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 Concession Agreement. 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 Concession Agreement 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 Concession Agreement and that MWSS may draw on the performance bond in accordance with Section 6.9 (Performance Bond) of the Concession Agreement.

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 DCRA). 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.

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

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	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 damp 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. A new interested proponent, San Miguel Bulk Water Company is presently doing due diligence.

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 with Board Resolution No. 2009-064 dated March 26, 2009.

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

<u>Cash and cash equivalents</u>

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 collectibility.

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 1995 by Cuervo Appraisers, Inc., an independent appraiser hired by MWSS for that purpose, less impairment in value. Appraisal increments are recorded as appraisal capital. Additional PPE acquired after said appraisals were recorded at cost. In 2006, another appraisal was conducted by Cuervo Appraiser Inc. Appraisal increments were recorded in the books in 2007.

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. Since said impairment was effected in the books only in 2005, it was charged directly to Retained Earnings of that year.

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 complete.

Judgments and use of estimates

The preparation of the accompanying financial statements in conformity with PFRS 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.

Estimating 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:

	2008	2007
Cash on hand and in bank	**212,936**	273,315
Cash equivalents	**5,378,636**	2,101,769
	5,591,572	2,375,084

6. Accounts receivable

This account consists of:

	2008	2007
Trade/Business		
Receivables from customers-water, sewer, including raw water accounts	**1,119,465**	1,127,510
Receivables from concessionaires	**838,166**	4,689,056
	1,957,631	
Allowance for doubtful accounts	**(1,118,640)**	
	838,991	4,692,858
Non-trade receivables		
Intra-agency receivables	**340,957**	237,637
Inter-agency receivables	**15,616**	39,678
Due from officers and employees	**64,530**	70,173
Loans receivables	**39,844**	43,868
Interest receivables	**2,735**	20,582
	463,682	44,938
	1,302,673	5,104,796

The significant decrease in the receivables from concessionaires was due to collection made from the MWSI brought about by their exit from the Debt and Capital Restructuring Agreement (DCRA) (See note 1).

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

Inter-agency receivables represents collectibles from other government agencies such as 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.

7. Other receivables

This account consists of the following:

	2008	2007
Receivables from MWSI	**4,058,559**	4,363,294
Receivables from MWCI	**159,032**	86,402
Others	**34,782**	35,629
	4,252,373	4,485,325

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

	2008	2007
MWSI		
Cost of borrowings	**2,608,498**	2,717,997
Concession fee-debt service-principal & interest	**-**	120,126
Concession fee-debt service-progress billing	**-**	67,924
Concession fee-debt service-guarantee fee	**-**	595
Penalty on delayed remittance of concession fee	**1,118,315**	1,176,992
Inventory held in trust	**98,050**	98,050
Penalty for non-payment of borrowing cost	**95,247**	119,888
Guarantee deposit	**94,996**	15,366
Raw water	**25,746**	34,846
Mabuhay Vynil	**4,994**	4,994
LMG Chemphil	**4,627**	4,627
Other receivables	**8,086**	1,889
	4,058,559	4,363,294
MWCI		
Guarantee deposit	**72,210**	43,747
Inventory held in trust	**43,747**	19,122
Penalty on delayed remittance of concession fee	**13,182**	13,182
LMG Chemphil	**7,730**	7,730
La Vista	**591**	591
Other receivables	**21,572**	2,030
	159,032	86,402

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 them.
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:

	2008	2007
Construction materials	**60,430**	60,430
Office supplies and printed forms	**566**	371
Auto parts and supplies	**74**	115
IT supplies and accessories	**17**	147
	61,087	61,063

Construction materials represent materials available for use in the projects.

9. Prepayments

This account consists of the following:

	2008	2007
Advances to suppliers/contractors	**347,158**	353,155
Prepaid expenses	**20,586**	17,547
Deposits on letters of credit	**2,888**	14,784
	370,632	385,486

Advances to suppliers/contractors include the balance of the 15% mobilization costs paid to the contractors/suppliers/consultants of civil works/goods/consultancy services, 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:

2008	Building, Plant Equipment and Transmission Lines	Office Furniture And Other Equipment	Trans-portation Equipment	Land & Land Improve-ment	TOTAL
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
Carrying amount					
December 31, 2007	29,731,958	599,577	208,419	12,772,610	43,312,564

11. Construction in progress

	2008	2007
January 1, 2008 balance	**2,866,596**	6,103,276
Additions(adjustments)	**12,02**	41,516
Transfers/capitalization	**(1,496,830)**	(3,198,591)
Reclassification	**-**	(79,605)
	1,381,793	2,866,596

12. Investments

This account consists of the following:

	2008	2007
Stocks and bonds		
NAPOCOR bonds	**457,852**	231,875
Home Guaranty Corp. bonds	**74,038**	333,547
MERALCO stocks	**2,152**	2,152
PLDT investment plan	**373**	373
	534,415	567,947

Miscellaneous		
Special reserve fund	**270,112**	250,195
Sinking fund	**29,510**	29,510
	299,622	279,705
	834,037	847,652

The increase in NAPOCOR bonds was due to a Long-Term Investment in bonds last March 2008. The additional investment is exempted from taxes and earning a 4% interest rate per annum which will mature in December 2011. The decrease in Home Guaranty Corporation Bonds was due to maturity of the bonds and re-investing it in short term deposits at Land Bank of the Philippines and Development Bank of the Philippines with an interest rate of 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

	2008	2007
Un-operational assets/unserviceable assets	**242,822**	242,822
Research and development	**206,438**	206,438
Garnished accounts	**11,461**	11,461
Car assistance plan	**27,592**	39,639
Guarantee deposits	**10,728**	10,728
MWSS Share in Angat Dam construction	**71,142**	79,264
Dormant accounts	**937,566**	937,566
	1,507,749	1,527,918
Allowance for dormant accounts	**(519,000)**	(519,000)
	988,749	1,008,918

Un-operational assets/unserviceable assets are the costs of construction materials and supplies that can no longer be used in projects due to obsolescence. Management is working out for its 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:

	2008	2007
Accounts payable	**658,170**	638,021
Interest payable	**342,553**	296,639
Due to officers and employees	**102,256**	91,950
	1,102,979	1,026,610

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:

	2008	2007
National Treasury	**344,765**	574,461
BIR	**3,076**	1,789
GSIS	**1,890**	1,967
Pag-IBIG	**446**	211
PHILHEALTH	**(2)**	(8)
Other GOCCs	**432**	434
	350,607	578,854

Payable to National Treasury pertains to the guarantee fee of existing loans and SPIAL interest and other charges.

16. Intra-agency payable

This account consists of:

	2008	2007
Due to operating units-Regulatory Office	**454,304**	397,943
Due to other funds – Regulatory Office	**(616)**	-
	453,688	397,943

Due to operating units–Regulatory Office – shares of Regulatory Office in the concession fees received from the concessionaires for their operating budget.

17. Current portion of Long-term liabilities

This account consists of the current portion of the loans from:

	2008	2007
Asian Development Bank (ADB)	**748,289**	528,641
Int'l. Bank for Reconstruction & Development (IBRD)	**300,177**	188,975
French Protocol	**26,900**	31,702
Special Project Implementation Assistance Loan (SPIAL)	**12,504**	320,656
Swiss Transfer Credit Facility	**-**	12,000
	1,087,870	1,081,974

18. Other liability accounts

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

19. Long-term liabilities

This account consists of the following:

Source	Maturity Date	Currency	Annual Interest Rate	**2008**	2007
Domestic					
SPIAL	05-15-26	$	9.65%	**608,289**	530,352
ADB 1746-PHI	02-01-22	P	floating	**209,741**	182,868
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%	**68,579**	59,792
STCF	03-01-08	P	floating	**-**	12,626
				1,185,404	1,084,433

Foreign					
BNP Paribas	11-26-11	$	floating	**7,122,750**	6,210,150
ADB 1379-PHI	07-15-20	$	floating	**3,291,635**	2,989,805
ADB 986-PHI	10-01-14	$	floating	**3,296,870**	2,568,605
JBIC (OECF)	02-20-20	Y	2.70%	**1,796,558**	1,253,220
IBRD 4019-PH	07-01-16	$	floating	**998,721**	958,157
ADB 947-PHI	12-15-12	$	floating	**620,427**	517,000
IBRD3124-PH	12-15-09	$	floating	**190,937**	320,874
ADB 1150-PHI	10-15-16	$	floating	**372,974**	280,602
French Protocol	12-31-18	FF	3%-6.8%	**212,967**	216,342
IBRD 4227 PHI	09-15-17	$	floating	**64,834**	61,091
ADB 2012-PHI	08-15-13	$	libor rate	**45,615**	39,363
				18,014,288	15,415,209
				19,199,692	16,499,642
Current Portion				**(1,087,870)**	(1,081,974)
				18,111,822	5,417,668

The *Special Project Implementation Assistance Loan* (SPIAL) was a portion of the National Government's multi-currency loans from the ADB under Loan Nos. 779 & 780. This was relents 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 was 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 was a three (3) year fixed rate note amounting to P200 million, which will mature in 2010.

NHA Loan is due to transfer of water and sewer systems of Tondo Foreshore, Dagat-Dagatan and Kapitbahayan.

IBRD Loan No. 1272/1282- Manila Urban Development Project – were likewise a national government loan relent to MWSS on October 1, 1976. Per subsidiary loan agreement dated October 1, 1976, MWSS shall repay the principal of the subsidiary loan to start on November 15, 1981.

The Swiss Transfer Credit Facility (STCF) Loan was an MWSS' loan from the Philippine National Bank under the Swiss Transfer Credit Facility, which was advanced by the National Government on July 1, 1994, payable within a period of 12 years starting March 1997 up to March 2008.

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. 986 PHI was obtained on December 18, 1989 – Angat Water Supply Optimization Project. The objectives of the project were 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. It is a 20 years loan with a grace period of 5 years which will mature in October 1, 2014.

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 by about nine cubic meters per second by 1999. The secondary objective of the project was to reduce NRW by providing support for leak detection and repair activities. It is a 20 years loan with a grace period of 5 years which will mature on July 15, 2020.

JBIC Loan PH 110 – contracted by Japan and the national government of the Republic of the Philippines in 1990 intended for 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 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 years loan with a grace period of 5 years which will mature on July 1, 2016.

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

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 years 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 December 2002.

IBRD Loan No. 3124 PHI – Angat Water Supply Optimization Project – was obtained 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 operation; and d) strengthen the Borrower's finance as well as its planning and management information system. It is a 15 years loan with a grace period of 5 years which will mature in December 15, 2009.

IBRD 4227 PHI was 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 November 24, 2003. The objective of the project was to provide the Borrower 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 was a 7 years loan with a grace period of 4 years which will mature on August 15, 2013.

20. Deferred credits

This account consists of:

	2008	2007
Deferred credits to income	**1,516,029**	1,661,837
Undistributed collections	**44,782**	44,729
Others	**22,586**	14,996
	1,583,397	1,721,562

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.

21. 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.

22. Prior-period adjustments

Details of this account are as follows:

	2008	2007
Adjustment of loans payable	**6,247**	-
Reversal of accruals	**6,167**	-
Collection of prior years water accounts	**5,051**	4,430
Collection of prior years rental	**360**	925
Closing of dormant account	**(536)**	41,746
Dividend paid to Bureau of Treasury	**(34,306)**	(77,814)
Income/expense adjustments	**(60,494)**	(109,912)
Capitalization of assets	**(102,823)**	-
Adjustment of depreciation	**(143,836)**	(6,717)
Payment of prior years expense	**(788,734)**	(767,832)
Adjustment of concession fee	**(1,049,844)**	(156,538)
Reversal of deferred credits	**-**	494,260
MWSS-CO-Maynilad arbitration shared cost	**-**	(98,772)
	(2,162,748)	(676,224)

23. Financial expenses

This account consists of:

	2008	2007
Interest expenses	**416,117**	388,784
Other financial charges	**94,079**	101,305
Bank charges	**1,625**	643
Documentary stamp expenses	**301**	1,848
	512,122	492,580