November 23, 2006

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

Attention: Ms. Jurisita M. Quintos
Senior Vice President

Loan Facility

Dear Madame:

(1) By an Amended and Restated Second Loan Agreement executed last night (the “Amended and Restated Second Loan Agreement”), Manila Water Company, Inc. (“Manila Water”) entered into an agreement with the International Finance Corporation (IFC) for the restructuring of the loan that IFC agreed to extend to Manila Water under the Second Loan Agreement dated May 31, 2004. The terms of the second loan were amended from, among other things, a loan in the aggregate principal amount of up to US$ 30 million consisting of a regular loan in the principal amount of up to US$20 million and a standby loan in the principal amount of up to US$10 million, to a loan in the aggregate principal amount of up to US$30 million, no part of which shall consist of a standby loan.

(2) Manila Water entered last night into a Third Loan Agreement (the “Third Loan Agreement”) with IFC for a third loan in the amount of up to US$ 30 million. The third IFC loan is a standby facility which may, at Manila Water’s option, be disbursed in part or in whole as a US Dollar loan or as a Philippine Peso loan.

The effectiveness of the Third Loan Agreement is subject to the fulfillment of the condition that approval of the Bangko Sentral ng Pilipinas shall have been obtained for the third IFC loan. Thus, the Third Loan Agreement states pertinently:

“Section 7.09. Effectivity. Notwithstanding the signing of this Agreement by the parties, the effectivity of this Agreement shall be subject to the approval by the Bangko Sentral ng Pilipinas of the Third IFC Loan; provided, that upon such approval having been obtained, such effectivity shall retroact to the date of said signing.”
The right of Manila Water to request a disbursement under the Third Loan Agreement is subject to the fulfillment of the conditions set forth therein. Furthermore, the third loan, which is a standby facility, shall require activation in the manner provided under the Third Loan Agreement preceding any request for disbursement. At a later date, Manila Water and IFC, together with Rizal Commercial Banking Corporation – Trust and Investments Division (“RCBC-Trust”) as trustee, shall execute the Assignment of Interests by Way of Security (the “Security Assignment-Third Loan”) under which Manila Water shall constitute, in favor of RCBC-Trust for and on behalf of IFC a collateral assignment of Manila Water’s rights and interests under its fixed assets, receivables, bank accounts, project documents, policies and bonds to secure Manila Water’s obligations under the Third Loan Agreement and the Security Assignment-Third Loan. Together, the Third Loan Agreement and the Security Assignment-Third Loan shall form part of an omnibus agreement, which shall be executed among Manila Water, IFC and RCBC-Trust.

Best regards.

Sincerely,

(Sgd.)

Jewel C. Fernandez-Austria
Legal and Investment Officer