23 August 2006

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

Attention: Ms. Jurisita M. Quintos
Senior Vice President

**Peso Loan Facility**

Dear Madame:

Manila Water Company, Inc. entered into a P2 Billion loan arranged by ING Bank late afternoon yesterday. The company obtained the loan from a syndicate of lenders composed of Sun Life of Canada, Insular Life Assurance, Security Bank, Equitable PCI Bank, Chinabank, Robinsons Savings Bank and ING Trust. The loan will be used to fund the company’s capital investment program within the East Zone of Metro Manila. The loan is composed of two tranches, each for a term of 7 years.

We enclose a copy of a press release regarding the foregoing.

Best regards.

Sincerely,

(Sgd.)

**Jewel C. Fernandez-Austria**
Legal and Investment Officer
Manila Water Company signed on August 22 an agreement for a Peso term loan facility amounting to P2 billion arranged by ING Bank from a syndicate composed of Sun Life of Canada, Insular Life Assurance, Security Bank, Equitable PCI Bank, Chinabank, Robinsons Savings Bank and ING Trust. The facility is tightly priced with a 7-year tenor and allows Manila Water to establish new banking relationships with a number of reputable institutions. The 7-year facility is the Company’s maiden peso term issuance and was oversubscribed nearly four times from an initial launch amount of P1 billion. This term loan facility forms part of the financing plan needed to fund Manila Water’s capital investment program within the East Zone.

“The signing of the P2 billion Term Loan Facility marks a significant event for Manila Water because it affirms the financial community’s confidence in the Company. Through this Peso-denominated loan, the company will be able to take advantage of the improving domestic borrowing rates, while it will also be able to better manage the adverse impact of foreign currency fluctuations. All of these ultimately redound to the benefit of our more than 5 million customers in the East Zone,” Manila Water President Antonino T. Aquino said.

The Company announced early this year that it has lined up projects amounting to P4.5 billion in 2006 alone and will spend approximately P4 to 5 billion per year in the next five years. A large part of this capex budget will be used to extend the water network to the high growth areas of Taguig, Antipolo, Taytay, Cainta, San Mateo, Montalban, Angono, Binangonan, Baras and Jala-jala. Manila Water has also allocated significant amounts to improve sewer and sanitation services.

For the past nine years, Manila Water has invested a total of P19 billion in capital expenditure and concession fees to improve the water and wastewater services in the East Zone. Through the Company’s relentless pipe replacement program, it has reduced system losses to 30.2% as of June 2006, from a high of 63% when it started in 1997. The water recovered from system losses increased the volume of water delivered to customers. Consequently, billed volume increased from the 1997 level of 440 million liters per day (mld) to 933 as of June 2006.