3 July 2006

PHILIPPINE STOCK EXCHANGE, INC.
 Philippine Stock Exchange Centre
 Exchange Road, Ortigas Center
 Pasig City

Attention: Ms. Jurisita M. Quintos
 Senior Vice President

Clarification on News Article

Dear Madame:

We refer to your letter dated June 30, 2006 requesting for clarification on the news article entitled "SC asked to void water resolution" in the Philippine Daily Inquirer on June 30, 2006. The article states in part as follows:

“WARNING OF AN INCREASE IN WATER rates, some lawmakers and non-government groups yesterday asked the supreme Court to nullify two resolutions of the Metropolitan Waterworks and Sewerage System (MWSS) and its regulatory office that stripped its two water concessionaires of their character as public utilities. XXX They claimed that implementing the resolution would cause a hike in water rates. The MWSS resolutions were issued in (sic) July 24 and stated that concessionaires Maynilad Water Services, Inc. and Manila Water Company, Inc. were not public utilities. The petitioners said the move would exempt the concessionaires from the 12-percent limit on profit margins. The concessionaires would also be exempt from having to refund any excess rate collections as in the case of Manila Electric Co. which had been ordered by the Supreme Court to refund excess charges to its customers. ‘This will undoubtedly have the effect of increasing the rates that can be validly charged against individual petitioners and the members of petitioner organizations,’ the groups said in their petition. XXX They said that by the very nature of their service, Maynilad and Manila Water should be considered public utilities. They cited the Public Service Act that states that ‘public service’ refers to persons that control, manage, or operate, among others, water supply and sewerage systems.”
We wish to clarify that the Supreme Court petition referred to in the article was filed against MWSS. Manila Water is not impleaded in the petition. Nonetheless, we continue to rely on the following as legal bases for our stand that Manila Water is not a public utility but is merely an agent and concessionaire of the MWSS, which remains as the public utility:

- Section 2.1 of the Concession Agreement between MWSS and Manila Water, under which MWSS grants to Manila Water, “as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the [MWSS] 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 xxx”;

- MWSS Board Resolution dated July 30, 2004 adopting the findings, conclusions and recommendations of the Technical Working Group (formed to study the Negative Extraordinary Price Adjustment and composed of representatives from the MWSS Regulatory Office, counsels from the concessionaires and the Office of Government Corporate Counsel or OGCC), which confirmed that the concessionaires (i.e., Manila Water and Maynilad Water Services, Inc.) are agents and contractors of MWSS, which is the public utility;

- National Water Resources Board (NWRB) Resolution dated June 17, 2005 adopting the findings of another inter-agency Technical Working Group (composed of representatives from the NWRB, the Department of Justice, the Department of Finance and the National Economic Development Authority) that the concessionaires are not public utility operators but agents of the MWSS; and

- Memorandum from the OGCC dated June 1, 2005 stating that the concessionaires are agents of the MWSS.

We will respond to the allegations in the petition in the appropriate time and venue.

We trust that the foregoing clarifies the matter.

Best regards.

Sincerely,

(Sgd.)

Jewel C. Fernandez-Austria
Legal and Investment Officer