METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
NOTES TO FINANCIAL STATEMENTS
(In Thousand Pesos)

1. Corporate Information

The Metropolitan Waterworks and Sewerage System (MWSS), a government-owned and controlled corporation, was created under Republic Act No. 6234 which was approved on June 19, 1971 replacing the National Waterworks and Sewerage Authority. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite and Bulacan.

Because of the felt need for the government to adopt urgent and effective measures and to address the nationwide water crisis which adversely affected the health and well-being of the public, legislators passed into law Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order No. 286 dated December 6, 1995 which reorganized the MWSS. The passage of Executive Order No. 311 on March 20, 1996 encouraged the private sector's participation in the operation of the facilities of MWSS and paved the way for its privatization.

Pursuant to a process of a competitive public bidding and selection, MWSS' operations were privatized. Thus, on February 21, 1997, MWSS entered into a Concession Agreement (CA) with two private companies (Concessionaires), namely, the Manila Water Company Incorporated (MWCI) and the Maynilad Water Services Incorporated (MWSI), granting them the rights 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. MWCI operates on the east zone which covers part of Quezon City, Manila, Marikina, Mandaluyong, Makati, Pasig, Pateros, San Juan and Taguig in Metro Manila and Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa in Rizal province. MWSI services the west zone covering some areas of Quezon City, Manila, Makati, Malabon, Navotas, Muntinlupa, Caloocan, Pasay, Paranaque, Las Piñas, Valenzuela in Metro Manila and Imus, Bacoor, Kawit, Noveleta, Cavite City and Rosario in Cavite province. The two concessionaires formally took over the operations of MWSS on August 1, 1997. In addition to the performance of the service obligations, the concessionaires are required, under the Concession Agreement, to pay MWSS concession fees in consideration for such right.
As a result of the privatization in 1997, MWSS is now divided into two Offices, the MWSS-Corporate Office and the MWSS- Regulatory Office.

Due to financial difficulties, the MWSI suspended payments of concession fees to MWSS beginning on March 8, 2001. As a result, disputes between MWSS and the concessionaire ensued which brought them to a process of arbitration before the Appeals Panel appointed pursuant to the CA. On November 7, 2003, the Appeals Panel issued an award declaring that there is neither a Concessionaire Event of

Termination nor an MWSS event of termination and that, consequently, the CA shall continue in force and that MWSS and the concessionaire shall perform their respective obligations under the CA until the termination of the concession. The Appeals Panel further declared that concession fees which should have been paid by the concessionaire to MWSS were due and payable to MWSS with the corresponding interest pursuant to the CA and that MWSS may draw on the performance bond in accordance with Section 6.9 (Performance Bond) of the CA.

On November 13, 2003, the concessionaire filed a petition for its corporate rehabilitation with the Rehabilitation Court, submitting therewith a rehabilitation plan as required under applicable legal requirements. A stay order was then issued by the Rehabilitation Court on November 17, 2003 prohibiting the concessionaire, among other things, from making any payment of its liabilities outstanding as at the date of the filing of the petition.

After securing a favorable decision from the Supreme Court, MWSS was able to draw on the Performance Bond in the entire amount of One Hundred Twenty Million US Dollars (US$120,000,000.00) for unpaid concession fees. On September 9, 2004, the concessionaire filed with the Rehabilitation Court a revised rehabilitation plan which was recommended for approval by the court-appointed Rehabilitation Receiver. However, the terms thereof had to be further modified in order to address the concerns raised by several creditors of the concessionaire. On April 29, 2005, the concessionaire submitted its 2005 Rehabilitation Plan incorporating therein the terms of a Debt and Capital Restructuring Agreement (DCRA) executed among the concessionaire, MWSS, Benpress Holdings Corporation, the Suez Group and the Lenders. The Rehabilitation Court approved the 2005 Rehabilitation Plan as well as other related documents, including the DCRA, on June 1, 2005.

Under Clause 2.6 (Increase in capital) of the DCRA, as part of the implementation of the Capital Restructuring, MWSS is given the right and obligation to subscribe to One Billion Two Hundred Thirty-Eight Million Four Hundred Seventy-Six Thousand (1,238,476,000) Class "A" shares (the MWSS Subscription shares) representing eighty-three and 97/100 percent (83.97%) of the outstanding capital stock of the concessionaire (the MWSS Subscription Right), pursuant to Clause 2 (Capital Restructuring) of the DCRA, which subscription shall be paid for by MWSS by way of conversion into equity of the MWSS receivables converted into Philippine pesos based on assumed exchange rate of P54.63 to US$1.00. Alternatively, under Clause 24 (Substitution of the MWSS) of the DCRA, MWSS is given the right, subject to the prior approval of all the lenders and the Suez Group, to assign the MWSS Subscription Right; provided, that the assignee of MWSS shall assume all the obligations and undertakings of MWSS under the DCRA in connection with, relating to or arising from, such right, including the execution of a debt conversion and subscription agreement with the concessionaire and the provision of the Financial Assistance to the concessionaire, as required under Clause 14.1 (the Financial Assistance) of the DCRA.

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.

Consistent with the privatization policies of the Republic, the MWSS Board of Trustees, in its meeting dated September 8, 2005, issued Resolution No. 2005-203 authorizing MWSS to exercise its option to assign the MWSS subscription right to a private investor. Pursuant to a process of a competitive public bidding and selection, the sponsor was awarded the right to acquire the MWSS receivables and the MWSS subscription right, subject to the sponsor's assumption of the DCRA sponsor obligations and performance of the other sponsor obligations.

In March 2, 2009, MWCI submitted a business plan proposing to increase the investments on wastewater and new water sources project and to ensure water supply security to support their request for extension of the Concession Agreement for an additional period of fifteen (15) years, from 2022 to 2037, subject to the written consent of the Republic of the Philippines (ROP) as required under Section 16.12 of the Concession Agreement. Series of public consultations were conducted to inform and educate stakeholders of the issues to warrant the extension. On April 28, 2009, per Board Resolution 2009-072, MWSS approved the extension of the concession for the East Area Concession.

SOURCES OF FUNDS

The following are the sources of funds of MWSS:

- Concession fees collected from concessionaires
- Rentals on leased properties
- Interest income on investments
- Loan availments from foreign and domestic financial institutions
- Collection of receivables including raw water accounts (accounts prior to privatization)

KEY PROJECTS FOR CY 2008 TO CY2009

In line with President Gloria Macapagal Arroyo's 10- point agenda, particularly to ensure the delivery of clean and potable water to Metro Manila, MWSS continues to implement the following projects:

A. Foreign-assisted Projects (in US$)

Laiban Dam Project	1,000.00 M
300 MLD Treated Bulk Water Supply Project	100.00 M
50 MLD Wawa Diversion Project	30.00 M
Angat Water Utilization and Aqueduct Improvement Project (Phase 2)	125.00 M

B. Locally-funded Projects (in Phil. Peso)

Patubig ni PGMA	437.00 M
Umiray-Angat Transbasin Tunnel Rehabilitation Project (Phase 2)	500.74 M
Sumag River Diversion Project	380.80 M
Angat Dam and Dykes Safety Assessment	11.00 M
Construction of Cyclone Wire Fence along the BNAQ Right of Way	9.84 M

Laiban Dam Project aims to supplement the long-term water supply requirements of Metro Manila for a supply volume of 1900 mld. Further geological investigation to confirm/validate the extent of limestone formation at the dam site area was completed in April 2008. The project was already approved by NEDA-ICC in April 2007 to be funded under the China Loan. However, the Office of the President cancelled this Project under the China Loan in February 2008; hence, MWSS is now pursuing other mode of procurement, either unsolicited or solicited. Several interested proponents have entered into an MOU with MWSS for the conduct of due diligence preparatory to their submission of unsolicited proposal. Among them is CalEnergy, an American firm, but later withdrawn its interest.

Another interested proponent who submitted an unsolicited proposal, San Miguel Bulk Water Company (SMBWC), also did some due diligence. To date, however, SMBWC's proposal has not been approved due to some environmental and resettlement issues.

The 300 MLD Treated Bulk Water Supply Project involves the supply of 300 mld of treated bulk water for the southern part of Metro Manila to be implemented thru private sector participation. After the second failure of bidding on the Project under the BOT scheme, MWSS had contemplated on another mode, which is possible joint venture agreement with a private sector entity in accordance with the NEDA-approved "Guidelines and Procedures for entering into Joint Venture Agreement between Government and Private Entities." To date, MWSS has received expression of interest from two (2) private companies and has entered into an MOU for the conduct of due diligence preparatory to their submission of unsolicited proposal. Once submitted, the unsolicited proposals shall be evaluated by the Joint Venture Selection Committee.

The Patubig ni GMA, since its start in 2004, has benefited a total of 191,969 households (about 1.34M population) in 204 areas. In East Zone, 98% and West Zone, 70% of the targeted areas have been accomplished.

The Administrator has an inherent authority to issue Financial Statements of MWSS pursuant to Section 8 (g) of Republic Act No. 6234, otherwise known as the MWSS Charter.

2. Basis of Financial Statement Preparation

The accompanying state financial statements have been prepared in conformity with the generally accepted state accounting principles in the Philippines.

The financial statements of MWSS have been prepared using the historical cost basis and are presented in Philippine pesos, which is the System's functional and presentation currency. All values are rounded to the nearest thousand. The financial statements of the MWSS Corporate Office and the Regulatory Office are consolidated in this report.

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash in banks earn interest at the respective authorized government depository bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in values. Cash equivalents are for varying periods of up to three months depending on the immediate cash requirements of the System, and earn interest at the respective investment rate. Due to the short-term nature of the transaction, the fair value of cash and cash equivalents and short-term investments approximates the amount at the time of initial recognition.

Receivables

Receivables are recognized and carried at original billed amount. Provision for doubtful accounts on water/sewer accounts receivable prior to privatization is maintained at a level considered adequate to provide for potential losses on receivables. The level of this provision or allowance is based on management's evaluation of collection experience and other factors that may affect collectability.

Property, plant and equipment

Property, plant and equipment (PPE), except those fully depreciated and those classified as administration equipment, are stated at appraised value based on the appraisal conducted in 2006 by Cuervo Appraisers, Inc., an independent appraiser hired by MWSS for that purpose, less impairment in value.

Depreciation of PPE commences once the properties become operational and available for use, and are calculated on a straight-line basis over the estimated useful lives of the property, plant and equipment.

Minor repairs and maintenance costs are expensed when incurred, while major repairs and/or those repairs that will prolong the useful lives of the assets are capitalized.

When property and equipment is retired or disposed of, the cost and the related accumulated depreciation, amortization and accumulated provision for impairment losses, as the case may be, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that they are consistent with the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Construction in progress

Construction in progress is stated at cost. While the construction is in progress, project costs are accrued based on the contractors' accomplishment reports and billings. These represent costs incurred for technical services and capital works program contracted by the System to facilitate the implementation of the project. While the construction of the project is in progress, no provision for depreciation is recognized.

Construction in progress are transferred to the related property, plant and equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for service.

Long-term foreign loans

Long-term foreign loans are recorded in peso based on the exchange rate at the time of withdrawal and are revalued at each balance sheet date.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. In 2004, an impairment loss was recognized by MWSS for the Umiray-Angat Transbasin due to damages caused by typhoons.

Leases

A lease where the lessor retains substantially all the risk and benefits of ownership of the asset is classified as an operating lease.

Revenue recognition

All concession fees billed/collected/received from the Concessionaires are treated as operating revenue.

Concession fees – debt service and progress billings are concession fees received from the Concessionaires that are intended for MWSS loan amortization and payments to contractors/suppliers, respectively. These are pass-on payment without any margin in favor of MWSS. Concession Fee – COB is the annual Current Operating Budget being paid by the concessionaires to MWSS for administrative expenditures subject to annual Consumer Price Index adjustment.

Foreign currency-denominated transactions

Foreign currency-denominated transactions are initially recorded in peso, by applying to the foreign currency amount the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at balance sheet date. Foreign exchange gains and losses arising from foreign currency fluctuations are recognized in profit or loss for the period.

Subsequent events

All post year-end events up to the date the financial statements are authorized for issue that provide additional information about the System's position at the balance sheet date (adjusting events) are reflected in the financial statements. Any post year-end event that is material and not an adjusting event is disclosed in the notes to the financial statements.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) are capitalized as part of the cost of the asset. The capitalization commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are completed.

Judgments and use of estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

PAS 1, *Presentation of Financial Statements*, which was adopted by the System effective January 1, 2005, requires disclosures about key sources of estimation, uncertainty and judgments management had in the process of applying accounting policies. Management believes the following represent a summary of these significant estimates and judgments:

Use of estimates

Key assumptions concerning the future and other sources of estimation and uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated allowance for doubtful accounts

The System maintains allowances for doubtful accounts at a level considered adequate to provide for potential losses on receivables. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectability. The amount and timing of recorded expenses for any period would, therefore, differ depending on the judgments and estimates made for the year.

Estimated useful lives of property, plant and equipment

The System estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The System reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in the System's estimates brought about by changes in the factors mentioned.

Contingencies

The System is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of various claims is established in consultation with the in-house lawyers and the government corporate counsel handling the case.

5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2009	2008
Cash	**295,723**	212,936
Cash equivalents	**4,652,887**	5,378,636
	4,948,610	5,591,572

6. Accounts receivable

This account consists of:

	2009	2008
Trade/Business		
Receivables from customers-water, sewer, including raw water accounts	**1,118,014**	1,119,465
Receivables from concessionaires	**902,395**	838,166
	2,020,409	1,957,631
Allowance for doubtful accounts	**(1,117,109)**	(1,118,640)
	903,300	838,991
Non-trade receivables		
Inter-agency receivables	**324,949**	15,616
Intra-agency receivables	**16,567**	340,957
Due from officers and employees	**62,135**	64,530
Loans receivables	**48,987**	39,844
Interest receivables	**1,827**	2,735
	454,465	463,682
	1,357,765	1,302,673

Receivables from concessionaires represent concession fees for Current Operating Budget (COB) and Debt Service.

Inter-agency receivables represent collectibles from other government agencies such as the Department of Public Works and Highways (DPWH), Office of the Government Corporate Counsel (OGCC), Supreme Court, Manila International Airport Authority (MIAA), Local Water Utilities Administration (LWUA) and the City of Manila for office rental, electric and water bills.

Intra-agency receivables are receivable from Regulatory Office such as electric and telephone bills and others and receivables of Regulatory Office from Corporate Office.

7. Other receivables

This account consists of the following:

	2009	2008
Receivables from MWSI	**4,675,734**	4,058,559
Receivables from MWCI	**159,936**	159,032
Others	**30,214**	34,782
	4,865,884	4,252,373

Details of the Receivables from MWSI and MWCI are as follows:

	2009	2008
MWSI		
Cost of borrowings	**3,226,768**	2,608,498
Penalty on delayed remittance of concession fee	**1,118,315**	1,118,315
Inventory held in trust	**98,050**	98,050
Penalty for non-payment of borrowing cost	**95,247**	95,247
Guarantee deposit	**94,996**	94,996
Raw water	**19,309**	25,746
Mabuhay Vynil	**4,994**	4,994
LMG Chemphil	**4,627**	4,627
Other receivables	**13,428**	8,086
	4,675,734	4,058,559
MWCI		
Guarantee deposit	**72,210**	72,210
Inventory held in trust	**43,747**	43,747
Penalty on delayed remittance of concession fee	**13,182**	13,182
LMG Chemphil	**7,730**	7,730
La Vista	**591**	591
Other receivables	**22,476**	21,572
	159,936	159,032

Monetary Board Resolution No. 23 dated January 10, 2008 approved the full prepayment by Maynilad Water Services, Inc. (MWSI) of its restructured concession fees due to MWSS which consist of Tranche A2 concession fees – debt service and Tranche B concession fees – cost of borrowings. Of the payments made, there remains additional cost of borrowings which are still being claimed as receivable by MWSS. MWSS contends/argues that additional cost of borrowings should be paid by MWSI aside from the Tranche B concession fees – cost of borrowings that was recognized by the Concessionaire. Prospective costs of borrowings until the termination of the Bonds in March 2011 are also to be charged to MWSI.

Penalty on delayed remittance of concession fees are penalties charged to MWSI that are included in the disputed claim. MWSI argues that said penalty should be waived considering that the payments made by MWSS to pay their deferred payment came from the proceeds of Bridge Financing Loans, the borrowing costs of which were charged to MWSI.

Inventory held in trust represents costs of inventories turned-over to the concessionaires upon commencement of the Concession Agreement. Under Sec.16.12 of the Concession Agreement, upon the expiration of the Concession, the Concessionaires shall transfer to MWSS the inventory having a value of at least equal to the Inventory amount made available to the Concessionaire on the Commencement Date.

Guarantee deposit pertains to the deposits made by customers before the extension of any service connections as security for the payment of subsequent bills, or as a meter deposit.

8. Inventories

This account consists of the following:

	2009	2008
Construction materials	**60,430**	60,430
Office supplies and printed forms	**647**	566
Auto parts and supplies	**82**	74
IT supplies and accessories	**96**	17
	61,255	61,087

Construction materials represent materials available for use in the projects.

9. Prepayments

This account consists of the following:

	2009	2008
Advances to suppliers/contractors	**366,745**	347,158
Prepaid expenses	**24,104**	20,586
Deposits on letters of credit	**3,224**	2,888
	394,073	370,632

Advances to suppliers/contractors include the balance of the 15% mobilization costs paid to the contractors/suppliers/consultants of civil works/goods/consultancy services, which are subject to recoupment. This account pertains to prior year's transaction subject for reconciliation.

10. Property, plant and equipment

The movements of property, plant and equipment (PPE) are as follows:

	Building, Plant Equipment and Transmission Lines	Office Furniture And Other Equipment	Trans-portation Equipment	Land & Land Improve-Ment	TOTAL
Cost					
January 1, 2009	60,983,508	1,244,442	596,498	12,772,610	75,597,058
Additions		2,202	-	-	2,202
Adjustments	(228)	228	(5,685)	7,326	1,641
Transfers/capitalization	155,551	1,078	1,311	-	157,940
December 31, 2009	61,138,831	1,247,950	592,124	12,779,936	75,758,841
Acc. depreciation					
January 1, 2009	(31,556,894)	(709,711)	(281,044)	12,772,610	(32,547,649)
Depreciation expense	(1,479,830)	(97,689)	(54,395)		(1,631,914)
Adjustments	(29,977)	(372)	5,247		(25,102)
December 31, 2009	(33,066,701)	(807,772)	(330,192)		(34,204,665)
Carrying Amount December 31, 2009	**28,072,130**	**440,178**	**261,932**	**12,779,936**	**41,554,176**
Cost					
January 1, 2008	59,645,417	1,224,008	440,025	12,772,610	74,082,060
Additions	327	17,837	-	-	18,168
Adjustments	(3)	-	7	-	-
Transfers/capitalization	1,337,767	2,597	156,466	-	1,496,830
December 31, 2008	60,983,508	1,244,442	596,498	12,772,610	75,597,058
Acc. depreciation					
January 1, 2008	(29,913,459)	(624,431)	(231,606)		(30,769,496)
Depreciation expense	(1,492,044)	(92,835)	(49,438)		(1,634,318)
Adjustments	(151,391)	7,555	-		(143,835)
December 31, 2008	(31,556,894)	(709,711)	(281,044)	12,772,610	(32,547,649)
Carrying Amount December 31, 2008	**29,426,614**	**534,731**	**315,454**	**12,772,610**	**43,049,409**

11. Construction in progress

The movements of construction in progress account follows:

	2009	2008
Balance, beginning	**1,381,793**	2,866,596
Additions(adjustments)	**13,467**	12,027
Transfers/capitalization	**(157,941)**	(1,496,830)
Reclassification	**(236)**	-
Balance, end	**1,237,083**	1,381,793

12. Investments

This account consists of the following:

	2009	2008
Stocks and bonds		
NAPOCOR bonds	**452,240**	457,852
Home Guaranty Corp. bonds	**19,008**	74,038
MERALCO stocks	**2,152**	2,152
PLDT investment plan	**373**	373
	473,773	534,415
Miscellaneous		
Special reserve fund	**284,975**	270,112
Sinking fund	**29,510**	29,510
	314,485	299,622
	788,258	834,037

The NAPOCOR bonds are long-term investments exempted from taxes and earn a 4% interest rate per annum which will mature in December 2011. The decrease in the amount of NAPOCOR bonds represents the collections of semi-annual interest previously charged as premium at the time of acquisition. The decrease in Home Guaranty Corporation Bonds was due to the maturity of the bonds, proceeds of which were reinvested in short-term deposits at the Land Bank of the Philippines and the Development Bank of the Philippines with interest rates ranging from 3.25% to 3.85% per annum.

The special reserve fund with the Bureau of Treasury, which is intended as guarantee for the financial obligations of MWSS during the concession period, was set up in pursuance to Article 2.1 of the Memorandum of Agreement (MOA) between the Department of Finance (DOF) and MWSS.

13. Other Assets

This account consists of the following:

	2009	2008
Unserviceable assets	**242,797**	242,822
Research and development	**152,801**	206,438
MWSS Share in Angat Dam construction	**63,019**	71,142
Car assistance plan	**13,496**	27,592
Garnished accounts	**11,461**	11,461
Guarantee deposits	**10,728**	10,728
Dormant accounts	**937,566**	937,566
	1,431,868	1,507,749
Allowance for dormant accounts	**(519,000)**	(519,000)
	912,868	988,749

Unserviceable assets are the costs of construction materials and supplies that can no longer be used in projects due to obsolescence or assets which are no longer operational. Management is working out for their possible write-off.

Dormant accounts are accounts prior to the privatization in 1997. These include balances of accounts carried over since the time of the old National Waterworks and Sewerage Administration (NAWASA).

14. Payable accounts

This account consists of:

	2009	2008
Accounts payable	**642,903**	658,170
Interest payable	**322,159**	342,553
Due to officers and employees	**80,042**	102,256
	1,045,104	1,102,979

Accounts payable includes accrued maintenance and other operating expenses and local counterpart of loans payable.

Due to officers and employees refers to unclaimed gratuity, COLA and accrued personal services.

15. Inter-agency payable

This account consists of payables to the:

	2009	2008
National Treasury	**236,702**	344,765
BIR	**2,336**	3,076
GSIS	**1,756**	1,890
Pag-IBIG	**435**	446
Other GOCCs	**402**	430
	241,631	350,607

Payable to National Treasury pertains to the guarantee fee of existing loans and Special Project Implementation Assistance Loan (SPIAL) interest and other charges.

16. Intra-agency payable

This account consists of:

	2009	2008
Due to operating units-Regulatory Office	**417,993**	454,304
Due to other funds – Regulatory Office	**(611)**	(616)
	417,382	453,688

Due to operating units–Regulatory Office represents the share of the Regulatory Office in the concession fees received from the concessionaires for its operating budget.

17. Other liability accounts

This account includes 10% retention from contractors' claims, unreturned borrowed materials, cost of flushing, attorneys' fees, guaranty deposits, depository liabilities, and money claims per Supreme Court Decision for Amelioration Allowance, Cost of Living Allowance, Contract collectors early retirement pay and RA 1616.

The agency recognized estimated liabilities amounting to P427.77 million representing claims for retirement benefits of MWSS retirees under Republic Act 1616.

18. Long-term liabilities

This account consists of the following:

Source	Maturity Date	Currency	Annual Interest Rate	2009	2008
Domestic					
SPIAL	05-15-26	$	9.65%	**426,104**	608,289
ADB 1746-PHI	02-01-22	P	floating	**204,754**	209,741
PNB Loan	11-19-10	P	2.15%	**200,000**	200,000
NHA		P	floating	**98,795**	98,795
IBRD 1272/1282	07-15-20	$	8.50%	**66,949**	68,579
				996,602	1,185,404

Foreign					
BNP Paribas	11-26-11	$	floating	**6,953,400**	7,122,750
ADB 1379-PHI	07-15-20	$	floating	**3,065,349**	3,291,635
ADB 986-PHI	10-01-14	$	floating	**2,783,212**	3,296,870
JBIC (OECF)	02-20-20	Y	2.70%	**1,740,813**	1,796,558
IBRD 4019-PH	07-01-16	$	floating	**870,544**	998,721
ADB 947-PHI	12-15-12	$	floating	**472,135**	620,427
IBRD 3124-PH	12-15-09	$	floating	**-**	190,937
ADB 1150-PHI	10-15-16	$	floating	**330,054**	372,974
French Protocol	12-31-18	FF	3%-6.8%	**186,010**	212,967
IBRD 4227 PHI	09-15-17	$	floating	**58,996**	64,834
ADB 2012-PHI	08-15-13	$	libor rate	**37,275**	45,615
				16,497,788	18,014,288
				17,494,390	19,199,692

Current Portion

Details of the current portion of the loans are as follows:

Asian Development Bank (ADB	**801,904**	748,289
Int'l. Bank for Reconstruction & Development (IBRD)	**117,383**	300,177
French Protocol	**27,070**	26,900
Special Project Implementation Assistance Loan (SPIAL)	**12,206**	12,504
	(958,563)	(1,087,870)
	16,535,827	18,111,822

The Special Project Implementation Assistance Loan (SPIAL) is a portion of the National Government's multi-currency loans from the ADB under Loan Nos. 779 & 780. This was relent to MWSS to partly finance the following projects: Manila Water Supply Rehabilitation Project I (MWSRP I), Manila Water Supply Project II (MWSP II), and Metro Manila Sewerage Project (MMSP).

ADB Loan No. 1746 PHI is a sub-loan agreement entered into by and between the Department of Finance and the MWSS on October 13, 2003 for the implementation of the Pasig River Environmental Management and Rehabilitation Sector, a sanitation component of the loan.

PNB Loan was obtained on November 19, 2007. It is a three (3)-year, fixed rate note amounting to P200 million, which will mature in 2010.

NHA Loan was obtained to finance the transfer of water and sewer systems of Tondo Foreshore, Dagat-Dagatan and Kapitbahayan.

IBRD Loan Nos. 1272/1282- Manila Urban Development Project – are, likewise, National Government loans relent to MWSS on October 1, 1976. Per subsidiary loan agreement dated October 1, 1976, MWSS shall repay the principal of the subsidiary loan starting on November 15, 1981.

The BNP Paribas Loan was obtained on March 26, 2004 to finance/refinance the System's maturing obligations (peso and foreign currency denominated), capital expenditures brought about by non-payment of MWSI in its obligation and arbitration-related expenses for the year 2004. It is a seven (7)-year, fixed rate note amounting to US $150Million, which will mature in 2011.

ADB Loan No. 1379 PHI was obtained on November 27, 1995. The primary objectives of the project were 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 (MWSS) by about nine cubic meters per second by 1999. The secondary objective of the project was to reduce Non-Revenue Water (NRW) by providing support for leak detection and repair activities. It is a 20-year loan with a grace period of 5 years which will mature on July 15, 2020.

ADB Loan No. 986 PHI – Angat Water Supply Optimization Project - was obtained on December 18, 1989. The objectives of the project were to maximize the capacity of the main water supply source of the Borrower (MWSS) and to meet projected water demand in the project area through construction of additional supply, treatment and distribution facilities. It is a 20-year loan with a grace period of 5 years which will mature on October 1, 2014.

JBIC Loan PH 110 was contracted by Japan and the National Government of the Republic of the Philippines in 1990 intended for the Angat Water Supply Optimization Project. The proceeds of the loan were treated by MWSS as government equity for drawdown incurred before privatization and as loan after privatization.

IBRD Loan No. 4019 PH - Manila Second Sewerage Project - was obtained on June 19, 1996. The objectives of the project were to assist the Borrower (MWSS) 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; c) establish a gradual low-cost improvement of sewerage services in Metro Manila by expanding the Borrower's septage management program. It is a 15-year loan with a grace period of 5 years which will mature on July 1, 2016.

ADB Loan No. 947 PHI –– Second Manila Water Supply Rehabilitation Project, Operational Modernization, Institutional Strengthening and Public Information Campaign - was obtained on February 17, 1989. It is a 20-year loan with a grace period of 5 years which will mature in December 15, 2012.

IBRD Loan No. 3124 PHI – Angat Water Supply Optimization Project – was obtained on November 9, 1989. The objectives of the project are to: a) provide construction of raw water transmission, water treatment and distribution facilities for an additional supply of 15 cubic meters per second for an additional population of about three million persons in the project area; b) increase service coverage to 75% of the total population in the project area by 1994, particularly in poor neighborhoods; c) improve the efficiency of the Borrower's (MWSS) operation; and d) strengthen the Borrower's (MWSS) finance as well as its planning and management information system. It is a 15- year loan with a grace period of 5 years which matured on December 15, 2009.

ADB Loan No. 1150 PHI – Manila South Water Distribution Project – was obtained on January 23, 1992. The primary objective of the project was to improve the water supply services of MWSS in the project area. The secondary objective was 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. It is a 20-year loan with a grace period of 5 years which will mature on October 15, 2016.

The French Protocol was a French Treasury Credit Facility from the French Republic to finance the implementation of the Rizal Province Water Supply Improvement Project (RPWSIP) payable within a period of 10 years that started in December 2002.

IBRD Loan No. 4227 PHI is part of the Water Districts Development Project funded by a loan from the World Bank-IBRD. MWSS entered into a subsidiary loan agreement with the Republic of the Philippines through the Department of Finance for a $2.3 Million from said IBRD loan. Repayment period is 15 years on a semi-annual basis starting March 15, 2003 and ending on September 15, 2017 per Schedule 3 of the Loan Agreement between the Republic of the Philippines and the International Bank for Reconstruction and Development dated May 15, 1999.

ADB Loan No. 2012 PHI – MWSS New Water Source – was obtained on November 24, 2003. The objective of the project was to provide the Borrower (MWSS) with consulting services to a) prepare and design projects for the development of new water sources for Metro Manila and b) improve the Borrower's capacity for financial management, accounting, and fiscal control. It is a 7-year loan with a grace period of 4 years which will mature on August 15, 2013.

19. Deferred credits

This account consists of:

	2009	2008
Deferred credits to income	**1,450,851**	1,516,029
Undistributed collections	**472**	44,782
Others	**119,931**	22,586
	1,571,254	1,583,397

Deferred credits to income account represents a) annual income concession fee – corporate operating budget received in advance from concessionaires usually at the early part of the year and amortized equally over a period of twelve months to the appropriate income account, and b) penalty for non-payment/deferment of Debt services of MWSI computed based on 364 T-bills rate which is still being disputed by the MWSI.

20. Donated capital

This account represents the costs of waterworks facilities turned-over by private subdivisions by way of a Deed of Donation. It also includes the grant from the Japan International Cooperation Agency (JICA) for the rehabilitation of Balara Water Treatment Plant.

21. Prior-period adjustments

Details of this account are as follows:

	2009	2008
Reversal of accruals	**22,026**	6,167
Collection of prior years' water accounts	**20,842**	5,051
Adjustment on concession fee	**2,746**	(1,049,844)
Collection of prior years' rental	**833**	360
Payment of prior years' expenses	**(3,816)**	(788,734)
Adjustment on depreciation	**(30,349)**	(143,836)
Capitalization of assets	**(34,190)**	(102,823)
Adjustment on loans payable	**(36,062)**	6,247
Income/expense adjustments	**(64,757)**	(60,494)
Closing of dormant account	**-**	(535)
Dividends paid to the Bureau of Treasury	**-**	(34,306)
	(122,728)	(2,162,747)

22. Personal services

This account is comprised of the following:

	2009	2008
Salaries and wages - regular	**48,350**	43,958
Salaries and wages - contractual	**1,832**	5,618
Additional compensation	**3,557**	4,020
PERA	**1,186**	1,660
Representation allowance	**10,191**	8,730
Transportation allowance	**1,364**	1,565
Clothing allowance	**816**	970
Subsistence, laundry & quarter allowance	**12,103**	9,483
Productivity incentive allowance	**20,704**	5,059
Year end bonus	**8,219**	7,909
Other bonuses and allowances	**40,121**	55,090
Longevity pay	**5,596**	5,610
Cash gift/13th month pay	**4,079**	3,652
Hazard pay	**1,818**	2,808
Overtime & night pay	**-**	536
Honoraria	**475**	2,754
Life and retirement insurance contributions	**6,208**	5,208
PHILHEALTH contributions	**643**	538
ECC contributions	**249**	246
Pag-IBIG contributions	**248**	233
Terminal leave benefits	**992**	1,565
Other personnel benefits	**42,782**	36,921
TOTAL	**211,533**	204,133

23. Maintenance and Other Operating Expenses

This account consists of the following:

	2009	2008
Security services	**23,165**	21,373
Taxes, duties and licenses	**19,041**	22,127
Extraordinary and miscellaneous expenses	**15,737**	13,102
Electricity expenses	**14,904**	16,185
Insurance expenses	**5,869**	4,920
Training expenses	**5,786**	2,059
Consultancy services	**5,190**	13,911
Other professional services	**4,855**	3,717
Janitorial services	**3,821**	3,703
Communication expense	**3,637**	3,193
Auditing services	**3,054**	10,724
Gasoline, oil and lubricants	**2,695**	3,968
Drugs and medicines expenses	**2,058**	194
Office supplies expense	**2,011**	2,050
Repairs and maintenance	**1,892**	6,493
Representation expenses	**1,439**	1,354
Advertising expenses	**1,034**	1,265
Environmental/sanitary services	**1,011**	97
Confidential expenses	**900**	-
Other supplies expenses	**742**	1,101
Donations	**544**	5,535
Rent expense	**519**	673
Travelling expenses	**511**	619
Water expenses	**106**	142
Fidelity bond premiums	**106**	98
Subscription expenses	**90**	100
Printing and binding expenses	**86**	22
Membership dues and contributions to org.	**33**	9
Postage and deliveries	**1**	2
Survey expenses	**-**	21,116
Legal services	**-**	179
Medical, dental and laboratory supplies expense	**-**	163
Other maintenance and operating expenses	**168,501**	106,984
	289,338	267,178

24. Financial expenses

This account consists of:

	2009	2008
Interest expenses	**358,469**	416,117
Other financial charges	**109,418**	94,079
Bank charges	**772**	1,625
Documentary stamp expenses	**226**	301
	468,885	512,122

25. Subsequent events

MWSS entered into a contract agreement dated July 18, 2006, with Salcon Pte. Ltd. (Salcon) for the Design and Build of a Septage Treatment Plant in Pinugay, Antipolo City. Due to certain misunderstanding and disagreement arising from the performance by the parties of their obligations, Salcon terminated the contract and subsequently submitted a request for arbitration against MWSS with the Construction Industry Arbitration Commission (CIAC) on September 10, 2008. On December 18, 2009, the CIAC issued its Final Award in the Arbitration, finding in favor of Salcon and ordering MWSS to pay the total sums of P349.47 million and USD1.09 million. To forestall prolonged litigation, Salcon offered to reduce the Final Award to P375 million on the condition that MWSS shall no longer appeal the Final Award to the Court of Appeals and/or Supreme Court. MWSS accepted the offer and agreed not to appeal the Final Award. On February 9, 2010, Manila Water agreed to assume obligation of MWSS to pay to Salcon the total sum of P375 million and MWSS in turn agreed to assign to Manila Water all its rights, titles and interests over the Project.

26. Contingent Liabilities

The System has pending court litigations concerning project contracts and land disputes totaling P29.71 million, which were filed prior to its privatization in 1997. It has also disputed the real estate taxes charged by the government of Quezon City in the amount of P176.44 million. Likewise, the real estate taxes charged by the government of Caloocan City in the amount of P10 million on the Common Purpose Facilities of the System and its concessionaire are being claimed against the latter. The concessionaire, however, is reviewing the legality of the System's claims. As at year-end, the System has not assessed the possible outcome of these claims.