owed to the Concessionaire; or
- (vi) not reorganize departments or otherwise revise its organizational structure in any material fashion, other than any such reorganization consistent with the terms hereof.

16.12 Reversion

Upon the expiration of this Concession on the Expiration Date, all of the rights, duties and powers of the Concessionaire provided under the terms of this Agreement shall automatically revert to MWSS or to MWSS' successors or assigns; provided, however, that the Concessionaire shall bear all liabilities, and shall be entitled to receive and to retain all revenues, arising out of its operation of the Facilities prior to the expiration of the Concession. MWSS shall be solely responsible for any taxes, fees or duties payable in connection with such reversion. On the Expiration Date, the Concessionaire shall retain the all cash and marketable securities and Disapproved Assets (other than such assets which are integral to the MWSS system) and transfer to MWSS or to its successors or assigns:

- (i) the Movable Property in its then-current condition;
- (ii) Inventory having a value (adjusted for CPI) at least equal to the Inventory made available to the Concessionaire on the Commencement Date pursuant to Section 3.5 hereof;
- (iii) legal title (free of any liens or encumbrances) to new assets contributed by the Concessionaire pursuant to Section 6.15; and
- (iv) all reports, records, designs, manuals, asset registers, employment records, maps and plans associated with the provision of water and sewerage services within the Service Area.

At the time of such expiration, MWSS shall have the option to rebid the Concession or undertake any other course of action it deems appropriate with respect to the Concession; it being understood that without their express approval at such time, neither MWSS nor the Republic shall incur any financial obligation in respect of such rebidding or other undertaking. This Agreement may not be renewed except with the express written consent of MWSS and the Republic.

16.13 Severability

The invalidity or unenforceability of any portion or provision of this Agreement shall not affect the validity or enforceability of any other portion or provision. Any invalid or unenforceable portion or provision shall be deemed severed from this Agreement. The parties shall negotiate an equitable adjustment in the remaining portions or provisions of this Agreement to effect the underlying purposes of this Agreement.



IN WITNESS WHEREOF, each of the parties has caused this Concession Agreement to be executed on its behalf by its duly authorized officer, all as of the date first written above.

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

By: [Signature]
Title: _____

MANILA WATER COMPANY, INC.

By: [Signature]
Title: _____

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

Service Area

A. Table of municipalities and cities in each Service Area

Service Area West	Service Area East
BACOR	ANGONO
CALOOCAN	ANTIPOLO
CAVITE	BARAS
IMUS	BINANGONAN
KAWIT	CAINTA
LAS PIÑAS	CARDONA
MALABON	JALA-JALA
MAKATI (part) ⁽²⁾	MAKATI (part) ⁽²⁾
MANILA (part) ⁽²⁾	MANDALUYONG
MARIKINA (part) ⁽²⁾	MANILA (part) ⁽²⁾
MUNTINLUPA	MARIKINA (part) ⁽²⁾
NAVOTAS	MORONG
NOVELETA	PASIG CITY
PARAÑAQUE	PATEROS
PASAY	PILILLA
QUEZON CITY (part) ⁽¹⁾	QUEZON CITY (part) ⁽¹⁾
RODRIGUEZ (part) ⁽²⁾	RODRIGUEZ (part) ⁽²⁾
ROSARIO	SAN JUAN
SAN MATEO (part) ⁽²⁾	SAN MATEO (part) ⁽²⁾
VALENZUELA	TAGUIG
	TANAY
	TAYTAY
	TERESA

1. The Service Area division of Quezon City by barangay is supplied in Section B below.
2. The cities or municipalities of Makati, Manila, Marikina, Rodriguez and San Mateo are located in both the Service Areas West and East, as described in Section E below.

SCHEDULE 1 (CONT.)

B. Barangays of Quezon City in Service Area East¹

Service Area East Zone	
Matandang Balara	Central
Pasong Tamo	Botocan
Tandang Sora	Amihan
Culiat	Project 3
Bago Bantay	Quirino
R. Magsaysay	East Kamias
Alicia	Pinahan
Santo Cristo	South Triangle
Bagong Pag-asa	West Kamias
Project 6	Silangan
Vasra	Quirino 3
Diliman	Duyan Duyan
San Vicente	Marilag
Pansol	Escopa
Old Capitol Site	Milagrosa
Krus Na Ligas	Bugumbayan
West Triangle	Manga
Sta. Cruz	Tagumpay
Paligsahan	Project 4
Roxas	Z. Dioquino
Kalusugan	Bayanihan
Damayan Lagi	San Roque
Cubao	Masagana
E. Rodriguez	Libis
Sacred Heart	Villa Ma. Clara
Kamuning	Santolan
Immaculate Concepcion	Bagumbayan
Kanluran	Talampas
Horse Shoe	Ugong Norte
Valencia	Murphy
Mariana	Bagong Lipunan
New Manila	Socorro
Kristong Hari	San Martin
Obrero	

¹ All other barangays in Quezon City are serviced under Service Area West.

C. Map showing the boundary between the Service Areas West and East

See attached map.

MWSS shall prepare, update, and make available to the Concessionaires, reference maps of a more detailed scale describing the boundaries between the Service Areas West and East. MWSS shall also make available the technical description or the metes and bounds of each Service Area. In the event of a conflict between the Concessionaires as to which Zone covers a particular area, the determination of the MWSS based on its reference maps or available technical descriptions shall be controlling.

D. Undefined Targets in Schedules

For all cases that are not defined in the target tables in Schedules 2, 4 and 5, coverage figures for cities or municipalities divided by concession boundaries are percentages of the proportion of the population in the city or municipality in the respective concession areas.

E. Notes on the boundary between the Service Areas West and East/MWSS

The boundary between the Service Areas West and East which coincides generally with the existing MWSS sector boundaries, is drawn, from North to South, as follows:

- i. The boundary coincides with the Marikina River in the northern part. Quezon City ("QC") is largely in the Service Area East. San Mateo and Rodriguez are also substantially in the Service Area East. However, due to a small extension of the Rosario settlement (Rodriguez municipality, Service Area East), across the Marikina river, supplied by existing 150 mm mains, the Zone limit departs locally from the sector boundary up to the closest Marikina River's right bank watershed limit.
- ii. The boundary follows the Marikina river down to the Loyola Subdivision. Rodriguez, San Mateo and Marikina are municipalities substantially in the Service Area East; however, any lands of these municipalities which would be located on the right bank of the Marikina River will be in the Service Area West. The parts of Quezon City located on the left bank of Marikina River are in the Service Area East.
- iii. The boundary cuts west across northern Quezon City before joining the North Central Boundary, close to Pasong Tamo (see table of the barangays). This departure from the North sector boundary is justified by the AWSOP plan to supply with La Mesa 2 water the BF and Filinvest Homes subdivisions, which presently receive water pumped by Capitol station from Balara plant.

The following barangays in Quezon City, among others, will be served under the Service Area East:

Matandang Balara, Pasong Tamo, Tandang Sora, Project 6, Bagong Pag-asa, Alicia and Magsaysay.

The following barangays, among others, will be served under the Service Area West:

Talipapa, Bahay Toro and Tali Solo.

- iv. The boundary is then drawn generally North to South along Mindanao Avenue (QC), Dakilang Lumpo, Pluto, Congressional, Epifanio de los Santos Avenue (QC) down to Del Monte Avenue.
- v. The boundary then follows the course of the San Juan River down to Pasig River.
- vi. The City of Manila is in Service Area West except the left bank of San Juan River and between the Philippine National Railways ("PNR") railroad tracks, the Manila/Pasay City boundary and the left bank of the Pasig River which are in the Service Area East.
- vii. The PNR railroad tracks provides the boundary from Pasig River to South Superhighway/Pres. Quirino Avenue crossing.
- viii. The South Superhighway provides the boundary down to Dilain Creek bridge. The 2200 mm primary mains along the South Superhighway are in the Service Area West, while the 400 mm Pasong Tamo mains are in the Service Area East.
- ix. Part of Cosmopolitan Subdivision and part of Magallanes Village, both in Makati City located West of the PNR railroad tracks will be included in Service Area West, and the rest of Makati is part of the Service Area East.
- x. The western and southern boundaries of Taguig from the Dilain Creek bridge provide the boundary up to Laguna de Bay.

In the interest of clarity, MWSS may update the foregoing textual description of the boundary between Service Area East and Service Area West.

F. Creation, division, merger, abolition or alteration of boundaries of local government units

In the event that provinces, cities, municipalities, or barangays in the MWSS jurisdiction are created, divided, merged, abolished, or their boundaries altered during the course of the Concession, the following shall remain controlling in determining the boundary between the Service Areas West and East:

- i. The boundary as plotted on the map which appears in Section C, and the reference maps and technical descriptions as may be prepared and updated from time to time by the MWSS; and

- ii. The description of the boundary between the Zones in Section E, as it may be updated from time to time by the MWSS.



SCHEDULE 2 – New Water Supply Coverage Targets (Service Area West)*

City/Municipality	2001	2006	2011	2016	2021
MANILA	100%	100%	100%	100%	100%
PASAY	100%	100%	100%	100%	100%
QUEZON CITY	100%	100%	100%	100%	100%
CALOOCAN	100%	100%	100%	100%	100%
LAS PIÑAS	58%	91%	93%	95%	98%
MALABON	84%	100%	100%	100%	100%
VALENZUELA	84%	100%	100%	100%	99%
MUNTINLUPA	53%	86%	88%	90%	95%
NAVOTAS	92%	100%	100%	100%	100%
PARAÑAQUE	76%	100%	100%	100%	100%
CAVITE	100%	100%	100%	100%	100%
BACOR	58%	90%	92%	93%	95%
IMUS	36%	61%	63%	65%	72%
KAWIT	84%	100%	100%	100%	100%
NOVELETA	60%	100%	100%	100%	100%
ROSARIO	42%	90%	90%	90%	90%
Total Area **	87.4%	97.1%	97.4%	97.7%	98.4%

* Expressed as a percentage of the total population in the designated city or municipality at the time of the target (excluding users who are connected to a piped source of water other than from the MWSS system). A blank indicates no specified target for years indicated.

** The Concessionaire shall also be responsible for meeting the new water supply coverage targets (but not the corresponding sewerage targets), in the percentages set out in this Schedule 2 as it appears in the Other Operator's Concession Agreement, for parts of the following cities or municipalities in Service Area East: Makati, San Mateo, Marikina and Rodriguez.

SCHEDULE 2 -- New Water Supply Coverage Targets (Service Area East)♦

City/Municipality	2001	2006	2011	2016	2021
MANDALUYONG	100%	100%	100%	100%	100%
MAKATI	92%	100%	100%	100%	100%
MARIKINA	92%	100%	100%	100%	100%
QUEZON CITY	100%	100%	100%	100%	100%
PASIG	92%	100%	100%	100%	100%
PATEROS	84%	100%	100%	100%	100%
SAN JUAN	96%	100%	100%	100%	100%
TAGUIG	44%	100%	100%	100%	100%
ANGONO	51%	96%	98%	100%	100%
ANTIPOLO	78%	95%	95%	95%	97%
BARAS	34%	51%	53%	55%	58%
BINANGONAN	40%	81%	83%	85%	87%
CAINTA	64%	80%	77%	75%	79%
CARDONA	34%	51%	53%	55%	58%
JALA-JALA	34%	51%	53%	55%	58%
MORONG	34%	51%	53%	55%	58%
PILILLA	34%	51%	53%	55%	58%
RODRIGUEZ	83%	95%	95%	95%	98%
SAN MATEO	84%	100%	100%	100%	100%
TANAY	39%	75%	75%	75%	76%
TAYTAY	92%	100%	100%	100%	100%
TERESA	52%	60%	60%	60%	61%
Total Area**	77.1%	94.1%	94.1%	94.1%	94.6%

* Expressed as a percentage of the total population in the designated city or municipality at the time of the target (excluding users who are connected to a piped source of water other than from the MWSS system). A blank indicates no specified target for years indicated.

** The Concessionaire shall also be responsible for meeting the new water supply coverage targets (but not the corresponding sewerage targets), in the percentages set out in this Schedule 2 as it appears in the Other Operator's Concession Agreement, for parts of the following cities or municipalities in Service Area West: Manila.

SCHEDULE 3 – Sewer Coverage Targets (Service Area West)*

City/Municipality	2001	2006	2011	2016	2021
MANILA	55%	71%	77%	83%	91%
PASAY	0%	0%	0%	16%	95%
QUEZON CITY	0%	0%	0%	0%	54%
CALOOCAN	3%	2%	2%	32%	79%
MANDALUYONG					
LAS PINAS	0%	0%	0%	0%	50%
MAKATI					
MALABON	2%	2%	2%	38%	94%
MARIKINA					
MUNTINLUPA	0%	44%	57%	54%	61%
NAVOTAS	3%	3%	3%	36%	90%
PARAÑAQUE	0%	0%	0%	0%	52%
PASIG					
PATERAS					
SAN JUAN					
TAGUIG					
VALENZUELA	0%	0%	0%	24%	59%
CAVITE	0%	0%	0%	0%	0%
BACOR	0%	0%	0%	0%	0%
IMUS	0%	0%	0%	0%	0%
KAWIT	0%	0%	0%	0%	0%
NOVELETA	0%	0%	0%	0%	0%
ROSARIO	0%	0%	0%	0%	0%
ANGONO					
ANTIPOLO					
BARAS					
BINANGONAN					
CAINTA					
CARDONA					
JALA-JALA					
MORONG					
PILILLA					
RODRIGUEZ					
SAN MATEO					
TANAY					
TAYTAY					
TERESA					
Total area	16%	20%	21%	31%	66%

* Expressed as a percentage of the total population in the designated city or municipality connected to the Concessionaire's water system at the time of the target. A blank indicates no specified target for years indicated. For areas designated by the cities or municipalities as depressed areas, these targets may be met by the installation of one public standpipe for each 475 people.

** The Concessionaire will also be responsible for meeting sewer coverage targets specified in Schedule 4 in the part of the city of Manila covered by the Other Operator unless obstructed from doing so by a natural waterway.

SCHEDULE 3 – SEWER COVERAGE TARGETS (SERVICE AREA EAST)*

City/Municipality	2001	2006	2011	2016	2021
MANILA					
PASAY					
QUEZON CITY	0%	0%	83%	87%	98%
CALOOCAN					
MANDALUYONG	0%	0%	100%	100%	100%
LAS PIÑAS					
MAKATI	22%	52%	100%	100%	100%
MALABON					
MARIKINA	0%	0%	0%	0%	0%
MUNTINLUPA					
NAVOTAS					
PARANAQUE					
PASIG	0%	41%	68%	68%	68%
PATEROS	0%	60%	100%	100%	99%
SAN JUAN	0%	0%	100%	100%	100%
TAGUIG	0%	52%	75%	84%	100%
VALENZUELA					
CAVITE					
BACOR					
IMUS					
KAWIT					
NOVELETA					
ROSARIO					
ANGONO	0%	0%	0%	0%	0%
ANTIPOLO	0%	0%	0%	0%	0%
BARAS	0%	0%	0%	0%	0%
BINANGONAN	0%	0%	0%	0%	0%
CAINTA	0%	0%	0%	0%	14%
CARDONA	0%	0%	0%	0%	0%
JALA-JALA	0%	0%	0%	0%	0%
MORONG	0%	0%	0%	0%	0%
PILILLA	0%	0%	0%	0%	0%
RODRIGUEZ	0%	0%	0%	0%	0%
SAN MATEO	0%	0%	0%	0%	0%
TANAY	0%	0%	0%	0%	0%
TAYTAY	0%	0%	0%	0%	15%
TERESA	0%	0%	0%	0%	0%
Total area	3%	16%	51%	52%	55%

* Expressed as a percentage of the total population in the designated city or municipality connected to the Concessionaire's water system at the time of the target. A blank indicates no specified target for years indicated.

** The Concessionaire will also be responsible for meeting sewer coverage targets specified in Schedule 4 in the part of the cities or municipalities of Makati, San Mateo, Marikina and Rodriguez covered by the Other Operator unless obstructed from doing so by a natural waterway.

SCHEDULE 4 – Sanitation Coverage Targets (Service Area West)*

City/Municipality	2001	2006	2011	2016	2021
MANILA	9%	9%	9%	9%	9%
PASAY	73%	68%	66%	47%	0%
QUEZON CITY	41%	37%	38%	97%	45%
CALOOCAN	30%	61%	47%	42%	21%
MANDALUYONG					
LAS PIÑAS	46%	57%	50%	41%	27%
MAKATI			—		
MALABON	7%	42%	39%	35%	6%
MARIKINA					
MUNTINLUPA	27%	36%	31%	26%	24%
NAVOTAS	14%	65%	60%	54%	10%
PARANAQUE	53%	59%	53%	46%	42%
PASIG					
PATERAS					
SAN JUAN					
TAGUIG					
VALENZUELA	67%	90%	80%	68%	36%
CAVITE	100%	89%	84%	91%	86%
BACOR	52%	67%	60%	56%	50%
IMUS	11%	15%	15%	24%	24%
KAWIT	67%	68%	61%	52%	47%
NOVELETA	28%	41%	39%	35%	33%
ROSARIO	14%	25%	23%	20%	18%
ANGONO					
ANTIPOLO					
BARAS					
BINANGONAN					
CAINTA					
CARDONA					
JALA-JALA					
MORONG					
PILILLA					
RODRIGUEZ					
SAN MATEO					
TANAY					
TAYTAY					
TERESA					
Total area**	43%	46%	43%	39%	27%

* Expressed as a percentage of the total population in the designated city or municipality connected to the Concessionaire's water system at the time of the target. A blank indicates no specified target for years indicated.

** The Concessionaire shall also be responsible for meeting sanitation coverage targets (in the percentages set out in this Schedule 5 as it appears in the Other Operator's Concession Agreement) for parts of the following cities or municipalities in Service Area East: Makati, San Mateo, Marikina and Rodriguez.

SCHEDULE 4 – Sanitation Coverage Targets (Service Area East)*

City/Municipality	2001	2006	2011	2016	2021
MANILA					
PASAY					
QUEZON CITY	24%	21%	16%	12%	2%
CALOOCAN					
MANDALUYONG	0%	0%	0%	0%	0%
LAS PIÑAS					
MAKATI	0%	0%	0%	0%	0%
MALABON					
MARIKINA	63%	79%	73%	64%	60%
MUNTINLUPA					
NAVOTAS					
PARANAQUE					
PASIG	83%	58%	32%	27%	25%
PATEROS	0%	0%	0%	0%	0%
SAN JUAN	0%	0%	0%	0%	0%
TAGUIG	0%	0%	0%	0%	0%
VALENZUELA					
CAVITE					
BACOR					
IMUS					
KAWIT					
NOVELETA					
ROSARIO					
ANGONO	19%	30%	49%	44%	41%
ANTIPOLO	57%	53%	63%	50%	44%
BARAS	0%	0%	0%	0%	0%
BINANGONAN	12%	21%	26%	23%	22%
CAINTA	38%	40%	34%	28%	27%
CARDONA	10%	13%	12%	10%	10%
JALA-JALA	0%	0%	0%	0%	0%
MORONG	0%	0%	0%	0%	0%
PILILLA	0%	0%	0%	0%	0%
RODRIGUEZ	0%	0%	0%	0%	0%
SAN MATEO	66%	65%	58%	49%	44%
TANAY	0%	0%	0%	0%	0%
TAYTAY	82%	78%	70%	60%	54%
TERESA	25%	25%	23%	21%	20%
Total area**	38%	32%	27%	24%	19%

* Expressed as a percentage of the total population in the designated city or municipality connected to the Concessionaire's water system at the time of the target. A blank indicates no specified target for years indicated.

** The Concessionaire shall also be responsible for meeting sanitation coverage targets (in the percentages set out in this Schedule 5 as it appears in the Other Operator's Concession Agreement) for the part of the city of Manila in Service Area West.

Standard Rates

The Standard Rates effective on the Commencement Date shall be each rate shown under the column captioned "New Rate" on the attached schedule, multiplied by ____% (the Concessionaire's Rate Bid) rounded down to the nearest centavo.





Republika ng Pilipinas
PANGASIWAAN NG TUBIG AT ALKANTARILYA SA METROMANILA
Metropolitan Waterworks and Sewerage System
Katipunan Road, Baiara, Quezon City 1105, Philippines

WATER TARIFF SCHEDULE

OLD RATE		NEW RATE	
-----		-----	
Effective Up to July 31, 1996		Effective August 1, 1996	
<u>Consumption Volume</u>	<u>Tariff</u>	<u>Consumption Volume</u>	<u>Tariff</u>
RESIDENTIAL		RESIDENTIAL	
-----		-----	
First 10 Cu.m.	P 29.40/Conn.	First 10 Cu.m.	P 29.50/Conn.
Next 10 Cu.m.	3.57/Cu.m.	Next 10 Cu.m.	3.60/Cu.m.
Next 10 Cu.m.	4.36/Cu.m.	Next 20 Cu.m.	6.85/Cu.m.
Next 10 Cu.m.	5.46/Cu.m.	Next 20 Cu.m.	9.00/Cu.m.
Next 10 Cu.m.	6.30/Cu.m.	Next 20 Cu.m.	10.50/Cu.m.
Next 10 Cu.m.	6.88/Cu.m.	Next 20 Cu.m.	11.00/Cu.m.
Next 20 Cu.m.	7.61/Cu.m.	Next 50 Cu.m.	11.50/Cu.m.
Next 20 Cu.m.	8.30/Cu.m.	Next 50 Cu.m.	12.00/Cu.m.
Over 100 Cu.m.	8.87/Cu.m.	Over 200 Cu.m.	12.50/Cu.m.
RESIDENTIAL B		SEMI BUSINESS	
-----		-----	
First 10 Cu.m.	P 35.18/Conn.	First 10 Cu.m.	P 49.50/Conn.
Next 10 Cu.m.	4.30/Cu.m.	Next 10 Cu.m.	6.05/Cu.m.
Next 10 Cu.m.	4.88/Cu.m.	Next 20 Cu.m.	7.45/Cu.m.
Next 10 Cu.m.	5.67/Cu.m.	Next 20 Cu.m.	9.45/Cu.m.
Next 10 Cu.m.	6.41/Cu.m.	Next 20 Cu.m.	11.00/Cu.m.
Next 10 Cu.m.	6.98/Cu.m.	Next 20 Cu.m.	11.50/Cu.m.
Next 20 Cu.m.	7.82/Cu.m.	Next 50 Cu.m.	12.00/Cu.m.
Next 20 Cu.m.	8.40/Cu.m.	Next 50 Cu.m.	12.50/Cu.m.
Over 100 Cu.m.	8.98/Cu.m.	Over 200 Cu.m.	13.00/Cu.m.

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WATER TARIFF SCHEDULE
Page 2

O L D R A T E		N E W R A T E	
-----		-----	
Effective Up to July 31, 1996		Effective August 1, 1996	
Consumption Volume	Tariff	Consumption Volume	Tariff
-----	-----	-----	-----
COMMERCIAL		BUSINESS GROUP I	
First 25 Cu.m.	P237.56/Conn.	First 10 Cu.m.	P134.00/Conn.
Next 975 Cu.m.	9.50/Cu.m.	Next 90 Cu.m.	13.45/Cu.m.
Over 1000 Cu.m.	9.97/Cu.m.	Next 100 Cu.m.	13.50/Cu.m.
		Next 100 Cu.m.	13.55/Cu.m.
		Next 100 Cu.m.	13.60/Cu.m.
		Next 100 Cu.m.	13.65/Cu.m.
		Next 100 Cu.m.	13.70/Cu.m.
		Next 100 Cu.m.	13.75/Cu.m.
		Next 100 Cu.m.	13.80/Cu.m.
		Next 100 Cu.m.	13.85/Cu.m.
		Next 100 Cu.m.	13.90/Cu.m.
		Next 200 Cu.m.	13.95/Cu.m.
		Next 200 Cu.m.	14.00/Cu.m.
		Next 200 Cu.m.	14.05/Cu.m.
		Next 200 Cu.m.	14.10/Cu.m.
		Next 200 Cu.m.	14.15/Cu.m.
		Next 500 Cu.m.	14.20/Cu.m.
		Next 500 Cu.m.	14.25/Cu.m.
		Next 500 Cu.m.	14.30/Cu.m.
		Next 500 Cu.m.	14.35/Cu.m.
		Next 500 Cu.m.	14.40/Cu.m.
		Next 500 Cu.m.	14.45/Cu.m.
		Next 500 Cu.m.	14.50/Cu.m.
		Next 500 Cu.m.	14.55/Cu.m.
		Next 500 Cu.m.	14.60/Cu.m.
		Next 500 Cu.m.	14.65/Cu.m.
		Next 500 Cu.m.	14.70/Cu.m.
		Next 500 Cu.m.	14.75/Cu.m.
		Next 500 Cu.m.	14.80/Cu.m.
		Next 500 Cu.m.	14.85/Cu.m.
		Next 500 Cu.m.	14.90/Cu.m.
		Next 500 Cu.m.	14.95/Cu.m.
		Over 10000 Cu.m.	15.00/Cu.m.

WATER TARIFF SCHEDULE
Page 3

O L D R A T E
- - - - - -

Effective Up to July 31, 1996
Consumption
Volume Tariff

INDUSTRIAL

First 25 Cu.m. P258.56/Conn.
Next 975 Cu.m. 10.34/Cu.m.
Next 1000 Cu.m. 12.13/Cu.m.

OVERALL AVERAGE
TARIFF

P 6.43/Cu.m.

N E W R A T E
- - - - - -

Effective August 1, 1996
Consumption
Volume Tariff

BUSINESS GROUP II

First 10 Cu.m. P145.00/Conn.
Next 90 Cu.m. 14.60/Cu.m.
Next 100 Cu.m. 14.70/Cu.m.
Next 100 Cu.m. 14.80/Cu.m.
Next 100 Cu.m. 14.90/Cu.m.
Next 100 Cu.m. 15.00/Cu.m.
Next 100 Cu.m. 15.10/Cu.m.
Next 100 Cu.m. 15.20/Cu.m.
Next 100 Cu.m. 15.30/Cu.m.
Next 100 Cu.m. 15.40/Cu.m.
Next 100 Cu.m. 15.50/Cu.m.
Next 200 Cu.m. 15.60/Cu.m.
Next 200 Cu.m. 15.70/Cu.m.
Next 200 Cu.m. 15.80/Cu.m.
Next 200 Cu.m. 15.90/Cu.m.
Next 200 Cu.m. 16.00/Cu.m.
Next 500 Cu.m. 16.10/Cu.m.
Next 500 Cu.m. 16.20/Cu.m.
Next 500 Cu.m. 16.30/Cu.m.
Next 500 Cu.m. 16.40/Cu.m.
Next 500 Cu.m. 16.50/Cu.m.
Next 500 Cu.m. 16.60/Cu.m.
Next 500 Cu.m. 16.70/Cu.m.
Next 500 Cu.m. 16.80/Cu.m.
Next 500 Cu.m. 16.90/Cu.m.
Next 500 Cu.m. 17.00/Cu.m.
Next 500 Cu.m. 17.10/Cu.m.
Next 500 Cu.m. 17.20/Cu.m.
Next 500 Cu.m. 17.30/Cu.m.
Next 500 Cu.m. 17.40/Cu.m.
Next 500 Cu.m. 17.50/Cu.m.
Next 500 Cu.m. 17.60/Cu.m.
Over 10000 Cu.m. 17.70/Cu.m.

OVERALL AVERAGE
TARIFF

P 8.78/Cu.m.

DEFINITION OF MASS CUSTOMER

Code	Customer Classification	Definition
R	RESIDENTIAL	<p>The water/sewer service is for domestic sanitary use of person, family, or a group of families living in one structure, compound, apartment, multi-story building or subdivision which are clearly designed, built, and used only as domestic, as well as charitable institution which use water for domestic purposes only. Domestic/sanitary use includes cooking, washing, bathing, flushing, laundry, maintaining the swimming pool, lawn, and garden all of which are for the use of the permanent residents, their guests, and domestic help only (workers are excluded).</p>
SB	SEMI-BUSINESS	<p>The water/sewer service is for the use of any person, establishment, institution engaged in the following non-domestic/economic activity:</p> <ol style="list-style-type: none"> 1. Sari-sari store 2. Stand 3. Pick-Up/Collection Station 4. Vulcanizing/radiator shop 5. Very small repair shop 6. Other premises utilized for food selling or service 7. Seasonal business which operates for at most three months every year 8. Small storehouse orodega except bonded warehouse 9. Small cottage industry

Code Customer
Classification

06 11 BUSINESS GROUP
 11

Definition

The water/sewer service is for the use of any person, establishment and institution, both private and governmental, engaged in the following non-domestic/economic activity:

1. Bakery and Confectioneries
2. Car Assembly
3. Ceramics/Pottery
4. CIB and Concrete Products Mfr.
5. Construction Activities
6. Cottage Industry
7. Electrical Manufacturing/Assembly
8. Electronics Manufacturing/Assembly
9. Engineering Works
10. Filter Factory
11. Flour Manufacturing
12. Foundry
13. Furniture Manufacturing
14. Galvanizing
15. Glass Factory
16. Handicraft Factory
17. Knitting Factory
18. Machine Shop
19. Mechanical Manufacturing/Assembly
20. Metal Turning
21. Mill
22. Paper Toy Maker
23. Plastic Factory
24. Printing Press
25. RTM/Garment Factory
26. Rubber Manufacturing
27. Seal-Conductor
28. Shoe Factory
29. Soap Factory
30. Tannery and the Like
31. Tailoring and Dressmaking
32. Toy Making
33. Brewery
34. Cement Factory
35. Chemical Manufacturing
36. Cooking Oil Factory
37. Drug Manufacturing
38. Dry Ice Maker
39. Food Manufacturing
40. Ice Plant
41. Laboratory
42. Leather Tannery

<u>Code</u>	<u>Customer Classification</u>	<u>Definition</u>
88 II	BUSINESS GROUP II (Gen'l.)	43. Pulp Manufacturing 44. Paper Mill 45. Petroleum Refinery 46. Sotterinks Manufacturing 47. Textile Mill 48. Thread Factory 49. Tobaccoes Manufacturing 50. Utilities

Establishments classified in the PSIC under Mining and Quarrying; Manufacturing; Electricity, Gas and Water; Construction are included under this group.

PSIC stands for Philippine Standard Industrial Classification.

<u>Code</u>	<u>Customer Classification</u>	<u>Definition</u>
	MIXED BUSINESS	The water/sewer service is for the use of person, establishment, institution for a combination of industrial, commercial, and/or residential activity, in which case the highest classification shall be applied. The user should be advised to apply for a separate water for each activity.
	RAW WATER	Water which did not undergo any purification or treatment.
	SEA TRANSPORT	Water directly sold to ships or any sea transport.
	BULK WATER	Water which are sold in bulk at some withdrawal point.
	SPECIAL CASES	This type of service shall be referred to the Corporate Planning Group which shall study and make recommendation to the Board.

Sewerage charge

For all customers connected - 50% of the applicable water charge

Environmental charge

For all customers - 10% of the applicable water charge

A handwritten signature in black ink, located in the bottom right corner of the page. The signature is stylized and appears to consist of several overlapping loops and lines.

Service Performance Information

Information will be required annually in the form of a formal report for the prior year, so that the Regulatory Office is able to compare actual performance against forecasts and actual performance among the Concessionaire and the Other Operator. The annual report will be submitted within 60 calendar days from the anniversary date of the Commencement Date.

Data submissions will be in table form supported by text commentaries, maps and plans. Where appropriate, information on cost as well as physical measures shall be provided. Hard copy and computerized forms will be required. The following information should be provided:

- Updated maps, plans, and GIS files, as appropriate, showing:
 - (i) water supply;
 - (ii) sewerage services;
 - (iii) areas served;
 - (iv) areas in which services are being introduced, expanded and/or rehabilitated;
 - (v) areas planned for future expansion; and
 - (vi) residual areas within the Service Area.
- Locations and physical features of key surface and underground infrastructure assets shown and information provided in such format that the relationship of systems in place, under construction and contemplated can be related to service provision at macro and micro levels.

Historic and current information and predictions shall be supplied on the following, indicating sources of data, means of and methodologies for generation of figures, assumptions, projections and trends, and other factors that may affect the conclusions:

- Population and demographic distribution.
- Numbers and location of Customers, differentiating between household, commercial and industrial and for water between individual, shared, common services (standpipes), or by other means and for sewerage between those connected to:

- (i) sewerage system with or without treatment;
 - (ii) septic tanks and cesspits; or
 - (iii) lacking a formal sewerage system.
- The water cycle indicating Raw Water drawn, water treated, water supplied to distribution system, water delivered to Customers, calculation of NRW by leakage, unregistered consumption and total expressed as percentages of Raw Water drawn, sewage generated, sewage collected, sewage treated, effluent discharged, sludge produced by weight and volume. For each stage, system losses, quantities for operational use, amounts taken legally but not billed, amounts taken illegally, shall be identified.
 - Compliance with water quality and waste discharge standards.
 - Customer relations including queries, complaints, notices and responses, and response times, with respect to levels of service parameters.
 - Capital and operational investment compared to base assets, expansion, new quantity and service level enhancement, and differentiating between backlog and long term stable serviceability of the asset stock.
 - Labor and staff levels and procurement of goods and services.
 - Disposal of inventories, assets and land.

The data shall indicate:

- Percentages of the population receiving water, sewerage and sanitary services- differentiating between existing and new Customers-categories of Customers, and means of delivery.
- Periodic average and peak availability of water supply and whole water cycle constraints.
- Performance efficiency relationships.
- Changes from previous reports resulting from better information.

At any time following receipt of the performance report but no later than 90 calendar days prior to the submittal date of the subsequent report, the Regulatory Office can require that the Concessionaire modify its presentation of data, methodology for determining relationships, calculation(s) of coverage as compared to targets, reporting on capital improvements to the asset base, and/or any other parameters deemed necessary to monitor contract compliance.

Financial Performance Information

I. Balance Sheet Related Items

- Balance Sheet movements from prior period (including changes in assets, capital and reserves)
- Analysis of Fixed Assets by Asset Type (including: (i) replacement costs of underground and surface assets for water, sewerage and other assets; (ii) accumulated depreciation; and (iii) opening and closing positions and related adjustments)
- Analysis of Fixed Asset Additions and Capital Maintenance (including breakdown by sub-sector)
- Analysis of Asset Additions by Useful Life:
 - short term (less than five years)
 - medium term (20 years)
 - long term (60 years)
 - very long term (underground networks)
- Accumulated Depreciation by Asset Type
- Analysis of reserve movements (indicating adjustments for periodic review and inflation)

II. Profit and Loss Related Items

- Profit and Loss Account Statement (including extraordinary revenues and/or income)
- Analysis of Revenue and Operating Income (including (i) connections and industrial effluent treatment (ii) disposal of assets and (iii) exceptional items)
- Activity Cost Analysis for each of Water and Sewerage Services (including (i) direct costs such as labor, power and chemicals and (ii) business operating costs). Operating and capitalized expenditures to be identified separately.
- Expenditures for each Service by purpose

III. Cash Flow Related Items

- Cash Flow Statement (including interest paid and received, tax payments, grants, loans and new share proceeds). Interest payments may include the interest component of the Concession Fee.
- Reconciliation of Operating Profit to Net Cash Flow

IV. Working Capital Related Items

- Working capital movements from prior period

V. Other

Transactions with affiliated companies (including (i) the number and value of transactions, (ii) procurement methods indicated for capital expenditures, (iii) profit and loss charges and (iv) any other payments in the nature of management or consultant fees to any shareholder of the Concessionaire, or any affiliate of such a shareholder).

MWSS Loans

[See attached pages]



FOREIGN LOANS
WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
ADB	190-PHI	MWSP II	09-09-94	Australian \$	1,193,267.56	1,344,958.64	1,193,267.25	0.31
				Austrian Schillings	688,194.73	49,481.93	688,194.73	0.00
				Deutch Mark	19,586,098.15	9,739,041.26	18,498,661.94	1,087,436.21
				French francs	7,788.20	1,315.50	7,788.20	0.00
				Japanese Yen	5,965,946,539.00	26,994,410.93	3,509,366,658.00	2,456,579,881.00
				Malaysian Ringgit	1,198,780.26	543,332.19	1,198,780.26	0.00
				Netherland Guilders	760,708.15	287,277.91	760,708.15	0.00
				Saudi Riyal	129,739.05	37,334.98	129,739.06	(0.01)
				Swedish Kroner	2,702.40	588.44	2,702.40	0.00
				Swiss Francs	21,804,578.80	11,349,043.23	14,772,492.93	7,032,085.87
				United States \$	953,214.99	953,214.99	2,452,925.98	(1,498,810.99)
						51,300,000.00		

ADB	351-PHI	MWSP II	09-07-78	Australian \$	251,627.11	282,640.48	251,627.10	0.01
				Austrian Schillings	0.00	0.00	120,916.34	(120,916.34)
				Deutch Mark	24,601,333.94	10,589,513.30	13,660,172.26	10,941,161.68
				French francs	14,329.57	2,318.70	14,329.57	0.00
				Japanese Yen	5,115,326,825.60	22,577,104.19	2,169,156,859.00	2,946,169,966.60
				Malaysian Ringgit	31,804.90	13,938.51	31,804.90	0.00
				Pound Sterling	5,615.04	2,946.85	1,641.45	3,973.59
				Swedish Kroner	1,258,937.17	303,336.43	1,258,937.17	0.00
				Swiss Francs	25,376,749.93	13,258,488.07	7,793,968.76	17,582,781.17
				United States \$	369,713.47	369,713.47	1,182,276.42	(812,562.95)
						47,400,000.00		

FOREIGN LOANS
 WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
 AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
ADB	457-PHI	MNSRP	06-25-80	Australian \$	20,193,019.14	1,128,076.81	0.00	20,193,019.14
				Belgian Francs	1,144,832.00	29,100.96	0.00	1,144,832.00
				Danish Kroner	31,521.78	11,564.18	0.00	31,521.78
				Deutch Mrk	13,471,762.72	5,248,011.74	1,788,521.50	11,673,241.22
				French Francs	218,400.99	104,433.71	0.00	218,400.99
				Japanese Yen	2,521,791,858.00	11,100,751.16	1,029,149,617.00	1,492,642,241.00
				Philippine Peso	177,333.79	7,972.39	0.00	177,333.79
				Pound Sterling	363,590.15	177,204.52	0.00	363,590.15
				Singapore \$	10,863.71	5,413.45	0.00	10,863.71
				Swedish Kroner	497,980.60	74,082.69	0.00	497,980.60
				Swiss Francs	22,841,130.17	10,877,787.54	8,963,919.65	13,877,210.52
				United States \$	343,311.52	343,311.52	2,635,073.41	(2,291,761.89)
						29,107,610.66		
ADB	445-PHI	MNSRP I	01-16-94	Austrian Schillings	0.00	0.00	4,537,932.15	(4,537,932.15)
				Belgian Francs	4,294,314.00	109,158.97	0.00	4,294,314.00
				Deutch Mrk	2,681,071.80	1,346,791.92	1,212,660.69	1,468,411.11
				Finish Marka	746,789.00	4,867.29	0.00	746,789.00
				French Francs	2,059,569.75	998,302.30	0.00	2,059,569.75
				Hongkong \$	1,213,486.01	155,491.67	0.00	1,213,486.01
				Japanese Yen	1,587,108,650.88	11,614,739.02	487,599,352.00	1,099,509,298.88
				Malaysian Ringgit	612,513.91	239,408.71	0.00	612,513.91
				Netherland Guilders	105,532.44	49,687.25	1,233,064.06	(1,127,531.62)
				Singapore \$	275,791.43	106,409.96	0.00	275,791.43
				Swedish Kroner	4,150.00	645.01	0.00	4,150.00

FOREIGN LOANS
 WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
 AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT	
ADB	947-PHI	HWSRP II	02-17-89	Swiss Francs	7,215,199.88	4,687,757.34	1,143,640.04	6,071,549.84	
				United States \$	9,899,162.98	9,899,162.98	1,565,952.94	8,333,210.04	
						29,212,422.42			
				Deutch Mrk	1,335.75	800.23	0.00	1,335.75	
				Japanese Yen	2,838,126,147.88	22,084,416.37	216,963,054.00	2,621,163,093.88	
ADB	986-PHI	AWSOP	12-18-89	Japanese Yen	4,454,256,541.70	40,875,917.01	386,488,468.00	4,067,568,073.70	
				Pound Sterling	5,307.69	9,606.92	0.00	5,307.69	
				Swiss Francs	1,527,310.48	1,009,856.51	0.00	1,527,310.48	
				United States \$	15,915,107.60	15,915,107.60	0.00	15,915,107.60	
						57,810,538.04	0.00		
ADB	1150-PHI	HWSRP	01-23-92	United States \$	631,269.44	631,269.44	0.00	631,269.44	

FOREIGN LOANS
WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	± EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
				Kuwaiti Dinar	13,449.82	46,837.39	3,629,722.64	13,449.82
				LUF				(3,629,722.64)
				Netherland Guilder	122,755.94	45,375.07		122,755.94
				Norwegian Kroner	458,143.06	90,051.19		458,143.06
				Pound Sterling	45,502.74	78,642.39		45,502.74
				SEK			843,322.20	(843,322.20)
				South African Rand	57,796.66	74,008.62		57,796.66
				Swiss Francs	1,491,339.56	972,430.43	159,802.80	1,332,537.56
				United States \$	225,189.24	225,189.24	2,099,497.46	(1,865,308.22)
								3,506,994.09
IBRD	1615NH	HUSP II	07-26-78	Arab Emirates Dirhan	6,654,611.56	1,912,751.72		6,654,611.56
				Austrian Schillings	3,719,246.84	205,090.48		3,719,246.84
				Belgian Francs	9,892,149.00	155,796.14		9,892,149.00
				Canadian Dollar	344,113.08	277,006.02		344,113.08
				Deutch Mrk	42,745,792.99	15,452,967.11	4,947,638.22	37,798,154.77
				European C (ECU)	65,165.02	50,102.06		65,165.02
				Ghanaian Cedis	609,159.66	221,512.24		609,159.66
				Indian Rupee	2,876,238.95	240,402.06		2,876,238.95
				Iranian Real	34,502,313.00	396,784.07		34,502,313.00
				Japanese Yen	4,533,478,129.00	19,434,112.91	2,471,722,149.76	2,081,755,979.24
				Kuwaiti Dinar	20,136.86	71,152.97		20,136.86
				Lebanese Pounds	523,340.75	29,735.27		523,340.75
				LYD			843,997.68	(843,997.68)
				Netherland Guilder	20,576,903.11	7,079,396.39	27,099,410.80	(6,522,507.69)
				Norwegian Kroner	669,820.96	114,878.21		669,820.96

FOREIGN LOANS
WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
				Pound Sterling	263,595.22	441,001.97		263,595.22
				Swedish Kroner	339,794.29	142,725.14		339,794.29
				Swiss Francs	64,159,322.09	30,141,495.20	26,269,946.57	37,890,375.52
				United States \$	9,489,145.87	9,489,145.87	19,669,199.04	(10,180,052.17)
						85,746,045.73		
IBRD	1914PH	HWSP II/HMS	03-29-80	Australian Dollar	343.51	272.64		343.51
				Austrian Schillings	703,429.19	35,040.17		703,429.19
				Belgian Francs	1,169,500.00	19,105.62		1,169,500.00
				Canadian Dollar	105,139.29	84,516.31		105,139.29
				Danish Kroner	3,573,127.81	424,412.23		3,573,127.81
				Deutch Mark	23,565,778.96	9,329,231.17		23,565,778.96
				ESC	6,236,796.40	85,263.37	1,336,013.07	4,920,783.33
				Finish Markka	1,367,973.22	306,492.06		1,367,973.22
				French Francs	183,001.06	40,543.47		183,001.06
				Indian Rupee	404,527.24	33,990.29		404,527.24
				Iraqi Dinars	13,463.24	43,310.06		13,463.24
				Italian Lire	169,544,167.00	112,015.87		169,544,167.00
				Japanese Yen	1,437,961,238.00	6,361,241.40	634,235,690.93	803,705,547.07
				Kuwaiti Dinar	2,133,598.38	860,908.88		2,133,598.38
				Netherlands Guilder	8,981,815.39	2,987,074.56		8,981,815.39
				Norwegian Kroner	351,909.82	66,803.72		351,909.82
				Pound Sterling	618,751.47	942,650.96		618,751.47
				(PTAS)	21,578,686.46	162,551.31		21,578,686.46
				Saudi Riyals	310,506.41	90,924.28		310,506.41
				South African Dollar	5,733,326.00	67,703.39		5,733,326.00

FOREIGN LOANS
WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
IBRD	2676PH	RHWPP	04-10-86	Swedish Kroner	1,417,741.88	203,322.21		1,417,741.88
				Swiss Francs	25,371,569.62	11,909,004.09	6,805,566.50	18,566,003.12
				United States \$	10,850,930.18	10,866,017.88	15,944,400.00	(5,093,469.82)
					44,133,185.94			
IBRD	2676PH	RHWPP	04-10-86	Deutch Mrk	4,546,667.11	2,631,457.61		4,546,667.11
				Japanese Yen	324,981,539.86	2,498,989.29		324,981,539.86
				Swiss Francs	3,597,472.01	2,597,212.72	12,336,121.35	3,597,472.01
				United States \$	27,568,022.20	27,568,022.20		15,231,900.85
					35,295,672.82			
IBRD	3124PH	ANSOP	11-09-89	Deutch Mrk	15,691,467.80	9,171,930.71		15,691,467.80
				European Currency Unit	2,491,073.65	3,004,633.39		2,491,073.65
				Italian Lire	1,105,137,267.00	818,544.49		1,105,137,267.00
				Japanese Yen	776,013,097.00	6,360,136.30		776,013,097.00
				Netherlands Guilder	5,217,888.79	2,829,944.63		5,217,888.79
				Swiss Francs	2,328,528.86	1,827,908.73		2,328,528.86
				United States \$	13,568,683.37	13,568,683.37	2,270,000.00	11,298,683.37
					37,591,801.62			

GRAND TOTAL IBRD LOANS

207,707,927.45

FOREIGN LOANS
 WITHDRAWALS/PAYMENTS IN ORIGINAL CURRENCIES
 AS OF SEPTEMBER 30, 1996

LENDER	LOAN NUMBER	PROJECT	DATE OF AGREEMENT	CURRENCY	WITHDRAWALS AMOUNT	\$ EQUIVALENT	PAYMENTS AMOUNT	BALANCES AMOUNT
BANQUE DE FRANCE - SOGREAH	RPHSIP		09-16-94	French Francs	1,955,400.00			1,955,400.00
BANQUE DE FRANCE - DEGREMONT	RPHSIP		09-16-94	French Francs	18,301,799.38			18,301,799.38 †
TOTAL - CREDIT NATIONAL					20,257,199.38			20,257,199.38
BANQUE PARIBAS - SOGREAH	RPHSIP		09-16-94	French Francs	89,666.67		4,453.33	84,613.34
BANQUE PARIBAS - DEGREMONT	RPHSIP		09-16-94	French Francs	3,604,815.32			3,604,815.32
TOTAL BANQUE PARIBAS					3,693,881.99			3,693,881.99 †

† Still for booking - pending submission of requirements

**METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
STATUS OF DOMESTIC LOANS
As of September 30, 1986
(in Million Pesos)**

PROJECTS	LOAN NO.	INTEREST RATE	DATE CONTRACTED	GRACE/MAT PERIOD	LOAN AMT.	WITH-DRAWN	REPAYMENT	SINKING FUND	OUTSTANDING BALANCE		UNWITH-DRAWN	WITH-APPEAR	
									UNREVALUED	REVALUED (P/M)			
MWSP II	BIR/SPAL - SOFT - ORDINARY	1.5 %	04/24/88	10/30	34.80	34.80	0.00	-	34.80	43.66	0.00	6.73	
		9.65 %	04/24/88	5/15	34.81	34.81	0.00	-	34.81	43.66	0.00		
MWSP I	BIR/SPAL - SOFT - ORDINARY	1.5 %	04/24/88	10/30	92.44	92.44	0.00	-	92.44	116.51	0.00	17.89	
		9.65 %	04/24/88	5/15	92.44	92.44	0.00	-	92.44	116.51	0.00		
MWSSP	BIR/SPAL - SOFT - ORDINARY	1.5 %	04/24/88	10/30	10.17	10.17	0.00	-	10.17	12.89	0.00	1.97	
		9.65 %	04/24/88	5/15	10.17	10.17	0.00	-	10.17	12.89	0.00		
MWSOP	BIR STCF (PNB/STC BONDS)	T/B + 1.5%	05/22/89	3/10	2,300.00	1,380.00	473.57	655.06	906.43	906.43	920.00		
MWSP III	BTR STCF (PNB/STC BONDS)	8.5% + 1.5%	12/29/80	5/5	SF 11.90	SF 10.28	SF 7.20	-	SF 3.03	69.41	0.00	69.41	
21A Projects	BTR - NHA PROJ		09/24/76		98.80				98.80	98.80		98.80	
										1,420.75			
OECF PH-110											9,830.00		
										730.00	2.68		
										730.00	2.68		
										0.00	0.00		
										0.00	0.00		

NOTES:

1. Arrears under the Special Project Implementation Assistance Loan (SPIAL) were due to non-billing by the Bureau of Treasury (BTR).
2. The Swiss Transfer Credit Facility (STCF) loan was transferred by the Philippine National Bank (PNB) to the BTR. This was subjected to reconciliation hence, has not been paid.
3. Loan used for NHA projects was encumbered by MWSS hence, it became a loan of MWSS from the National Government which is paying debt maturities to IBRD. No billing so far.

Existing Projects

See Attached Pages

Designate [East] / [West]

<u>West</u>	<u>East</u>
MSWDP	MSSP
MSSP	AWSOP
AWSOP	Rizal
BWTPRP	

Existing Projects and UATP
Projected status as of May 1, 1997 - (million Pesos)

Schedule 9

A) EXISTING PROJECTS:

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - WEST ZONE									Project Completion (%)	Completion date:
			MWSS AREA	WEST ZONE	Awarded			Not Awarded			Zone Total				
					Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
D) ANGAT WATER SUPPLY OPTIMIZATION PROJECT															
AWSOP II OECF - PH - 110															
Reservoirs and pumping stations															
	DPS-1		26	26	-	-	-	-	-	-	-	-	-	100%	Mar-97
	ARPS-1		345	345	56	289	345	-	-	-	56	289	345	60%	Nov-97
	ARPS-2		110	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	AR-1		57	57	-	-	-	-	-	-	-	-	-	100%	Mar-97
	AR-2		31	31	-	-	-	-	-	-	-	-	-	100%	Mar-97
	AR-3	(*)	90	90	-	-	-	15	75	90	15	75	90	0%	Dec-98
	APS-3	(*)	9	9	2	7	9	-	-	-	2	7	9	0%	Dec-98
	RPS-1A		170	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	RPS-1B		133	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	RPS-1C		49	49	8	41	49	-	-	-	8	41	49	40%	Jan-98
	RPS-1D	(*)	40	40	7	33	40	-	-	-	7	33	40	0%	Feb-98
	LBT-4	(*)	525	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
Subtotal AWSOPII			1,585	647	73	370	1,092	15	75	90	88	445	533		
AWSOP III OECF - PH - 110															
Primary Distribution System															
	APM-1 (Lab)	(*)	90	90	-	-	-	40	50	90	40	50	90	0%	Jun-99
	APM-1 (Sup)	(*)	150	150	-	-	-	-	150	150	-	150	150	0%	Jun-99
	APM-02		304	304	50	254	304	-	-	-	50	254	304	37%	May-98
	APM-03		79	79	13	66	79	-	-	-	13	66	79	16%	Feb-99
	APM-04		143	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	APM-05		90	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	APM-05A		73	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	APM-06		85	85	14	71	85	-	-	-	14	71	85	0%	Apr-98
Subtotal Prim Distrib System			1,014	708	468	-	468	40	200	240	508	200	708		
Secondary Distribution System															
	ASD-1		11	11	2	9	11	-	-	-	2	9	11	50%	Nov-97
	ASD-2		19	19	-	-	-	-	-	-	-	-	-	100%	May-97
	ASD-3		7	7	1	6	7	-	-	-	1	6	7	98%	Sep-98
	ASD-4		7	7	1	6	7	-	-	-	1	6	7	5%	Jan-98
	ASD-5	(*)	7	7	1	6	7	-	-	-	1	6	7	0%	May-98
	ASD-6		8	8	1	7	8	-	-	-	1	7	8	65%	Mar-99
	ASD-7		16	16	3	13	16	-	-	-	3	13	16	0%	Sep-97
	ASD-8	(*)	10	10	2	8	10	-	-	-	2	8	10	0%	Mar-98
	ASD-10	(*)	16	16	3	13	16	-	-	-	3	13	16	0%	May-98
	ASD-11		20	20	3	17	20	-	-	-	3	17	20	85%	Mar-99
	ASD-12	(*)	13	13	2	11	13	-	-	-	2	11	13	0%	Jul-98
	ASD-13		15	15	3	12	15	-	-	-	3	12	15	0%	Oct-97
	ASD-15		5	5	1	4	5	-	-	-	1	4	5	70%	Jul-97
	ASD-16		4	4	1	3	4	-	-	-	1	3	4	0%	Aug-97
	ASD-18		48	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	ASD-19		14	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
	ASD-20		26	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
Subtotal Second Distrib System			246	158	24	115	139	-	-	-	24	115	139		
Total AWSOP III			1,260	866	492	115	607	40	200	240	532	315	847		
Total OECF (AWSOP II+AWSO)			2,845	1,513	565	485	1,699	55	275	330	620	760	1,380		

(*) Not yet awarded as of November 1996

Existing Projects and UATP
Projected status as of May 1, 1997 - (million Pesos)

Schedule 9

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - WEST ZONE									Project Completion (%)	Completion date:
			MWSS AREA	WEST ZONE	Awarded			Not Awarded			Zone Total				
					Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
AWSOP IV		ADB - 986 - PHI													
ATD-1	(*)		70	70	9	61	70	-	-	-	9	61	70	0%	Jul-98
ATD-2	(*)		48	48	6	42	48	-	-	-	6	42	48	0%	Mar-98
ATD-3	(*)		39	39	5	34	39	-	-	-	5	34	39	0%	Mar-98
ATD-4	(*)		35	35	4	31	35	-	-	-	4	31	35	5%	Aug-98
ATD-5	(*)		123	123	16	107	123	-	-	-	16	107	123	4%	Mar-99
ATD-6	(*)		59	59	8	51	59	-	-	-	8	51	59	6%	May-98
ATD-7	(*)		29	29	4	25	29	-	-	-	4	25	29	5%	Jul-98
ATD-8	(*)		26	26	3	23	26	-	-	-	3	23	26	4%	Jan-99
ATD-9	(*)		23	23	3	20	23	-	-	-	3	20	23	4%	Aug-98
ATD-10	(*)		26	26	3	23	26	-	-	-	3	23	26	5%	May-98
ATD-11	(*)		42	42	5	37	42	-	-	-	5	37	42	8%	Jul-98
ATD-12	(*)		37	37	5	32	37	-	-	-	5	32	37	7%	Jun-98
ATD-13	(*)		18	18	2	16	18	-	-	-	2	16	18	5%	Apr-98
ATD-14	(*)		58	58	8	50	58	-	-	-	8	50	58	4%	Jul-98
ATD-15	(*)		27	27	4	23	27	-	-	-	4	23	27	0%	May-98
ATD-16	(*)		22	22	3	19	22	-	-	-	3	19	22	0%	Jun-98
ATD-17	(*)		14	14	2	12	14	-	-	-	2	12	14	0%	Feb-98
ATD-18	(*)		97	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
ATD-19	(*)		16	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
ATD-20	(*)		31	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.
Total ADB (AWSOP IV)			840	696	90	606	696	-	-	-	90	606	696		
Grand Total (AWSOP)			3,685	2,209	655	1,091	2,395	55	275	330	710	1,366	2,076		
II) MANILA SOUTH WATER DEVELOPMENT PROJECT															
MSWDP		ADB - 1150 - PHI													
Reservoirs and pumping stations															
MSRP-01	(*)		55	55	4	51	55	-	-	-	4	51	55	0%	Nov-98
MSRP-02	(*)		56	56	4	52	56	-	-	-	4	52	56	0%	Nov-98
Transmission Mains (Secondary & Tertiary Lines Included)															
MSRP 04/05			54	54	4	50	54	-	-	-	4	50	54	0%	Dec-98
MS-07			57	57	4	53	57	-	-	-	4	53	57	0%	Feb-99
Secondary/Tertiary Lines															
MSS-01A			37	37	3	34	37	-	-	-	3	34	37	0%	Dec-97
MSS-01B			65	65	4	61	65	-	-	-	4	61	65	0%	Dec-97
Transmission Mains (Secondary & Tertiary Lines Included)															
MS-02	(*)		76	76	5	71	76	-	-	-	5	71	76	0%	Aug-99
MS-03	(*)		90	90	6	84	90	-	-	-	6	84	90	0%	Aug-99
Transmission Mains (Secondary and Tertiary Lines Included)															
MSS-01C	(*)		74	74	5	69	74	-	-	-	5	69	74	0%	Feb-98
MSS-02B	(*)		48	48	3	45	48	-	-	-	3	45	48	0%	Jul-98
MSS-02C	(*)		41	41	3	38	41	-	-	-	3	38	41	0%	Jul-98
MSS-02D	(*)		50	50	3	47	50	-	-	-	3	47	50	0%	Jul-98
MSS-02E	(*)		36	36	2	34	36	-	-	-	2	34	36	0%	Jul-98
MSS-02F	(*)		49	49	3	46	49	-	-	-	3	46	49	0%	Jul-98
Secondary/Tertiary Lines															
MSS-03A	(*)		34	34	2	32	34	-	-	-	2	32	34	0%	Jun-98

(*) Not yet awarded as of November 1996

Existing Projects and UATP
Projected status as of May 1, 1997 - (million Pesos)

Schedule 3

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - WEST ZONE									Project Completion (%)	Completion date:
					Awarded			Not Awarded			Zone Total				
			MVSS AREA	WEST ZONE	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
MSS-03B		(*)	23	23	1	22	23			-	1	22	23	0%	Aug-98
MSS-03C		(*)	21	21	1	20	21			-	1	20	21	0%	Aug-98
MSS-03D		(*)	42	42	3	39	42			-	3	39	42	0%	Aug-98
MSS-03E		(*)	39	39	3	36	39			-	3	36	39	0%	Aug-98
MSS-04A		(*)	11	11	1	10	11			-	1	10	11	0%	Jun-98
MSS-04B		(*)	33	33	2	31	33			-	2	31	33	0%	Jun-98
Total MSWDP			991	991	66	925	991			-	66	925	991		
TOTAL CONCESSION ZONE			n.a.	3,200	721	2,016	3,386	55	275	330	776	2,291	3,067		

A) EXISTING PROJECTS (continued):

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - EAST ZONE									Project Completion (%)	Completion date:
					Awarded			Not Awarded			Zone Total				
			MVSS AREA	EAST ZONE	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
D) ANGAT WATER SUPPLY OPTIMIZATION PROJECT															
AWSOP II OECF - PH - 110															
Reservoirs and pumping stations															
	DPS-1		26											n.a.	n.a.
	ARPS-1		345											n.a.	n.a.
	ARPS-2		110	110				18	92	110	18	92	110	0%	Jan-99
	AR-1		57											n.a.	n.a.
	AR-2		31											n.a.	n.a.
	AR-3	(*)	90											n.a.	n.a.
	APS-3	(*)	9											n.a.	n.a.
	RPS-1A		170	170				28	142	170	28	142	170	0%	Jun-98
	RPS-1B		133	133										16%	Mar-98
	RPS-1C		49											n.a.	n.a.
	RPS-1D	(*)	40											n.a.	n.a.
	LBT-4	(*)	525	525				86	439	525	86	439	525	0%	Jul-99
Subtotal AWSOP II			1,585	938				132	673	805	132	673	805		
AWSOP III OECF - PH - 110															
Primary Distribution System															
	APM-1 (Lab)	(*)	90											n.a.	n.a.
	APM-1 (Sup)	(*)	150											n.a.	n.a.
	APM-02		304											n.a.	n.a.
	APM-03		79											n.a.	n.a.
	APM-04		143	143	23	120	143				23	120	143	0%	Mar-99
	APM-05		90	90	15	75	90				15	75	90	24%	Dec-99
	APM-05A		73	73	12	61	73				12	61	73	0%	Mar-99
	APM-06		85											0%	Apr-98
Subtotal Prim Distrib System			1,014	306	50	256	306				50	256	306		
Secondary Distribution System															
	ASD-1		11											n.a.	n.a.
	ASD-2		19											n.a.	n.a.
	ASD-3		7											n.a.	n.a.

(*) Not yet awarded as of November 1996

Existing Projects and UATP
Projected status as of May 1, 1997 - (million Pesos)

Schedule 9

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - EAST ZONE									Project Completion (%)	Completion date:	
			MWSS AREA	EAST ZONE	Awarded			Not Awarded			Zone Total					
					Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total			
ASD-4			7		-	-	-								n.a.	n.a.
ASD-5		(*)	7		-	-	-								n.a.	n.a.
ASD-6			8		-	-	-								n.a.	n.a.
ASD-7			16		-	-	-								n.a.	n.a.
ASD-8		(*)	10		-	-	-								n.a.	n.a.
ASD-10		(*)	16		-	-	-								n.a.	n.a.
ASD-11			20		-	-	-								n.a.	n.a.
ASD-12		(*)	13		-	-	-								n.a.	n.a.
ASD-13			15		-	-	-								n.a.	n.a.
ASD-15			5		-	-	-								n.a.	n.a.
ASD-16			4		-	-	-								n.a.	n.a.
ASD-18			48	48	8	40	48				8	40	48	0%	Aug-99	
ASD-19			14	14	3	11	14				3	11	14	0%	Apr-98	
ASD-20			26	26	4	22	26				4	22	26	0%	Jun-98	
Subtotal Second Distrib System			246	88	15	73	88	-	-	-	15	73	88			
Total AWSOP III			1,260	394	65	329	394	-	-	-	65	329	394			
Total OECF (AWSOP II+AWSO)			2,845	1,332	65	329	394	132	673	805	197	1,002	1,199			

AWSOP IV		ADB-986-PHI															
ATD-1	(*)	70		-	-	-										n.a.	n.a.
ATD-2	(*)	48		-	-	-										n.a.	n.a.
ATD-3	(*)	39		-	-	-										n.a.	n.a.
ATD-4	(*)	35		-	-	-										n.a.	n.a.
ATD-5	(*)	123		-	-	-										n.a.	n.a.
ATD-6	(*)	59		-	-	-										n.a.	n.a.
ATD-7	(*)	29		-	-	-										n.a.	n.a.
ATD-8	(*)	26		-	-	-										n.a.	n.a.
ATD-9	(*)	23		-	-	-										n.a.	n.a.
ATD-10	(*)	26		-	-	-										n.a.	n.a.
ATD-11	(*)	42		-	-	-										n.a.	n.a.
ATD-12	(*)	37		-	-	-										n.a.	n.a.
ATD-13	(*)	18		-	-	-										n.a.	n.a.
ATD-14	(*)	58		-	-	-										n.a.	n.a.
ATD-15	(*)	27		-	-	-										n.a.	n.a.
ATD-16	(*)	22		-	-	-										n.a.	n.a.
ATD-17	(*)	14		-	-	-										n.a.	n.a.
ATD-18	(*)	97	97	13	84	97				13	84	97	2%	Aug-99			
ATD-19	(*)	16	16	2	14	16				2	14	16	3%	Apr-98			
ATD-20	(*)	31	31	4	27	31				4	27	31	2%	Jun-98			
Total ADB (AWSOP IV)			840	144	19	125	144	-	-	-	19	125	144				

Grand Total (AWSOP) 3,685 1,476 84 454 538 132 673 805 216 1,127 1,343

III) RIZAL PROVINCE WATER SUPPLY IMPROVEMENT PROJECT																
RPWSIP		French Protocol														
Equipment		224	224			224	224								86%	Dec-99
Civil Works	(*)	151	151					151							0%	Jul-99
Land acquisition		32	32						32						100%	May-97
Consultancy		49	49			49	49								55%	Dec-99
Supervision		76	76					76		76	76				0%	Dec-99
Other		88	88					88		88	88				0%	Dec-99
Total RPWSIP		620	620	-	273	273	315	32	347	315	305	620				

(*) Not yet awarded as of November 1996

Existing Projects and UATP
Projected status as of May 1, 1997 - (million Pesos)

Schedule 9

Project	Project Packages	Foreign Loan:	Total Cost		Status of ongoing Projects - EAST ZONE									Project Completion (%)	Completion date:
					Awarded			Not Awarded			Zone Total				
					Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
IV) BALARA WATER TREATMENT PLANT REHABILITATION															
		Japanese Grant													
Plant rehab			918	918		918	918		-	-	918	918	100%		
Civil works		(*)	35	35	28		28	7		7	35	35	0%	Dec-97	
Total BWTPR			953	953		918	946	7		7	35	918			
TOTAL CONCESSION ZONE			3,049	3,049	84	1,645	1,757	454	705	1,159	566	2,351	2,916		

B) UMIRAY ANGAT TRANSBASIN PROJECT

Project	Project Packages	Foreign Loan:	Contracted Cost	Status of ongoing Projects - JOINT VENTURE									Project Completion (%)	Completion date:
				Awarded			Not Awarded			Zone Total				
				Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total		
UATP 1)		ADB - 1379												
- Raw Water Conveyance														
UAT - 001, access road			65							0	0	0	100%	Mar-94
UAT - 004, tunnel and related infrastructure			1,410	374	1,036	1,410				374	1,036	1,410	15%	Jun-99
Total UATP			1,475	374	1,036	1,410	0	0	0	374	1,036	1,410		

1) All references to the UATP Project in this concession agreement, refer solely to the Raw Water Conveyance Component. The NRW Control Component of the Project (Pesos 1,750 million) has not yet been designed yet, and constitutes an Existing Project for purposes of this contract.

NOTE: THE INFORMATION ON EXISTING PROJECTS AND ON THE UATP PROJECT CONTAINED IN SCHEDULE 13 IS BASED ON INFORMATION OBTAINED BY IFC FROM MWSS MANAGEMENT. THIS INFORMATION WILL NOT HAVE ANY LEGAL OR OTHER SIGNIFICANCE IN CONNECTION WITH THE CONCESSION AGREEMENT.

EACH BIDDER SHOULD MAKE ITS OWN INDEPENDENT ASSESSMENT OF THE STATUS OF EXISTING PROJECTS AND OF THE UATP PROJECT IN FORMULATION ITS BID. THE ABOVE INFORMATION IS BEING PROVIDED SOLELY FOR THE PURPOSE OF ILLUSTRATION

(*) Not yet awarded as of November 1996

Existing Projects

1. ANGAT WATER SUPPLY OPTIMIZATION PROJECT (AWSOP)

Description of the Project

The objectives of the Project are to maximize the capacity of the main water-supply source of the Borrower and to meet projected water demand in the Project area through construction of additional supply, treatment and distribution facilities. The Project components are as follows:

- Part A: construction of a 77-meter (m) branch penstock and a power house equipped with a turbine and generator, transformer, overhead crane and ancillary equipment;
- Part B: excavation and lining of an estimated 6.2-kilometer (km) pressure tunnel;
- Part C: construction of an estimated 16.1-km aqueduct;
- Part D: construction and installation of a water-treatment plant with 900,000 cubic (cu) m per day of treatment capacity, composed of sedimentation, filtration and disinfection facilities;
- Part E: construction of one water reservoir with storage volume of 260,000 cu m and 500-m aqueduct connected to the treatment plant;
- Part F: (1) construction of about 420 km of primary and secondary distribution pipes and five pumping stations, and (2) construction of about 100 km of tertiary distribution pipes and about 345,000 service connections;
- Part G: provision and installation of a telemetering system; and
- Part H: construction of an estimated 12-km transmission line for the bulk supply of water to the Bulacan Towns. ✓

The Project includes the provision of consulting services for Project implementation.

2. MANILA SOUTH WATER DISTRIBUTION PROJECT (MSWDP)

Description of the Project

1. The primary objective of the Project is to improve the water supply services of MWSS in the Project Area. The secondary objective of the Project is to reduce the use of ground water, to prevent saline intrusion and land subsidence, as the main source of water for the remaining population not served by MWSS in the Project Area.

2. The Project consists of the following components:

Part A: Reservoirs and Pumping Stations

Construction of two clear water reservoirs, one in Muntinlupa and the other in Las Piñas, with a total storage volume of about 70,000 cu m and three pumping stations, the first at the boundary of Taguig/Parañaque, the second in Las Piñas and the third in Muntinlupa, with a total pumping capacity of about 848,000 cu m per day.

Part B: Transmission Mains

Construction of about 31 km of transmission mains.

Part C: Distribution Reticulation

Construction of about 308 km of secondary and tertiary distribution pipes.

Part D: Service connections and Public Standpipes

Installation of about 45,700 service connection and about 330 public standpipes.

Part E: Branch Office Buildings

Construction of three MWSS branch office buildings in Muntinlupa, Parañaque, and Las Piñas respectively.

Part F: Consulting Services

Provision of consulting services.

3. UMIRAY ANGAT TRANSBASIN PROJECT (UATP)

Description of the Project

1. The primary objectives of the Project are to divert an average annual flow of about 15.7 cubic meters per second from the Umiray river basin to the Angat reservoir and to augment the treated water supply capacity of the Borrower by about nine cubic meters per second by 1999. The secondary objective of the Project is to reduce NRW by providing support for leak detection and repair activities.

2. The Project consists of the following:

Part A: Diversion Works

- (i) excavation and lining of the main diversion tunnel, with a length of approximately 13 kilometers and an internal (lined) diameter of approximately 4.3 meters, together with two branch tunnels and a ventilation shaft;
- (ii) installation of a suspended rail-car system inside the main tunnel;
- (iii) installation of a mini-hydro power plant at the outlet of the main tunnel (including two turbines and one generator), with average power production of approximately 970 kilowatts;
- (iv) installation of a power transmission line, with a length of approximately 18 kilometers, from the Angat power plant to the Macua tunnel outlet;
- (v) construction of three permanent diversion weirs (one main weir on the Umiray river and two supplementary weirs on the Alin and the Sumag rivers), and construction of one temporary diversion weir;
- (vi) construction of four housing units and one office-warehouse building at the Umiray site; and
- (vii) river training works along the Umiray river to maintain river navigability.

Part B: NRW Control Program

- (i) replacement of 3,000 fire hydrants with underground type;
- (ii) installation of about 900 level II service facilities (public faucets);
- (iii) installation of new 150 km tertiary mains, under the Water Improvement Program for Depressed Areas;

- (iv) replacement of five production meters;
- (v) replacement of 420,000 small size meters; and
- (vi) other NRW related activities including leak detection and repair.

Part C: Consulting Services

Provision of consulting services for supervision of construction for Part A of the Project.

- 3. The Project is expected to be completed by 31 December 1999.

4. MANILA SECOND SEWERAGE PROJECT (MSSP)

Description of the Project

The objectives of the Project are to assist the Borrower to: (a) reduce the pollution of Metro Manila waterways and Manila Bay; (b) reduce the health hazards associated with human exposure to sewerage in Metro Manila; and (c) establish a gradual low-cost improvement of sewerage services in Metro Manila by expanding the Borrower's septage management program.

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: Construction of:

- 1. a pilot septage treatment plant at Dagat-Dagatan with a capacity of about 200 cubic meters per day (m³/d); and
- 2. three barge-loading stations at Napindan, Estero de Vistas and Paranaque, each with a capacity to transfer about 500 m³/d of septage from collecting vehicles to barges.

PART B:

1. Upgrading of the Metro Manila central sewerage system, including the repair of defective pipes and pumping stations and minimizing of the entry of rain water to the system.
2. Upgrading of the Ayala sewerage system, including the repair of he pumping station and sedimentation tanks to provide mechanical treatment of septage.
3. Construction of about 10,000 new sewer connections in Metro Manila.

PART C:

Strengthening of the Borrower's central laboratory through the provision of specialized furniture, equipment and materials.

PART D:

Strengthening of the technical capabilities of SSD to operate and maintain sewerage systems through the provision of staff training, vehicles, machinery and tools, and consultants' services.

PART E:

Strengthening of the Borrower's technical capabilities in construction supervision, development of a pilot septage management program, environmental monitoring and preparation of follow-up sewerage and water supply projects through the provision of consultants' services.

* * *

The Project is expected to be completed by June 30, 2001.

5. Rizal Province Water Supply Improvement Project (RPWSIP) [EAST]

Description of the Project

LOCATION : Angono/Morong/Baras/Pilillia/Cardona
Tanay/Jala-Jala/Taytay/Teresa

BENEFICIARIES : 333,827 population

SUPPLY SOURCE : Laguna de Bay for Angono and Taytay
Groundwater for Baras, Cardona, Jala-Jala, Morong,
Pilillia, Tanay and Teresa

VOLUME OF SUPPLY : 47,500 cu. m./day (Angono and Taytay)
20,338 cu. m./day (7 other towns)

PROJECT COMPONENTS : For Angono and Taytay (Phase I)

- Intake Structure
- Raw Water Pumping Station
- Treated Water Pumping Station
- Reservoir
- Distribution Pipes

For the Seven Other Towns

- Deepwells and Elevated Tanks
- Distribution Pipes

PROJECT COST : P 580.41 Million (Angono & Taytay)
P 512.78 Million (7 other towns plus Binangonan)

6. Balara Water Treatment Plant Rehabilitation Project (BWTPRP) [EAST]

Description of the Project

LOCATION : Balara, Quezon City
BENEFICIARIES : 6 Million
SERVICE COVERAGE : National Capital Region

The objectives of the Project are to:

- To recover the current design capacity of the existing treatment process and equipment.
- To assure the rapidly increasing population of Metro Manila with potable water supply.
- To improve the efficiency of the existing plants and reduce operational cost as well as chemical cost.

PROJECT COMPONENTS :

Part A: • Portion Funded by Japanese Grant Aid

Replacement of deteriorated facilities and equipment for the intake gates, coagulation, flocculation, sedimentation, filtration, backwashing and waste water recovery, chemical dosing, electrical and mechanical equipment as well as instrumentation. Provision of water quality analysis equipment. Consultant services for the study, detailed design and construction supervision.

Part B: • Portion Funded with Internal Cash Generation of MWSS

- Minor civil works repairs of building structure and plant component, rehabilitation of mechanical facilities at the filtration which were not covered by the Grant Aid, and improvement of plumbing and electrical facilities and illumination.
- Modification of pump houses for backwash and recovery pumps, construction of by-pass drainage line and cleaning and widening of discharge creek.
- Rehabilitation and restoration of playground, resort and parks, and similar facilities within the Balara Filters compound.

PROJECT COMPONENTS : P 1,159,688 Million



**Guidelines for the
Interconnection Agreement**

Pursuant to Section 6.3 of the Concession Agreement, the Concessionaire and the Other Operator shall, within thirty days following the Commencement Date, enter into an Interconnection Agreement in form and substance satisfactory to MWSS. The Interconnection Agreement should be consistent with the following guidelines, unless MWSS expressly agrees to a departure from these guidelines.

1. **Water Interconnections**

- (A) **Coverage**. The Interconnection Agreement shall cover both inter-Zone water transfers that represent incidental cross-border flows ("Incidental Transfers"), and longer-term water transfers which represent permanent Bulk Water flow making efficient use of the gravity head in the total system ("Permanent Transfers"). The Interconnection Agreement shall distinguish between Short-term Transfers and Long-term Transfers with as much specificity as possible. Such specific long-term contracts will be negotiated between the Concessionaire and the Other Operator, and all water supplied under such long term contracts shall not be part of the conditions and limitations imposed on short-term transfers. Copies of such long-term transfer contracts will be filed with the Regulatory Office.
- (B) **Interconnection Points**. A list of water interconnection points is set out in Part 3 below. These interconnection points may be modified or moved by mutual agreement between the Concessionaire and the Other Operator, with written notice to the Regulatory Office.
- (C) **Cap**. The Interconnection Agreement will allow for the unrestricted movement of water between both Zones: provided, however, that neither the Concessionaire nor the Other Operator shall be required to permit Incidental Transfers (as defined below) which exceed, in any calendar month, 5% of the potable water produced by that operator during that month.
- (D) **Authority to Override Cap**. The Interconnection Agreement shall recognize the authority of the Regulatory Office to

override the cap on Incidental Transfers referred to in (B) above in any case where, in the judgment of the Regulatory Office, such an override is necessary to mitigate the effects of an Event of Force Majeure on the receiving Zone or is necessary to avoid undue hardship to Customers in the receiving Zone; in either case weighing the hardship in the receiving Zone against that caused in the supplying Zone.

- (E) Pricing. The charge for water transferred as an Incidental Transfer shall equal the weighted average rate in the recipient Zone per cubic meter as charged to Residential A and B, Commercial and Industrial Customers in the highest consumption block for the prior calendar year (or, in the event of a change in rate structure, to the category of Customer most closely resembling that described in this sentence). The charge for water transferred as a Permanent Transfer shall be determined by mutual agreement between the Concessionaire and the Other Operator.
- (F) Settlement. The Interconnection Agreement shall contain a mechanism for metering and monitoring inter-Zone transfers of water during each month of the Concession Agreement. The Concessionaire and the Other Operator shall settle monthly, on a net basis, all interconnection charges through a cash transfer made by the net recipient not later than the last day of the following month.
- (G) Works. The work required to design, construct, decommission, meter and monitor the interconnection arrangements shall be performed by the Concessionaire or by the Joint Venture, and the Concessionaire's share of such expenses shall be treated as an Expenditure.
- (H) Disputes. Any disputes arising under the Interconnection Agreement which cannot be resolved by discussion between the two parties shall be referred to the Appeals Panel as provided in Section 12.4(iv) of the Concession Agreement.
- (I) Amendments. The Interconnection Agreement may be amended at any time pursuant to a written agreement signed by the Concessionaire and the Other Operator and consented to by the Regulatory Office.

2. Sewerage Interconnections

The Concessionaire and the Other Operator may enter into separate contracts regarding the interconnection of sewerage collection and treatment services between the two Zones. Copies of any such agreements shall be filed with MWSS and the Regulatory Office. In the event that such a contract or contracts cannot be amicably negotiated between the Concessionaires and one of the parties can provide evidence that an intra-Zone system could result in sewerage service that is 5 per cent or higher in cost per cubic meter than an inter-Zone system, the Regulatory Office will have the right to compel arbitration between the Concessionaires to develop the more cost-effective system(s).

3. Water Interconnection Points

Subject to such modification as the Concessionaire and the Other Operator may agree, the provisional water interconnection points will be the following:

From north to south, along the East-West boundary:

- Ø400 Don Mariano Marcos Avenue : to be metered temporarily before being valved off when AWSOP is commissioned
- Ø600 and Ø2800 along La Mesa-Balara aqueducts, under construction (AWSOP) : Ø2800 to be metered and Ø600 valved and closed
- 2 x Ø250 Tandang Sora : to be valved and closed
- Ø400 Edsa : to be closed
- Ø300 Tolosa : to be temporarily metered and then closed
- Ø400 Del Monte Avenue : to be closed
- Ø350 Roces / Cebu Avenue : to be closed
- Ø1200 Rodriquez Avenue : to be metered
- Ø1500 Aurora Boulevard : to be metered
- Ø1500, Ø1200, Ø650 Magsaysay Boulevard : to be metered
- Ø600 Dangal : to be closed
- Ø250 Gil : to be temporarily metered and then closed (after reinforcement from Ø750 Esguerra)

- Ø750 F. Esguerra Avenue : to be metered
- Ø600 Vito Cruz : to be metered
- Ø600 Buendia : to be metered
- Ø400 Pasay Road : to be metered
- Ø400, Ø1050 Edsa : to be metered.

Organization and Operation of the Regulatory Office

1. General

The Regulatory Office shall be established under the jurisdiction of the MWSS Board of Directors, pursuant to Section 4(c) of the MWSS Charter and in accordance with other applicable laws and regulations, not less than 30 days after the Commencement Date. No change will be made to the MWSS Charter in connection with the establishment of the Regulatory Office. Rather, the powers and responsibilities of the Regulatory Office shall be as set out in the Concessionaire Agreement, including this Exhibit A.

2. Composition

The Regulatory Office shall be composed of five members (each a "Member") for five-year terms; provided that the term of appointment of two of the initial Members (other than the Director) shall be for three years. No Member of the Regulatory Office shall have any present or prior affiliation with MWSS or either of the Concessionaires (or any affiliate of either of the Concessionaires).

One of the Members shall be designated as the Director of the Regulatory Office (the "Director") and that person shall carry out the special responsibilities described below.

No Member of the Regulatory Office may be removed except by action of the Appeals Panel taken with the concurrence of a majority of the members of the Appeals Panel, and any proposed removal of a Member shall be treated as a Major Dispute for purposes of Section 12.3 of the Concession Agreement. In the event of the death, incapacitation or resignation of a Member, a successor shall be appointed to complete the unexpired term of that Member.

3. Physical Location

The Regulatory Office shall be given suitable office space in Metro Manila at a location separate from any other office or establishment of MWSS or either Concessionaire. The Administrator of MWSS shall be responsible for securing such office facilities in connection with the initial establishment of the Regulatory Office. Thereafter, the Director shall be responsible for any subsequent relocation or adjustment of office space; provided that the physical location of the Regulatory Office shall always be separate from any other office or establishment of MWSS or either of the Concessionaires.

4. Operation

The Regulatory Office shall function as a Committee and the affirmative vote of three Members shall be required in connection with any action or decision of the Regulatory Office on a substantive matter affecting the Concession Agreement. The Director may from time to time prescribe procedural or administrative rules governing the activities of the Regulatory Office that are not inconsistent with this memorandum.

5. Duties of the Director

The Director shall have overall responsibility for the operation of the Regulatory Office. In particular, the Director will:

- chair meetings of the Regulatory Office;
- appoint individual Members to oversee on a day-to-day basis the Divisions of the Regulatory Office as described below;
- have final approval over the hiring and dismissal of all professional staff members of the Regulatory Office; and
- act as the principal public spokesperson of the Regulatory Office in matters affecting the Concessions.

The Director should be an individual of the highest professional reputation and integrity having the ability to develop rapidly a thorough understanding of the issues affecting the regulation of water and sewerage services in the two Service Areas.

In performing these functions, the Director will be accountable to the other Members of the Regulatory Office.

6. Divisions

The Regulatory Office shall have four divisions (the "Divisions") as follows:

- Technical regulation (responsible for technical and engineering functions including asset management and investment);
- Secretary and legal adviser;
- Financial regulation (responsible for regulatory accounting, rate adjustment and economic functions); and
- Quality and Customer service regulation (responsible for service and Customer relations including Customer complaints and appeals).

The Director shall appoint one Member of the Regulatory Office to oversee each Division. That Member shall be responsible, with the approval of the Director, for hiring appropriate professional and support staff to carry out the functions of that Division. It is expected that in many cases staff members from different Divisions will be asked to work together on a team basis to address specific issues or problems.

7. Functions

It is expected that the functions of the Regulatory Office will change over time, as the regulatory regime is established and develops.

The initial and transitional functions of the Regulatory Office will include:

- recruitment and training of staff and establishment of the Office;
- monitoring and enforcing rate levels during the transition to operation by the Concessionaires;
- developing and establishing the contractual arrangements for the production and dissemination of audited regulatory information, including service and financial performance; and
- raising awareness of the rights of existing and prospective Customers under the new arrangements.

Ongoing functions are expected to include:

- the monitoring of the awarded Concession Agreements;
- reviewing and monitoring of water supply and sewerage rates;
- implementing Extraordinary Price Adjustment provisions;
- implementing Rate Rebasing provisions;
- monitoring contracts between the Concessionaire and Customers for the provision of water and sewerage services;
- arranging for the regular, independent technical and financial audit of the activities of the Concessionaire, and the public dissemination of such information;
- monitoring and enforcing standards of service to Customers, and any agreed improvement in these standards, or extensions in the coverage of water supply and sewerage services;

- monitoring the production of audited financial information, ruling on cost allocation and other accounting practices appropriate for the rate-setting methodology;
- monitoring the reported, audited condition of water and sewerage service infrastructure assets, and enforcement of the Concession Agreement with respect to these;
- prosecuting or defending proceedings before the Appeals Panel;
- reporting on the Regulatory Office's activities and communicating the Office's decisions; and
- responding to complaints or representations received from Customers and other interested groups.

To assist the Regulatory Office in carrying out its responsibilities regarding the Concession Agreement, MWSS shall arrange for the delivery to the Regulatory Office (with a copy to each Concessionaire) of a manual describing the implementation of the relevant provisions of the Concession Agreement.

8. Staff

No individual who has worked for MWSS or either of the Concessionaires (or any of their affiliates) within the five-year period preceding his or her application for employment by the Regulatory Office shall be eligible for employment by the Regulatory Office.

Professional and support staff of the Regulatory Office shall be treated, for purposes of payroll and employee benefits only, as employees of MWSS. Professional and support staff of the Regulatory Office may only be hired and dismissed by the Regulatory Office.

9. Use of Outside Experts

It is expected that the Regulatory Office shall make extensive use of outside experts, particularly in the early years of the Concession. The Regulatory Office may employ experts with international experience, where appropriate, to provide information and guidance on regulatory experience in other countries.

Specifically, it is expected that the Regulatory Office will appoint:

- economic experts, who will provide on-going advice on regulatory strategy, and will develop and assist in the implementation of methodologies for rate rebasing, Extraordinary Price Adjustments, and application of the rate adjustment limit provisions, including the derivation of the Appropriate Discount Rate, and will assist the

Regulatory Office at the time of any Extraordinary Price Adjustments and general rate rebasing;

- engineering consultants, who will assist the Regulatory Office in developing a performance monitoring system (in which key service performance indicators will be defined, measured, audited, published, and analyzed), as well as assist the Regulatory Office in reviewing engineering cost submissions provided by Concessionaires (e.g., in connection with an Extraordinary Price Adjustment) and advise on the application of the asset condition and information disclosure provisions; and
- financial and accounting experts, who will help the Regulatory Office to develop performance requirements for the submission of financial information on the concession business, information relating to MWSS and Concessionaire loans, application of accounting principles (e.g., in respect of asset valuation and depreciation policy), and requirements for independent audit of each Concessionaire's finances, particularly as regards arm's-length transactions with shareholders.

Form of Opinion of Special Philippine Counsel to the Concessionaire

[Letterhead of Special Philippine Counsel to the Concessionaire]

_____, 1997

[Address of MWSS]

Ladies and Gentlemen:

We have acted as special Philippine counsel to _____ (the "Concessionaire") in connection with the granting by Metropolitan Waterworks and Sewerage System ("MWSS") of a concession to operate its waterworks and sewerage supply services within a specified service area pursuant to a Concession Agreement dated _____, 1997 (the "Agreement") by and between MWSS and the Concessionaire. This opinion letter is furnished to you pursuant to Section 15.2(iii)(a) of the Agreement. Capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

In arriving at the opinions expressed below, we have examined and relied upon originals or copies certified or otherwise identified to our satisfaction of (i) the Agreement; (ii) the Articles of Incorporation and the By-Laws of the Concessionaire; and (iii) all such corporate records of the Concessionaire and such other instruments and other certificates of public officials, officers of the Concessionaire and such other persons as we have deemed appropriate as a basis for the opinions expressed below. In rendering the opinions expressed below, we have assumed and have not verified that the signatures on all documents that we have examined are genuine.

Based on the foregoing, and subject to the qualifications and limitations herein contained, it is our opinion that:

1. The Concessionaire is a corporation duly organized, validly existing and in good standing under the laws of the Republic of the Philippines. The Concessionaire has full corporate power and authority to carry on its business as now being conducted and is qualified to do business in all jurisdictions where the ownership of its assets or the conduct of its business requires such qualification. The voting equity capital of the Concessionaire is (i) at least 60% owned by citizens of the Republic of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Republic of the Philippines, (ii) at least 20% owned by the International Water Operator and (iii) at least 20% owned by the Sponsor.

2. The Concessionaire has full power and authority to execute and deliver, and to consummate the transactions contemplated by, the Agreement.

3. The execution and delivery by the Concessionaire of the Agreement, and the consummation by the Concessionaire of the transactions contemplated thereby, have been duly authorized by all necessary corporation action of the Concessionaire, and no further corporate action or proceeding on the part of the Concessionaire is necessary to authorize the execution and delivery by the Concessionaire of the Agreement, or the consummation by the Concessionaire of the transactions contemplated thereby.

4. The Agreement has been duly executed and delivered by the Concessionaire and is a legal, valid, binding and enforceable obligation of the Concessionaire in accordance with its terms.

5. To the best of our knowledge after due inquiry, the representations and warranties of the Concessionaire contained in Sections 4.2.3 (No Violations; No Consents or Approvals Required), 4.2.4 (Brokers and Finders) and 4.2.5 (Business Plan) of the Agreement are true and correct in all material respects as of the date hereof.

6. The operation of the Concession by the Concessionaire, in a manner consistent with the Technical Submission, is not in violation or contrary to Philippine law or public policy.

The opinion set out in numbered paragraph 4 above is subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity), and, in respect of the provisions related to the Appeals Panel, to considerations of public policy.

[Add any other qualifications and limitations in counsel's standard form.]

This opinion is furnished to you by us, as special Philippine counsel for the Concessionaire, solely for your benefit in connection with the Agreement, and is not to be read as extending, by implication or otherwise, to any other matter. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purposes.

Very truly yours,

Form of Opinion of Office of the Government Corporate Counsel

[Letterhead of Office of the Government Corporate Counsel]

_____, 1997

The Board of Trustees
Metropolitan Waterworks and Sewerage System

Gentlemen:

I am the Government Corporate Counsel of the Republic of the Philippines (the "Republic") and I have acted as counsel to the Metropolitan Waterworks and Sewerage System ("MWSS") in connection with the granting by MWSS of a concession to operate its waterworks and supply sewerage services within a specified service area to _____ (the "Concessionaire") pursuant to a Concession Agreement dated _____, 1997 by and between MWSS and the Concessionaire (the "Agreement"). This opinion letter is furnished to you pursuant to Section 15.3(iii)(a) of the Agreement. Capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

In arriving at the opinions expressed below, I have examined and relied upon originals or copies certified or otherwise identified to my satisfaction of the following:

- (a) the Agreement;
- (b) Republic Act No. 6234, as amended, (the "Charter");
- (c) Section 7 of Republic Act No. 8041 ("An Act to Address the National Water Crisis and for Other Purposes");
- (d) Executive Order No. 286, dated December 6, 1995;
- (e) Executive Order No. 311, dated March 20, 1996 and
- (f) such records of MWSS and such other instruments and other certificates of public officials, officers of MWSS and such other persons as I have deemed appropriate as a basis for the opinions expressed below.

In rendering the opinions expressed below, I have assumed and have not verified that the signatures on all documents that I have examined are genuine.

Based on the foregoing, and subject to the qualifications and limitations herein contained, it is my opinion that:

1. MWSS is a government corporation duly organized, validly existing and in good standing under the laws of the Republic of the Philippines.
2. MWSS has full power and authority to execute and deliver, and to consummate the transactions contemplated by, the Agreement.
3. The execution and delivery by MWSS of the Agreement, and the consummation by MWSS of the transactions contemplated thereby, has been duly authorized by all necessary action of MWSS and no further action or proceeding on the part of MWSS is necessary to authorize the execution and delivery by MWSS of the Agreement or the consummation by MWSS of the transactions contemplated thereby.
4. The Agreement has been duly executed and delivered by MWSS, with the approval of the President of the Republic, and, under the laws of the Republic in effect as of the date of the Agreement and the date hereof, is a legal, valid, binding obligation of MWSS, enforceable against MWSS in accordance with its terms.
5. The representations and warranties of MWSS contained in Section 4.1.3 (No Violations; No Consents or Approvals Required) of the Agreement are true and correct in all material respects as of the date hereof.

The opinion set out in numbered paragraph 4 above is subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity), and, in respect of the provisions of the Agreement relating to the Appeals Panel, subject to considerations of public policy.

[Add any other qualifications and limitations in counsel's standard form.]

In rendering the foregoing opinions, I express no opinion as to the law of any jurisdiction other than the law of the Republic of the Philippines.

This opinion is furnished to you by me, in my capacity as the Government Corporate Counsel, solely for your benefit in connection with the Agreement, and is limited strictly to the matters stated herein and is not to be read as extending, by implication or otherwise, to any other matter. This opinion is not to be used, circulated, quoted or otherwise referred to for any other purposes.

Very truly yours,

A handwritten signature in black ink, appearing to be "A. Chander", is located in the bottom right corner of the page.

Form of Undertaking Letter of Republic

[Letterhead of Secretary of Finance]

[Date]

[Name and address of Concessionaire]

Ladies and Gentlemen:

I am the Secretary of Finance of the Republic of the Philippines (the "Republic") and am delivering this undertaking letter on behalf of the Republic in connection with the granting by the Metropolitan Waterworks and Sewerage System ("MWSS"), a Government-owned corporation, of a concession to operate its waterworks and sewerage supply services within a specified service area to _____ (the "Concessionaire") pursuant to a Concession Agreement dated _____, 1997 (the "Agreement") by and between MWSS and the Concessionaire. This undertaking letter is furnished to you pursuant to Section 15.3(iii)(d) of the Agreement. Capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

In connection with your entering into the Agreement, the Republic undertakes with you as follows:


1. Acknowledgement

The Republic hereby acknowledges and approves MWSS' entering into, and performing its obligations under, the Agreement.

2. Financial Guarantees

The Republic hereby guarantees, as primary obligor and not merely as surety, the payment when due of all amounts for which MWSS may become liable pursuant to Section 3.2 ("Liabilities/Revenues"), Section 9.4.4

To be dated the Closing Date.



("Expiration Payment"), Section 10.3.2 ("Early Termination Amount") and Section 14.2 ("MWSS Indemnity") of the Agreement.

3. Special Tax Arrangements/Investment Incentives

The Republic hereby acknowledges the approvals issued by the Board of Investments on _____, 1996 and the Bureau of Internal Revenue on _____, 1996 (copies attached), concerning the exemption from certain Philippine taxes as more fully described therein.

4. Standard Rates Reduction

The Republic shall not interfere with the mechanisms contained in Article 9 of the Agreement relating to the setting of rates and connection charges for water and sewerage services provided by the Concessionaire within the Service Area. In this regard, the Republic hereby confirms that if the Republic or any Government-owned agency shall cause MWSS or the Regulatory Office to reduce Standard Rates below the level that would otherwise be applicable in accordance with the Agreement, or to defer implementation of any increase in Standard Rates beyond the date for implementation thereof in accordance with the Agreement, the Republic shall indemnify the Concessionaire in respect of any loss to the Concessionaire occasioned by such action.

5. Foreign Exchange Convertibility

The Republic hereby confirms that the Concessionaire shall be entitled to convert earnings received in Pesos under the Concession into foreign currency from time to time on a non-discriminatory basis.

6. Raw Water Supply

The Republic hereby acknowledges and approves the letter delivered pursuant to Section 3.9 of the Agreement from MWSS to NWRB dated _____, 1996, which letter was acknowledged and approved by the MWSS Board of Directors on _____, 1996.

* * * *

This undertaking letter shall be governed by, and construed in accordance with, the law of the Republic of the Philippines. Any dispute relating to this undertaking letter shall be finally settled by arbitration before an arbitration panel consisting of three members appointed and conducting proceedings in Singapore in accordance with the arbitration rules of the United Nations Commission on International Trade Law as in effect on the date hereof. The arbitration shall be conducted in the English language.

The Republic hereby waives for itself and its assets and revenues, to the extent permitted by applicable law, any and all immunity from suit, execution, or other legal process in connection with any action or proceeding to enforce an arbitral award relating to this undertaking letter. Notwithstanding the foregoing, the Republic does not waive any such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Philippines, (ii) property of a military character and under the control of a military authority or defense agency, or (iii) located in the Philippines and dedicated to a public or government use.

This undertaking letter is being furnished to you solely for your benefit in connection with the Agreement, and is limited strictly to the matters stated herein and is not to be read as extending, by implication or otherwise, to any other matter.

The Republic consents to any assignment by you of your rights under this letter to secure loans incurred in connection with carrying out your obligations under the Concession. Apart from any such assignment, this undertaking letter is not to be used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

THE REPUBLIC OF THE PHILIPPINES

By: Roberto de Ocampo
Title: Secretary of Finance

Attachments

Technical and Business Assumptions

This Exhibit E identifies technical and business assumptions that the Concessionaire was asked to use in formulating its financial bid for the Concession and are relevant only in the context of potential GEAs under Section 9.3.1(viii). These assumptions shall not, however, constrain in any way the judgment or action of the Regulatory Office in carrying out its functions under Article 9 of the Agreement. In particular, with respect to items 1 and 2 below, it is expected that the Regulatory Office will set different requirements in accordance with the provisions of Article 9.

1. Capital expenditures for any projects necessary to source and treat any incremental Bulk Water in order to satisfy service obligations are deemed to be zero after the tenth anniversary of the Commencement Date and the delivery point for such water is assumed to be located at the proposed Cogeo Reservoir in Antipolo (although the cost of constructing that Reservoir should not be taken into account), with onward distribution the responsibility of the relevant Concessionaire.
2. Upon the first Rate Rebasing Date (January 1, 2003), (i) the rate for sewerage services will increase from 50% to 150% of the corresponding water bill, (ii) the environmental surcharge will be abolished and (iii) a sanitation charge equal to 75% of the corresponding water bill will be established for Customers not connected to the sewerage network.
3. No payments will be required to be made to local governments pursuant to Section 291 of the Local Government Code.
4. For purposes of foreign currency rate calculations, use the rate for the relevant currency as published by the Central Bank of the Philippines on December 6, 1996.
5. The inflation rate over the life of the Concession will be zero % per annum.
6. There will be a six year income tax holiday.
7. There will be a 3% tariff on the importation of capital equipment until December 31, 1997.
8. There will be tax credits on locally fabricated capital equipment.
9. For purposes of formulating its Rate Bid for Service Area West, each bidder should assume that it will be provided from January 1,

2000 onwards, on a take-or-pay basis, 300 mld of treated Bulk Water from a BOT project at no cost, and the treatment plant is assumed to be located at Putatan, Muntinglupa, Rizal, with onward distribution the responsibility of the Concessionaire for Service Area West. Within three months of the closing of the Service Area West Concession, MWSS will conduct an international competitive bidding process, in which the Service Area West Concessionaire will be invited to participate, for the supply of 300 mld of treated Bulk Water to Service Area West on a BOT basis by the end of 1999.

10. The expenses and liabilities of the Joint Venture will be split 50/50.
11. There will be no VAT applied on the supply and distribution of water by the Concessionaire for MWSS. There will, however, be a 10% VAT applicable to the provision of sewage and sanitation services by the Concessionaire. No franchise tax will be payable.

A handwritten signature in black ink, located in the bottom right corner of the page. The signature is stylized and appears to consist of several overlapping loops and lines, possibly representing the initials of the author.

12. The aggregate Concession Fee (exclusive of the contributions to the budgets of MWSS and the Regulatory Office pursuant to Section 6.4(b)) payable for each year of the Concession Agreement will be as follows:*

BREAKDOWN OF CONCESSION FEES (Million Pesos)**

WEST ZONE

Year	6.4(a) (i) + (ii) + (iii)	6.4(a) (iv) + (v)	Total Concession Fee
1997	1,475	218	1,693
1998	2,047	445	2,492
1999	1,731	390	2,121
2000	1,424	378	1,802
2001	1,158	362	1,520
2002	1,067	454	1,521
2003	1,038	398	1,436
2004	839	396	1,235
2005	799	394	1,193
2006	688	392	1,080
2007	584	391	975
2008	525	389	914
2009	493	388	881
2010	425	387	812
2011	431	386	817
2012	444	385	829
2013	368	385	753
2014	343	426	769
2015	142	307	449
2016	133	317	450
2017	131	69	200
2018	132	57	189
2019	135	58	193
2020	138	59	197
2021	6.3	0	6.3

TOTALS

Year	6.4(a) (i) + (ii) + (iii)	6.4(a) (iv) + (v)	Total Concession fee
1997	1,639	352	1,991
1998	2,274	664	2,938
1999	1,923	630	2,553
2000	1,582	593	2,175
2001	1,287	565	1,852
2002	1,185	755	1,940
2003	1,153	658	1,811
2004	932	653	1,585
2005	888	649	1,537
2006	764	609	1,373
2007	649	608	1,257
2008	583	605	1,188
2009	548	603	1,151
2010	472	602	1,074
2011	479	600	1,079
2012	493	599	1,092
2013	409	598	1,007
2014	381	662	1,043
2015	158	467	625
2016	148	475	623
2017	145	125	270
2018	147	114	261
2019	150	116	266
2020	153	118	271
2021	7	0	7

Assumes that no loans will be cancelled.

Includes only the Concession Fee as described under Section 6.4(a). The 1997 Concession Fee has been calculated for commencement on May 7, 1997.

13. The Concessionaire shall not be required to pay local business taxes, permits, fees and similiar charges.

14. The Expiration Payment is zero.

Existing MWSS Fringe Benefits

A. ALLOWANCES

PERA - P500.00 - Salary Grade 1 to 23 except those with RATA

ACA - P500.00 - Salary Grade 1 to 25

RATA - 40% of basic - Supervisory Level, Section Chiefs and up or equivalent ranks. Technical and Executive Assistants

Medical - 2,500.00/year

Rice - 500.00/month

Uniform - 2,000.00/year

Meal - 25.00/day (for medical personnel - P30.00/day)

Longevity - 50.00/year of service/month

Children - 30.00/child/month, maximum four (4) children below 21 years old

Hazard - 500.00/month

B. BONUSES

Year-End Financial Assistance - One (1) Month Gross pay (Basic Salary plus PERA, ACA, rice, meal, longevity, Children and RATA)

Mid-Year - One (1) month Gross Pay

Christmas Bonus and Cash Gift - One (1) month Basic salary plus P1,000 cash gift

Anniversary (Bigay-paia) - 4,000.00 or 50% of basic, whichever is greater

Productivity - As of December 1995 - Amount equivalent to P5,000.00 or 60% of gross pay, exclusive of RATA, whichever is higher

C. PREMIUMS

Graveyard - 50% (12MN - 6:00 AM)

Nightwork - 25% (6PM - 6 AM)

Holiday - 125%

Sunday - 150%

Overtime - 125%

Distress - 25% of basic pay (For Sewerage Dept. only)

D. PAID LEAVES:

Vacation - 15 days/year

Sick - 15 days/year

Maternity - 60 calendar days

Paternity - 7 working days

Emergency Leave - 3 days/year

(Birthday/Funeral/Mourning/Graduation/Enrollment/Wedding
Anniversary/Hospitalization/Accident/Relocation)

E. STUDY LEAVE

- Study now pay later scheme

- Grant (with contract to serve MWSS)

Monetization of 10 days provided with available leave credits of at least 15 days.