COVER SHEET

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S.E.C. Registration Number

MANILA WATER COMPANY INC

(Company's Full Name)

MWSS ADMINISTRATION BUILDING

489 KATIPUNAN ROAD BALARA 1105

QUEZON CITY METRO MANILA

(Business Address: No. Street City / Town / Province)

Atty. Gerardo M. Lobo II

Contact Person

981-8122

Company Telephone Number

SEC Form 17-A

1	2		3	1
Month			*Day*	

Fiscal Year

STOCK

FORM TYPE

0	4	Any
Month		*Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. **For the fiscal year ended:**

   December 31, 2018

2. **SEC Identification Number:**

   A 1996-11593

3. **BIR Tax Identification Code:**

   005-038-428

4. **Name of Registrant as specified in its charter:**

   Manila Water Company, Inc.

5. **Province, country or other jurisdiction of incorporation or organization:**

   Quezon City, Philippines

6. **Address of principal office:**

   MWSS Administration Building, No. 489 Katipunan Road, Balara, Quezon City, Philippines

7. **Registrant's telephone number:**

   (02) 981-8122 / (02) 981-8129

8. **Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code (SRC):**

   a. Shares of Stock

      Common Shares, par value P1.00 each – 2,064,839,617

   b. Debt Securities

      None

   Registrant has no other registered securities either in the form of shares, debt or otherwise.

9. **Are any of Registrant's securities listed in a Stock Exchange?**

   Yes

   As of December 31, 2018, there are 2,027,238,060 common shares, with ₱1.00 per share par value, listed in the Philippine Stock Exchange, Inc. (PSE).

10. **State the aggregate market value of the voting stock held by non-affiliates of the registrant.**

   The aggregate market value of the voting stock held by non-affiliates was computed by reference to the price at which the stock was sold as of a specified date within sixty (60) days prior to the date of filing. The term "affiliate" covers those identified in the 2018 Audited Financial Statements of the Company attached to this Report.

   The aggregate market value of the voting stock held by non-affiliates of the Company as of March 31, 2019 is ₱26,744,727,465 computed as follows:

Outstanding listed shares as of March 31, 2019	2,027,238,060
Shares held by Ayala Corporation as of March 31, 2019*	(866,946,196)
Shares held by non-affiliates	1,160,291,864
Closing price as of March 29, 2019**	23.05
	₱26,744,727,465

** The shares held by Ayala Corporation includes the common shares held through PCD Nominee Corporation*
*** Last trading day for March 2019*

Please see attached discussion on the following:

PART I - BUSINESS AND GENERAL INFORMATION
PART II - OPERATIONAL AND FINANCIAL INFORMATION
PART III - CONTROL AND COMPENSATION INFORMATION
PART IV - CORPORATE GOVERNANCE
PART V - EXHIBITS AND SCHEDULES

Unless otherwise indicated and where the context so permits or requires, information provided herein is as of December 31, 2018.

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Manila Water Company, Inc. ("Manila Water" or the "Company") holds the right to provide water and used water services to the eastern side of Metro Manila ("Manila Concession" or "East Zone") under a Concession Agreement (CA) entered into between the Company and Metropolitan Waterworks and Sewerage System (MWSS) on February 21, 1997. The original term of the concession was for a period of twenty-five (25) years to expire in 2022. The Company's concession was extended by another fifteen (15) years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than seven (7) million people in the East Zone, comprising a broad range of residential, semi-business, commercial, and industrial customers. The East Zone encompasses twenty-three (23) cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa.

Under the terms of the CA, the Company has the right to the use of land and operational fixed assets of MWSS, and the right, as agent and concessionaire of MWSS, to extract and treat raw water, distribute and sell water, and collect, transport, treat and dispose used water, including reusable industrial effluent discharged by the sewerage system in the East Zone. The Company is entitled to recover over the concession period its operating, capital maintenance and investment expenditures, business taxes, and concession fee payments, and to earn a rate of return on these expenditures for the remaining term of the concession.

Aside from the Manila Concession, Manila Water and its subsidiaries (the "Group") has a holding company for all its domestic operating subsidiaries in Manila Water Philippine Ventures, Inc. (MWPV). Currently under MWPV are Clark Water Corporation (Clark Water), Laguna AAA Water Corporation (Laguna Water), Boracay Island Water Company (Boracay Water), Manila Water Consortium, Inc. (MW Consortium), a subsidiary of MW Consortium – Cebu Manila Water Development, Inc. (Cebu Water), Bulacan MWPV Development Corporation (BMDC), Filipinas Water Consortium Holdings Corp. (Filipinas Water), subsidiaries of Filipinas Water – Obando Water Company, Inc. (Obando Water) and Bulakan Water Company, Inc. (Bulakan Water), Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a subsidiary of Davao Water – Tagum Water Company, Inc. (Tagum Water), Zamboanga Water Company, Inc. (Zamboanga Water), Manila Water International Solutions, Inc (MWIS), Aqua Centro MWPV Corporation (Aqua Centro MWPV), EcoWater MWPV Corporation (EcoWater), and Leyte Water Company, Inc. (Leyte Water). Also under MWPV is Estate Water, which is its division that operates and manages the water systems of townships developed by Ayala Land, Inc. Another subsidiary of Manila Water is Calasiao Water Company, Inc. (Calasiao Water), a water supply project for the Calasiao Water District.

The holding company for its international ventures is Manila Water Asia Pacific Pte. Ltd. (MWAP). Under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.O.O Corporation (Thu Duc Water) and Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), both supplying treated water to Saigon Water Corporation (SAWACO) under a take-or-pay arrangement. Also under MWAP are Saigon Water Infrastructure Corporation (Saigon Water), a holding company listed in the Ho Chi Minh City Stock Exchange, Cu Chi Water Supply

Sewerage Company, Ltd. (Cu Chi Water) and another company tasked to pursue non-revenue water reduction projects in Vietnam called Asia Water Network Solutions Joints Stock Company (Asia Water). Apart from its operations in Vietnam, MWAP has affiliates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (East Water), and PT Sarana Tirta Ungaran (PT STU), respectively.

Lastly, Manila Water Total Solutions Corporation (MWTS), a wholly-owned subsidiary, handles after-the-meter products and services. Its current offerings include pipelaying, integrated used water services, and the sale of Healthy Family Purified Water as five-gallon and 500-ml purified water in selected areas in Metro Manila.

Lastly, Manila Water Foundation, Inc. ("Manila Water Foundation") is the corporate social responsibility arm of the enterprise. It aims to be the enabler of change that will uplift the quality of life of the base of the pyramid (BOP) communities through the provision of sustainable water and wastewater services.

Please refer to Schedule J (Supplementary Schedules) on the relationships of the entities within the Group.

The Concession

The following are some of the key terms of the Concession Agreement with the MWSS:

- Term and Service Area of Concession. The Concession Agreement took effect on August 1, 1997 ("Commencement Date") and will expire on May 6, 2037 or on an early termination date as provided therein. By virtue of the Concession Agreement, MWSS grants to the Company (as contractor to perform certain functions and as agent for the exercise of certain rights and power under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone.

- O*wnership of Assets.* While the Company has the right to manage, operate, repair, decommission and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to MWSS by the Company during the concession remains with the Company until the expiration date (or the early termination date), at which time, all rights, titles and interests in such assets will automatically vest in MWSS.

- Ownership of the Company. Under the Concession Agreement, MWSS granted concessions to operate the system of waterworks and sewerage services referred to under RA No. 6234 to private-sector corporations at least 60% of the outstanding capital stock of which is owned and controlled by Philippine nationals. For this purpose, the Company monitors its foreign ownership to ensure that its outstanding voting capital is at least 60% owned by citizens of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Philippines.

- *Sponsor Commitment.* Unless waived in writing by the MWSS-Regulatory Office, Ayala, as local sponsor, and United Utilities PLC, as international operator, are each required to own, directly or through a subsidiary that is at least 51% owned or controlled, at least 20% of the outstanding capital stock of the Company for the first five years (through December 31, 2002), and thereafter at least 10% each. At present, United Utilities PLC no longer hold any equity in the Company, whether direct or indirect.

- *Operations and Performance.* The Company has the right to bill and collect for water and sewerage services supplied in the East Zone. In return, the Company is responsible for the management, operation, repair and refurbishment of MWSS facilities in the East Zone and must provide service in accordance with specific operating and performance targets described in the Concession Agreement.

- *Concession Fees.* The Company is required to pay MWSS the following:

  - Concession fees consisting of the peso equivalent of (i) 10% of the payments due under any MWSS loan that was disbursed prior to the Commencement Date; (ii) 10% of payments due under any MWSS loan designated for the Umiray-Angat Transbasin Project (UATP) that was not disbursed prior to the Commencement Date; (iii) 10% of the local component costs and cost overruns related to the UATP; (iv) 100% of the payments due under any MWSS designated loans for existing projects in the East Zone that were not disbursed prior to the Commencement Date and were awarded to third party bidders or elected by the Company for continuation; and (v) 100% of the local component costs and cost overruns related to existing projects in the East Zone; and

  - Share in the annual operating budget of MWSS amounting to ₱396 million each year subject to annual inflation adjustments.

    MWSS is required to provide the Company with a schedule of concession fees payable during any year by January 15 of that year and a written notice of amounts due no later than 14 days prior to the scheduled payment date of principal, interest, fees and other amounts due. Currently, MWSS gives monthly invoices to the Company for these fees.

- *Appropriate Discount Rate.* The Company is entitled to earn a rate of return equal to the Appropriate Discount Rate (ADR) on its expenditures prudently and efficiently incurred for the remaining term of the concession. The ADR is the real (i.e. not inflation adjusted) weighted average cost of capital after taxes as determined by the MWSS Regulatory Office based on conventionally and internationally accepted methods, using estimates of the cost of debt in domestic and international markets, the cost of equity for utility business in the Philippines and abroad with adjustments to reflect country risk, exchange rate risk and any other project risk.

- *Tariff Adjustments and Rate Regulation.* Water tariff rates are adjusted according to mechanisms that relate to inflation, extraordinary events, foreign currency differentials and Rate Rebasing exercises.

- *Early Termination.* MWSS has a right to terminate the concession under certain circumstances which include insolvency of the Company or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS-Regulatory Office, jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone.

The Company also has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents the Company from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of the Company.

- *Reversion.* On the expiration of the Concession Agreement, all the rights, duties and powers of the Company automatically revert to MWSS or its successors or assigns. MWSS has the option to rebid the concession or renew the agreement with the express written consent of the government.

- *Joint Venture.* Under the Concession Agreement, the Company and the concessionaire of the West Zone of Metro Manila, Maynilad Water Services, Inc. ("Maynilad"), were required to enter into a joint venture or other arrangement that identifies the responsibilities and liabilities of each with regard to the operation, maintenance, renewal and decommissioning of Common Purpose Facilities (CPF), as well as an interconnection agreement which governs such matters as water supply transfers between the East and West Zones and boundary definitions and identifies the responsibilities and liabilities of parties with regard to the management, operation and maintenance of certain interconnection facilities. Pursuant to this, the Concessionaires entered into the Common Purpose Facilities Agreement and the Interconnection Agreement in July 1997.

The Regulatory Office of MWSS

The Concession Agreement also provided for the establishment of the MWSS Regulatory Office (MWSS –RO) under the jurisdiction of the MWSS Board of Trustees (MWSS-BOT), to monitor the operations of the Concessionaires. The MWSS-Regulatory Office is composed of five members with five-year term, and no member of the MWSS-Regulatory Office may have any present or prior affiliation with MWSS, the Company, or Maynilad. The MWSS-Regulatory Office is funded by MWSS through the Concession Fee payments of the Concessionaires based on a fixed amount as agreed in the Concession Agreement (CA).

In the case of disagreement or disputes, the CA provides that major disputes between the Company and the MWSS-Regulatory Office be referred to an appeals panel consisting of two (2) members appointed by each of the MWSS-Regulatory Office and the Company and a third member appointed by the Chairman of the International Chamber of Commerce. Under the Concession Agreement, both parties waive their right to contest decisions of the appeals panel through the courts.

Key Performance Indicators and Business Efficiency Measures

The Concession Agreement initially set service targets relating to the delivery of services by the Company. As part of the Rate Rebasing exercise that ended on December 31, 2002, the Company and MWSS mutually agreed to amend these targets based on the Company's business and capital investment plan accepted by the MWSS-Regulatory Office. In addition, the Company and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help the MWSS-Regulatory Office determine prudent and efficient expenditures, utilizes Key Performance Indicators (KPI) and Business Efficiency Measures (BEM) to monitor the implementation of the Company's business plan and will be the basis for certain rewards and penalties in every Rate Rebasing exercise.

Fourteen KPIs, representing critical performance levels for the range of activities the Company is responsible for, relate to water service, sewerage and sanitation service and customer service. The BEMs are intended to enable the MWSS-Regulatory Office to evaluate the efficiency of the management and operation of the concessions and gauge progress toward the efficient fulfillment of the Concessionaire's business plans. There are seven (7) BEMs relating to income, operating expenses, capital expenditures and NRW. The BEMs are evaluated for trends and annual forecasts.

Amendments to the Concession Agreement

The Concession Agreement was amended under *Amendment No. 1 to the Concession Agreement* executed on October 26, 2001 ("Amendment No. 1"). Amendment No. 1 adjusted water tariffs to permit adjustment for foreign exchange losses and reversal of such losses, which under the original Concession Agreement were recovered only when the concessionaire petitioned for an Extraordinary Price Adjustment (EPA).

The Concession Agreement was further amended under the Memorandum of Agreement and Confirmation executed on October 23, 2009 wherein the Company and the MWSS agree to renew and extend the Concession Agreement for an additional period of fifteen (15) years from the year 2022 or until 2037, under the same terms and conditions.

Organization

The Organizational structure of the Company has the objective of decentralizing the locus of operating control to the Senior Leadership Team composed of the President, Chief Executive Officer and Chief Sustainability Officer, the Chief Operating Officer for Manila Water Operations, the Chief Operating Officer for New Business Operations, and the Chief Finance Officer, Treasurer, Compliance Officer and Group Director for Corporate Finance and Strategy.

A. The Manila Water Operations

Manila Water Operations (MWO) is responsible for the East Zone Business Operations and the Company's Corporate Support Functions. It is headed by the Chief Operating Officer for Manila Water Operations.

The **East Zone Business Operations** (EZBO) is responsible for ensuring that the Company meets the demand of all the customers in the East Zone, managing the drivers for revenue growth, delivering customer service, and building and maintaining community and stakeholder relationships. It is composed of the East Zone Business Area Operations, and East Zone Business Support.

- The **East Zone Business Area Operations** consists of the six (6) Business Areas (BAs) – Quezon City, Mandaluyong-Makati, Marikina, Pasig, Rizal, and Taguig. The area of operations of this Division covers the major business districts in Quezon City, Makati, Ortigas and Taguig, as well as the entire province of Rizal. The BAs are directly responsible for the processing of application for new water service connections, management of meter reading, billing and collection activities, and facilitation of complaints resolution and other after sales services, which form part of the end-to-end process of account management. They are also tasked to find specific business opportunities from different market segments. Their key mandates, as such, include the management of customer demand, differentiating touchpoints per customer type aligned with the specific needs of the customers and key accounts, geared towards achieving company targets on billed volume, revenue and customer centricity.

- The **East Zone Business Support Division** is composed of four (4) departments: Demand Forecasting and Total Management System (TMS) Management, Billing and Collection, Customer Service and Stakeholder Management, and Program and Policy Development.

  i. The Demand Forecasting and TMS Management Department is responsible for revenue management, demand forecasting, provision of systems and analytical tools and performance management of all EZBO employees.

  ii. The Billing and Collection Department ensures efficient meter reading to deliver quality customer bills. It also provides collection support to the business areas through service provider management and payment facilities sourcing.

  iii. The Customer Service and Stakeholder Management Department reviews and enhances customer service processes and standards aimed to drive customer satisfaction. It regularly monitors customer centricity metrics to ensure that all customers' concerns are attended to efficiently and effectively.

  iv. The Program and Policy Development Department handles policy development and compliance as well as various engagement initiatives for the Group such as the EZBO rewards and recognition programs.

- The Business Areas and HQ departments aim towards driving the growth of the business, providing customer service at the grassroots, and building relationships with the community to ensure achievement of regulatory targets in terms of delivery of quality service to Manila Water customers.

The **Corporate Support Functions** are responsible for providing support to the entire organization. It leads in the development of enterprise-wide policies, plans, and programs. The following are the Corporate Support Functions:

a. The **Corporate Operations Group** (COG) operates and maintains all of Manila Water's water and used water facilities. It constantly seeks ways to further improve the efficiency and reliability in managing all of Manila Water's facilities by developing high quality operating standards, delivering innovative technology solutions and support, exploring new technologies and promoting a culture of a safe work environment while remaining compliant to environmental and regulatory standards. The COG is composed of Water Supply Operations, Used Water Operations, Corporate Business Resiliency, Operations Services, Technical Services and Concession Management System.

   - From the La Mesa Dam, **Water Supply Operations** manages the water treatment facilities, pumping stations, service reservoirs, and the primary and distribution lines to provide 24/7 water supply at a reliability level of, at least, 99.99% while maintaining 100% compliance in water quality as defined in the Philippine National Standards for Drinking Water. It is also responsible for ensuring that water supply meets demand by means of accurate forecasting from source to production, despite variability in consumer demand or environmental pressures.

The Water Supply Operations, in cooperation with counterparts from Maynilad, manages the **Water Source or the Common Purpose Facilities (CPF)**, which includes headworks upstream of the La Mesa Dam (Angat Dam, Ipo Dam and the Novaliches portals). Water Source ensures that sufficient raw water allocation is maintained throughout the year.

- **Used Water Operations** manages the used water treatment facilities and lift stations to ensure that treated used water discharge is consistently compliant to environmental standards and is responsible for implementing the used water service expansion plan.

- The **Corporate Business Resiliency** (CBR) function is committed to developing a culture of preparedness, resiliency and continual improvement towards a world-class water service company, thus ensuring coordination, integration and alignment of national, local and company emergency plans and protocols. CBR enables Manila Water to immediately respond to emergencies, especially when there is a need to provide potable water to disaster-stricken areas. Through CBR, Manila Water is able to extend help even beyond its concession area by providing mobile water treatment assistance to various areas in the country. Moreover, since Manila Water operates a regulated business and by the nature of its business, it is exposed to threats that may disrupt major services, the Company adapted the ISO 22301:2012 – Societal Security – Business Continuity Management System. Under this system, Manila Water plans, establishes, implements, operates, monitors, reviews, maintains and continually improves a documented management system to protect against, reduce the likelihood of occurrence, prepare for, respond to, and recover from disruptive incidents when they arise.

- **Technical Services** is composed of four (4) departments: the Laboratory Services, Systems Analytics, Energy and Innovations, and Telemetry and Process Automation Departments.

  i. The **Laboratory Services** collects water samples daily from strategically located sampling points all over the East Zone from water treatment facilities to the distribution and effluent samples from all used water facilities. The samples are tested for physical, chemical and microbiological parameters to ensure true world-class standards. Aside from being recognized by the Department of Health (DOH) and the Department of Environment and Natural Resources (DENR), the Laboratory is also ISO standards certified (ISO 17025, ISO 9001, ISO 14001, and OHSAS 18001). The department also actively contributes to process optimization towards improved operational control and efficiency.

  ii. **System Analytics Department** facilitates operational data flow, consolidation, analytics and general information architecture and provides relevant and timely notification, reporting, and escalation of operational information through the Operations Communications Center.

  iii. The **Energy and Innovations Department** monitors power consumption, recommends power-efficiency measures, and develops and implements strategies for the Company to avail of advantageous power rates in all its facilities. It also drives the enhancement of an innovative culture and the delivery of new or higher gains from core innovations or innovations related to water and used water operations towards better, more efficient delivery of outputs and services.

iv. The **Telemetry and Process Automation Department is** responsible for developing and maintaining the operating facilities instrumentation, control and automation based on the operating philosophy. It also oversees the accurate, reliable and secured integration of vital operational data to a central repository with 24/7 remote access.

- Under **Operations Services** are five (5) departments: The Operations Management, Sustainability, Inventory Management, Maintenance Services and Fleet Management Departments:

i. The **Operations Management Department** strategizes a unified management system to ensure the effectiveness and efficiency of group targets and programs. Operations Management is accountable for the ISO certifications (Quality, Environment, Health and Safety) and serves as a framework in order to produce and promote well-balanced implementation of all policies and processes across the Corporate Operations Group including specific requirements of international standards (ISO 9001,ISO 14001, and OHSAS 18001). The department also ensures efficiency through continuous process improvement as well as financial and operational performance management.

ii. The **Sustainability Department** ensures that Manila Water's implementation of projects and operations of facilities are compliant with current environmental regulations and aligned with the Company's sustainability commitments. It incubates sustainability programs such as resource efficiency, communications and advocacy initiatives that are intended for institutionalization among the responsible business units. The department keeps track of the material sustainability indicators of the enterprise and in coordination with Investor Relations, is responsible for the preparation of the Company's annual Integrated Report.

iii. The **Inventory Management Department** is responsible for the strategic supply/inventory planning and inventory management to ensure the adequate and timely provision of critical supplies and materials for the Company's operations and project requirements. The department has established policies and procedures to respond to the requirements in a fast-paced environment aligned with the corporate goals and business needs with due regard to good governance.

iv. **Maintenance Services** is responsible for ensuring that assets of Manila Water are working efficiently. This includes the monitoring, maintenance, repair, and/or replacement of assets and components that sustain the efficient operation of all operational, ancillary and office facilities. MSD efforts seek to enable the company to maintain efficient costs of Repair and Maintenance while maximizing the life expectancy and intended functionality of assets.

v. The **Fleet Management** is responsible for the dispatch and maintenance of Company vehicles and equipment. It also provides vehicle assistance during incidents / emergencies and special events of the Company.

- **Concession Management System Department** leads and drives the integration of MWO end to end processes and alignment of cross-functional policies and procedures aligned to business objectives. It also creates the standard for the development, management and compliance to processes, in accordance with internal/local policies, rules and regulations, and international standards (ISO).

b. The **Corporate Human Resources Group** (CHRG) is organized into six (6) core functions: Talent Management and Leadership Development, Manpower Planning and Organization Development, Total Rewards Management, Employee Engagement, HR Project and Change Management, and HR Business Partnering.

- The **Talent Management and Leadership Development** Department is responsible for training and development, key talent identification and succession, performance management, competency and knowledge management.

- The **Manpower Planning and Organization Development** Department is responsible for manpower planning, organization and job design, and staffing.

- The **Total Rewards Management** Department handles the design of rewards programs.

- The **Employee Engagement** Department handles employee programs (employee engagement strategies and programs across the organization) and labor relations (employee grievances, employee discipline and programs involving the labor union).

- **HR Project and Change Management** Department is responsible for talent and organizational change management as well as the HR project management.

The **HR Business Partners** are responsible for providing business-focused HR solutions to stakeholders.

c. The **Corporate Project Management Group** (CPMG) is tasked with the planning, design and construction of all water, used water and network capital projects that are crucial for the Company to achieve regulatory commitments as stipulated in the Concession Agreement and Rate Rebasing plans. The careful delivery of projects, strict adherence to the target timelines, prudent and efficient cost and highest standards of quality and safety, is the basis for the achievement of corporate business objectives aligned with the sustainable expansion of services that improve people's lives and support regional economic growth. CPMG is organized for an integrated, collaborative approach to project execution. It is composed of seven (7) departments namely: Project Management, Construction Management, Engineering, Project Management Office, Project Stakeholder Engagement, Quality Assurance, and Safety Solutions.

- The **Project Management Department** is entrusted to manage the whole project-life cycle of capital expenditure programs of the Company. The department ensures timely, cost-efficient and quality delivery of all planned infrastructure projects.

- The **Construction Management Department** is tasked with managing the multi-billion project portfolio of the Company. Construction Managers (CMs) are accountable for keeping the project in line with time, cost and quality, safety and environmental standards by leading a cross-functional team that manages the numerous interconnected components of execution.

- The **Engineering Department** ensures the compliance of projects to established engineering standards by reviewing design concepts and cost estimates; conducting preliminary and detailed design, as necessary; spearheading the technical evaluation of technical proposals during bidding; design submissions during execution; and developing high-quality and cost-effective engineering standards that are used across the business. It is also at the forefront of studying the latest construction technologies and methodologies in view of value-engineering.

- The **Project Management Office** is responsible for (1) project control functions to support construction projects, (2) implementation of integrated project management system and facilitation of continuous improvement initiatives, (3) strengthening of project information and analytics, and (4) building systems to ensure project construction documentation and control.

- The **Project Stakeholder Engagement** Department ensures that the projects have the support of critical stakeholders such as local governments, national agencies and the public through proactive project pre-selling and relationship building that ensure timely and smooth resolution of any project concerns.

- The **Quality Assurance Department i**s in charge of the development and implementation of quality management procedures and system across CPMG through (1) process documentation, including policy formulation and system rollout, (2) management of the Quality Execution Academy and, (3) review/analysis of quality execution metrics/statistics for continuous improvement of CMs.

- The **Safety Solutions** Department performs a vital role in ensuring that not only are Manila Water employees empowered to work safely, but also ensures that vendors and contractors are well-trained in keeping worksites safe for employees and the general public, especially during construction activities. This utmost regard for a safety environment and mindset has top management support and carried-out by its employees and contractors/vendors.

d. The **Strategic Asset Management Group** (SAMG) was formed to help the Company achieve the optimal and sustainable delivery of services and profitability through the efficient and effective management and development of assets. The group is mandated to provide a comprehensive, holistic and integrated master plan that will address capital investments both for water and used water systems, the operation and maintenance of existing and new assets, and the rationalization and disposal of surplus assets.

To deliver these services, SAMG is organized into six (6) departments namely, Value Assurance, Portfolio Management, Strategic Asset Planning, Asset Management Asset Investment and Management Support, and Water Sources and Environmental Planning.

- The **Value Assurance** Department provides a holistic approach that will help ensure the delivery of the programs/projects' ultimate goals through value analysis and risk assessment that facilitate faster decision-making and thus optimize capital expenditures/life cycle costs and satisfy stakeholders.

- The **Portfolio Management** Department is tasked to deliver the overall corporate capital expenditure portfolio according to the approved corporate master plan. The department manages the overall portfolio performance, identifies the right mix of projects to maximize overall benefits, and meets regulatory and business goals. The department provides comprehensive analysis for portfolio impact assessment and investment, recommending changes and adjustments required to meet the objectives. It ensures that project-related issues are corrected in a timely manner.

- The **Strategic Asset Planning** Department is entrusted to strategically plan, develop and calibrate the water and used water master plan, and capital and operational expenditure programs for all the businesses of the entire enterprise through conducting concept studies to determine the annual project list and providing technical justification for the approval of the corporate master plan.

- The **Asset Management** Department is in charge of optimizing financial and operational performance of assets at the least cost through risk-based, data driven strategies to deliver the Company's service obligations.

- The **Asset Investment and Management Support** Department provides assistance to the whole group on policy development, process improvement and implementation of programs to enhance project life cycle and asset management principles. It also provides comprehensive analysis for capital investments to aid in the attainment of the Company's business and regulatory commitments.

- The **Water Sources and Environmental Planning** Department is responsible for the development of new water resources and environmental master plan for all the businesses of the entire enterprise.

e. The **Corporate Regulatory Affairs Group** (CRAG) is mandated to (1) lead the planning and development of the East Zone rate rebasing submission and Rate Rebasing Readiness Program, (2) engage different groups within the MWO in the aligned execution of the MWSS-approved East Zone business plan, (3) advocate with MWSS and other key government/private/non-government organizations to advance the Company's policy interests, (4) provide political-regulatory management support services to the entire organization, and (5) conceptualize, develop and implement major Company political-regulatory initiatives.

   The said mandates are carried out through four (4) departments, namely: the Business Operations Regulation (BOR) Department, the Financial Regulation (FR) Department, the Technical Regulation (TR) Department and the Public Policy Department. The Group, particularly through the Group Head and members of the BOR, FR and TR Departments, interface with the MWSS on matters relating to the Concession Agreement. It includes submitting reports and disclosures relating to compliance, handling negotiations with the MWSS relating to the Company's service targets, and distilling information from the Company's other groups to produce and periodically update financial projections (the bases for petitions submitted to the MWSS for quarterly, annual, and five-year tariff adjustments. The Public Policy Department handles matters related to public policy (e.g. preparation of policy position papers and attendance in various policy fora/dialogues, hearings) and relations with key government and non-government offices.

f. The **Corporate Strategic Affairs Group** (CSAG) is responsible for creating consistent corporate messaging and harmonizing communication channels that are aligned with the Company's objectives in order to enhance its image and reputation and effectively connect with various customers and stakeholders. The group is composed of two (2) departments: The Advocacy and Research Department, and the Corporate Communications Department.

   - The Advocacy and Research Department handles the 'Lakbayan' or Water Trail program as the Company's information, education and communication program on water and used water appreciation. It also handles environmental advocacy programs such as 'Toka Toka" which is the country's first and only environmental movement focused on used water management. It is also in charge of building and differentiating the Manila Water brand through strategic communications research and development, and visual standards management.

- The Corporate Communications Department handles the execution of the Company's strategic as well as tactical and crisis communication programs through publicity, events and other stakeholder services. The department handles all Company publicity in the media (TV, radio, print and below-the-line), as well as media planning, relations and engagement. It is also responsible for ensuring a well-informed workforce through the development and implementation of relevant internal communications. Lastly, it handles the company's digital media platforms on social media and web.

B. The New Business Operations and New Business Development Group

The New Business Operations Group focuses on operating new subsidiaries and promoting organic growth in existing service areas while the New Business Development Group focuses on expanding services to unserved and underserved areas and market segments. Both groups leverage on existing products and services to create value and strategically expand to new geographies in the Philippines and in Southeast Asia, specifically in Vietnam, Indonesia, Myanmar, and Thailand.

Products and services are intended to be delivered through the Manila Water Group's wholly-owned subsidiaries, Manila Water Philippine Ventures, Inc. (MWPV), Manila Water Asia Pacific Pte. Ltd. (MWAP), and Manila Water Total Solutions Corporation (MWTS) to ensure sustained growth beyond the East Zone Concession.

MWPV and MWAP are mandated to expand the business in the Philippines and in Southeast Asia, respectively. These geographical expansions are anchored on the core competencies of the Company developed and nurtured in the East Zone Concession and MWPV's subsidiaries, Laguna AAAWater Corporation, Clark Water Corporation, Boracay Island Water Company, Inc., and Cebu Manila Water Development, Inc., among others. In 2016, MWPV has started to develop its own capability through the establishment of its operating division, Estate Water. Borne out of a strategic partnership with Ayala Land, Inc., Estate Water serves as MWPV's vehicle to provide service to the non-municipal market segments.

Outside the Philippines, the Manila Water Group has significantly gained traction in Vietnam, Indonesia, and Thailand, through MWAP and its Singapore subsidiaries, Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., Manila South East Asia Holdings Pte. Ltd., and Manila Water Thailand Holdings Pte. Ltd. The Manila Water Group remains the largest foreign investor in the Vietnam Water Sector through its affiliates/associates, Kenh Dong Water Supply Joint Stock Company, Thu Duc Water B.O.O. Corporation, Saigon Water Infrastructure Corporation, Asia Water Network Solutions Joint Stock Company, and Cu Chi Water Supply Sewerage Company Limited.

MWPV has expanded its footprint in the Philippines through the addition of eleven (11) new projects in its portfolio. This includes a bulk water and septage management project with the City of Ilagan Water District (Isabela) and new concession projects in San Jose City (Nueva Ecija), Tanauan City (Batangas), Calbayog City (Samar), and Municipalities of Calinog and Lambunao (Iloilo). We have expanded our existing businesses and secured Pagsanjan and Victoria in

Laguna, Bulakan and Balagtas in Bulacan, and Malasiqui, San Fabian, Manaoag, and Sta. Barbara in Pangasinan.

Outside the Philippines, our Thailand (Eastern Water Resources Development and Management PCL or East Water) and Indonesia (PT Sarana Tirta Utama) investments started to contribute to the improved performance of our businesses.

Lastly, MWTS handles after-the-meter products and environmental service offerings outside the conventional water value chain, and is in the business of producing and marketing the company's packaged water business in Metro Manila under the Healthy Family Purified Drinking Water brand.

C. The Corporate Finance and Strategy Group

The **Corporate Finance and Strategy Group** (CFSG) is headed by the Chief Finance Officer and Treasurer. The Group is composed of four (4) divisions – Controllership, Accounting and Planning Division, Treasury and Enterprise Risk Management Division, Finance and Governance for Manila Water Asia Pacific Division, and Finance and Governance for Manila Water Philippine Ventures and Manila Water Total Solutions Division – and two (2) departments, Corporate Planning and Investor Relations, and Tax Management.

- The Controllership, Accounting and Planning Division is composed of the Controllership and Analysis Department, the Financial Accounting Department, the Concession Investment Accounting Department, and the Financial Planning Department. The division provides controllership and management reporting, financial and regulatory accounting, and financial planning services.

    i. The Controllership and Analysis Department supports top management's decision-making processes through the provision of timely financial information and analysis, coordinated budget planning activities, and periodic review against plans of the Manila Water Operations and the Parent Company. The department is also responsible for the setting and management of financial related policies and performance management of the CFSG as well as handling special projects involving process and systems improvements.

    ii. The Financial Accounting Department maintains and safeguards the integrity of the Company's computerized accounting system, books of accounts and processes to ensure the preparation of accurate and timely financial reports for the purpose of providing management, regulators and other stakeholders with financial information reflective of the Company's true financial performance and condition. The department is ISO 9001:2015 certified and implements a Quality Management System which assures the consistent application of relevant accounting standards, policies, regulations and rules aimed at the continuous improvement of its processes.

    iii. The Concession Investment Accounting Department is a multi-disciplinary group playing a key role in the Company's regulatory compliance with MWSS. It is responsible for providing management and regulators with timely reports that are compliant with all applicable accounting and regulatory standards. In line with the Company's obligations as concessionaire of the East Zone, it maintains records of the acquisition, status, and disposal/transfer of all fixed and movable assets of the Company. The department provides appropriate safeguards on capital disbursements of the Company and ensures that payments are carried out in accordance with contractual requirements, and consistent with internal policies and tax requirements. It is also responsible for the financial monitoring of capital projects as well as the secretariat function of the Capital Investment Committee.

iv. The Financial Planning Department is responsible for the overall budget preparation and monitoring of the Manila Water Group. It provides financial analysis and reporting of the financial and operating performance of the enterprise and its subsidiaries. The Department is responsible for the preparation of the long-term financial plans of the Metro-Manila East Zone concession and the consolidated Manila Water Group. The Department monitors the performance of the various businesses of Manila Water and their contribution to the enterprise. It also provides financial advisory support to business development, capital investments, and other corporate initiatives. It handles the secretariat function of the New Business Investment Committee.

- The Treasury and Enterprise Risk Management Division, headed by the Deputy Group Treasurer and Chief Risk Officer, is composed of two (2) departments: Treasury Department, and Enterprise Risk Management Department. The division is responsible for the effective management of the Company's cash resources and financing activities, and sustained implementation of enterprise risk and insurance programs. The division also provides treasury and risk advisory services across the Manila Water Enterprise.

i. The Treasury Department is responsible for the effective management of the Parent Company's cash resources, including collections and disbursements, through efficient liquidity planning and maximization of cash investments. It is also responsible in the capital raising activities of the Enterprise ensuring cost-efficient and timely closing of financing transactions. For the Parent Company, the Department also manages Manila Water's concession fee obligations with MWSS and ensures compliance with loan reportorial requirements and covenants. For new businesses, the Department provides strategic advisory in terms of financing strategies and treasury operations, and support for subsidiaries' banking requirements. In carrying out its functions, the Department maintains a sustainable and mutually beneficial relationship with its lenders and banking partners. It also maintains its ISO 9001:2015 Certification for Quality Management System ensuring transparency of operations and adherence with its risk-based policies. It is headed by the Treasury Department Head who directly reports to the Deputy Group Treasurer and Chief Risk Officer.

ii. The Enterprise Risk Management Department is responsible for developing risk management tools, methodologies, and processes and leads the implementation and dissemination of ERM programs across the Manila Water Enterprise in coordination with the risk owners, the CRO and ERM Champions/ Partners/ Risk Officers of the business units. It is also responsible for managing the insurance programs of the Enterprise and for providing oversight of the insurance programs of the subsidiaries with the objective of making the programs cost-effective, risk-based and responsive to the Group's needs. The integration of risk management with insurance ensures the effective development and application of risk transfer strategies for the Enterprise and its projects. The Insurance Management Section has successfully obtained its ISO 9001:2015 certification for Quality Management System (QMS) in 2018. The QMS certification is an affirmation of compliance to global best standards for insurance management. The Department is headed by the Chief Risk Officer and reports functionally to the Board Risk Oversight Committee and administratively to the Chief Finance Officer and Treasurer.

- The Finance and Governance for Manila Water Asia Pacific Pte. Ltd. (MWAP F&G) is responsible for the statutory reporting of the companies under the group as well as the management reporting and analysis of performance of investee companies. The division also ensures compliance with the taxation and financial reporting requirements of the regulatory agencies. MWAP F&G handles controllership functions which includes development and implementation of financial policies as well as the formulation of the budget and forward plans and monitoring the utilization of the budget. The division also provides corporate finance support to new business development activities and ensures the smooth and efficient operationalization of the finance and governance function in new entities.

- The Finance and Governance for Manila Water Philippine Ventures and Manila Water Total Solutions leads the finance and accounting operations of all local subsidiaries of Manila Water Company, Inc. The division ensures the preparation of accurate and timely financial reports to aid in top management's decision-making process, as well as the implementation of effective financial systems and controls in all local subsidiaries. The division also leads the coordinated budget planning activities, and periodic review against plans of all local subsidiaries to ensure that over-all corporate goals are met. It is also responsible for building the capability of the new businesses to be able to manage and perform all finance-related operations such as, but not limited to, accounting, treasury, procurement, policy development, risk management and tax management.

The Corporate Planning and Investor Relations Department is responsible for supporting the Enterprise in crafting the organization's strategic roadmap and driving the investor communication strategy. It has two main functional units, namely, Corporate Planning and Investor Relations.

Corporate Planning supports top management in charting the strategic roadmap of the Enterprise, and in aligning the execution of its various initiatives. This support is extended to the rest of the organization through the development and provision of market and industry information; coupled with the prioritization and alignment of strategic actions. Equally important, Corporate Planning aims to provide support to the actual execution of Enterprise strategies, through the Enterprise Program Management Office (EPMO) – which oversees execution inter-dependencies of Enterprise projects; and correspondingly through implementation of an enterprise-wide Performance Management System.

Investor Relations (IR) supports top management in driving the organization's investor communication strategy through timely investor and market analysis, efficient coordination of Enterprise information and effective key message development and delivery. For this purpose, IR conducts regular analysts' briefings, meetings and roadshows with shareholders, fund managers and analysts to keep them updated on the financial and operating performance of the Company, as well as other relevant material information.

- The Tax Management Department provides strategic assistance to the different business and support units of the Company on matters relating to all taxes and tax incentives applicable in the Company's operations and growth initiatives. The department also provides a focused analysis, interpretation, and application of relevant tax laws, rules and regulations, and advocates for process and policy improvements to ensure compliance with all reportorial requirements of the Bureau of Internal Revenue, Board of Investments, and pertinent local government units and government agencies.

D. Business and Technology Services

The **Business and Technology Services Group** (BTS) is responsible for providing core support to Manila Water enterprise initiatives towards greater efficiency and growth. It is accountable for the delivery of IT solutions, infrastructure and information security, and for the provision of shared services including HR operations, accounts payable, general ledger and procurement.

- The **BTS Governance Department** is responsible for strategic planning and performance management, transition and service delivery support, and business relationship and stakeholder management functions. It also handles the oversight functions on program management, risk and compliance management, and other IT processes.

- The **HR Operations Domain** oversees payroll processing, benefits administration and the HR integrated system. Its duties include the delivery of timely, accurate and complete compensation and benefits, as well as up-to-date employee profile and information.

- The **Supply Chain Domain** provides sourcing, procurement, contract drafting, and vendor management services. It is responsible for procuring services, materials and supplies with due consideration to quality, efficiency and cost-effectiveness. It also employs strategic sourcing and category management approach to adapt to changing market conditions and address the growing needs of the business.

- The **Finance Domain** provides accounts payable and general ledger processing enabled by technology to deliver a high quality of standard-based finance services. It supports the provision of appropriate safeguards on disbursements ensuring that payments for goods and services are carried out in accordance with the applicable internal policies and tax requirements. It also supports the preparation of timely and accurate financial reports consistent with the application of relevant standards and policies.

- The **IT Service Management Domain** oversees the day-to-day operations of IT services including the availability, performance, and capacity of IT resources. It is responsible for the development of tactical plans in the deployment of hardware, operating systems, and data networks, in order to meet business-driven service levels and business continuity requirements.

- The **Information Security Department** is in charge of developing and enforcing the enterprise-wide IT security strategies, policies, standards, procedures and awareness program, and ensuring compliance with relevant information security standards. It also implements and maintains technical and procedural controls to protect information flow across networks.

- The **Infrastructure Planning and Delivery Department l**ooks after the infrastructure planning and design, infrastructure deployment, and data network connectivity, and carries out demand management, project management and delivery of IT infrastructure projects.

- The **Systems and Solutions Department** is responsible for the development and maintenance of all projects and systems supporting the business. It is in charge of identifying, designing, and delivering technology solutions and applications that support the success of the business.

E. Legal

The **Legal and Corporate Governance Department ("Legal")** provides legal services, advice and support across the entire organization. It proactively ensures that the Company is fully compliant with all the applicable laws, rules and regulations, and defends and protects the Company's interests in the courts, administrative agencies and other tribunals. It is also responsible for the drafting and reviewing of contracts and other legal documents to ensure that they are advantageous to the Company and do not infringe any law, domestic or foreign, or any government rules and regulations. Its functions likewise include the provision of guidance and assistance through the entire process of acquiring properties, maintenance of existing rights-of-way, and acquisition of rights-of-way required for the implementation of water and used water projects. In matters of corporate governance, the Legal Department ensures that the Company adheres to the compliance, reporting and disclosure requirements of the Securities and Exchange Commission and the Philippine Stock Exchange for publicly listed companies, and to international standards of good corporate governance and practices. The department continuously orients all employees and business partners regarding the Company's governance policies, particularly on matters relating to fair business dealings as well as the prompt and adequate disclosure of material information. It also provides corporate secretarial services to the Board of Directors and the Board Committees and assistance to the Office of the Corporate Secretary in the preparation and conduct of the stockholders' meeting and board meetings.

F. Internal Audit

The Internal Audit Department provides independent and objective assurance and consulting services and evaluates the effectiveness of the Enterprise's risk management, control and governance processes. The department reports functionally to the Audit Committee (AC) and administratively to the Corporate Secretary. It supports the AC in the effective discharge of its oversight role and responsibility, and provides the management and the Board of Directors, through the AC, with analyses, recommendations, advice and information concerning the activities and processes reviewed. In 2017, the external auditing firm Punongbayan & Araullo conducted an independent validation of the internal audit function's Quality Assessment Review (QAR) and concurred that the internal audit activity "Generally Conforms" to the Standards.

Water Operations

The whole water supply chain generally involves the abstraction of water from water sources, treated subsequently through the water treatment facilities, and conveyed and distributed to customers through the Company's network of pipelines, reservoirs, and pump stations. In 2017, the concession supplied an average of 1,533 million liters per day (MLD) of clean and potable water to its customers and billed a corresponding volume of 488.39 million cubic meters (MCM). This is equivalent to a total of 1.031 million water service connections or approximately 6.7 million served population.

Water Source

Under the Concession Agreement, MWSS is responsible for the supply of raw water to the Company's distribution system and is required to supply to the Company a maximum quantity of water, currently pegged at 1,600 MLD. In case MWSS fails to supply the required quantity, the Company is required to distribute available water equitably.

The Company substantially relies on surface waters coming from the Angat River System. The principal river, Angat River, originates from the Sierra Madre Mountains. It has three major tributaries namely the Talaguio, Catmon and Matulid Rivers. The surface waters from these sources are collected and impounded through the Angat Dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and Aqueducts to La Mesa.

To date, only a very small amount of the Company's water supply is still ground-sourced through deep wells, which are primarily for the benefit of customers in the remotest towns of the Province of Rizal wherein conveyance from the existing treatment plants would be impractical.

Water Treatment

Raw water is stored at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection before going to the three (3) major treatment plants - two (2) of which are in Balara located seven (7) kilometers away from the reservoir and the third is nestled just at the northeast of La Mesa Dam.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two (2) separate treatment systems: Balara Filter 1 which was commissioned in 1935 having a design capacity of 470 MLD and Balara Filter 2 which was commissioned in 1958 with another 1,130 MLD.

The East La Mesa Treatment Plant, on the other hand, is located in Payatas, Quezon City. Relatively new to the system, the facility began its operation in June 2012. It has a capacity of treating 150 MLD of water. It supplies water to far-flung expansion areas in the Rizal province, improving the supply balance of the entire network.

The treatment process in these plants involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of raw water increases, which consequentially leads to increased costs of treatment operations.

Water Distribution

After treatment, water is conveyed through the Company's network of pipelines, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers conveniently at set pressure standards. As of December 31, 2018, 98.77 percent of currently served areas have a water supply pressure of 7 psi and above - made possible by the continuous implementation of technical solutions such as supply and pressure management.

As of December 31, 2018, the Company's network consisted of approximately more than 5,111.61 km of total pipeline, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene (hdpe), polyvinyl chloride (pvc) and other materials. From the start of the concession in 1997 until the end of 2017, the Company has laid almost 4,800 km of pipeline for service expansion or pipe replacement or rehabilitation.

Pumping stations also play a critical part in water distribution. Approximately 67% of the treated water supplied by the Company is pumped to ensure pressure compliance especially for the highly elevated areas. Currently, the Company operates nineteen (19) pumping stations with a combined maximum pumping capacity of 3,000 MLD and an average plant output of around 1270 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 500 MLD.

The Company operates nine (9) line boosters to reach the fringe areas, which are quite distant from the treatment plants. Line boosters typically are small facilities aimed at augmenting water supply for areas that are not sufficiently supplied during the regular pumping operations of the pump stations.

Non-Revenue Water (NRW)

NRW refers to the volume of water lost in the Company's distribution system due to leakage, pilferage, illegal connections and metering errors. As determined by the MWSS-Regulatory Office, NRW is calculated as the percentage of water lost against the net volume of water supplied by the Company.

Over the years, the Company has delivered remarkable strides in managing its NRW. The concession started with a high system loss of 63% in 1997. In 2010, its NRW level is reduced to and maintained at just 11%. Yearend figure for 2018 was recorded at 11.42%. Continuous improvements of water supply management coupled with massive pipe replacement projects were done to maintain and improve the reduction of Company's system losses.

Water Quality

Raw water quality from Angat, Bicti, Ipo and La Mesa is regularly tested by the laboratory on a quarterly basis to assess any changes to raw water quality over time. This source monitoring provides early warning of potential raw water quality problems in terms of Microbiological and Physico-chemical (Inorganic and Organic constituents). The results are all satisfactory and through time still falls under the classification of Class A of DAO 34. Aside from source monitoring, routine monitoring of raw water at the treatment plant inlet is conducted on a weekly basis for operational control to effectively and efficiently manage treatment process operation. These routine monitoring include Microbiological and selected Physico-chemical parameters for over 7000 tests annually.

Since 1998, the Company's water quality has consistently surpassed the Philippine National Standards for Drinking Water (PNSDW) set by the Department of Health (DOH) and based on World Health Organization (WHO) water quality guidelines. To ensure that water supplied at the tap is safe to drink, stringent water quality monitoring is also continuously implemented at the treatment plants and throughout the distribution system. From the results of analysis conducted, water quality has always been maintained at 100% compliance based on the Microbiological, Physical and Chemical standards at the customers taps. In 2017, the Company conducted over 100,000 tests for Microbiological and Physico-chemical quality at the treatment plant outlet, facilities and reservoirs annually.

Continuous monitoring of water quality indicators throughout the network is also conducted at the customers taps by which more than 50,000 tests annually are tested from samples collected at the 886 pre-identified sampling points located at various influence area. Regulatory sampling points are designated at strategic locations across the distribution system - where sampling is conducted daily by the Company. The MWSS-Regulatory Office, Local Government Units (LGUs) and DOH likewise collect random samples from these designated sampling points and have them tested by third party laboratories and designated government laboratories. The Company's water samples scored an average water quality compliance of 100%, surpassing the threshold of 95% set in the PNSDW. In 1997, when the concession began, only 87% of water samples complied with these quality standards. The Company's rating is based on a series of tests conducted regularly at these points within the East Zone.

The samples collected are tested at Manila Water's own Laboratory, which is accredited by the DOH and a recognized EMB-DENR testing laboratory. The Laboratory has also gained its recognition as an ISO/IEC 17025:2005 accredited laboratory, granted by the Philippine Accreditation Office, Department of Trade and Industry (DTI). These recognition and accreditations subject the laboratory to regular surveillance audits. Consistently, the Laboratory has gained excellent and satisfactory ratings on most proficiency testing programs it has participated through local and international proficiency testing program providers. In 2010, the Laboratory also gained IMS certifications for ISO 9001:2008, ISO 14001:2004 and OSHAS 18001:2007. These recognitions have gained the confidence of the MWSS-Regulatory Office, the DOH and DENR in the tests results that are regularly provided to them.

Sewerage Operations

The Company is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a program of regular maintenance of household septic tanks in the East Zone.

Sewerage and Sanitation System

Since 1997, the Company has significantly improved and expanded the limited used water infrastructure originally operated and maintained by the MWSS. Sewerage services are provided in areas where treatment facilities are available. Sewered areas currently include Quezon City and Makati. Parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

The Company had few facilities for sewerage services in 1997. The Sewage Treatment Plant (STP) in Magallanes Village was then the largest treatment facility in the country with a 40 MLD capacity. The STP in Magallanes provides sewerage services to the Makati central business district and some residential villages. Prior to privatization, this facility had poor treatment efficiency and did not meet effluent quality standards. The Karangalan Bio-module in Karangalan Village was serving approximately 100 households but also produced substandard effluent quality before 1997. In addition to these facilities, an Imhoff tank in Phil-Am Village and thirty-one communal septic tanks (CSTs) in Quezon City were also turned-over by the MWSS to Manila Water in 1997. These facilities were then serving approximately 19,000 households only. Manila Water upgraded these facilities to meet the effluent standards set by the DENR.

In 2001, the Company constructed two (2) pilot package plants to determine if they were feasible in terms of social, financial, and environmental aspects. These are located in Valle Verde Homes, Pasig, one of which serves approximately 100 households and another serves some 400 households of the housing project in Makati together with approximately 4,000 students and employees in Rizal Elementary School.

With the success of the two (2) pilot STPs, the Company implemented the Manila Second Sewerage Project (MSSP) funded by World Bank. Under the MSSP, twenty-six (26) STPs were constructed. Sixteen (16) of these STPs were formerly CSTs and the rest are on-site STPs for medium and high rise housing establishments and for the University of the Philippines campus. Takeover and upgrade of the STP in Diego Silang, Taguig was also part of the MSSP.

As part of its commitment to expand this service, the Company constructed and subsequently operated in 2008 under the Manila Third Sewerage Project (MTSP) two (2) Septage Treatment Plans (SpTPs) aimed at managing septic tank materials siphoned from the East Concession customers. A total of 77 desludging trucks are available daily for deployment to ensure the desludging service is rendered to the entire East Zone population over the next five (5) years. Since 1997, the Company has already provided desludging service to more than 1,000,000 households.

The MTSP is a follow-up to the MSSP and has the ultimate objective of improving sewerage and sanitation conditions in the East Zone. It was developed as a means of achieving the Company's sewerage and sanitation service targets. The remaining components of the MTSP include the construction of sewer networks and treatment plants in several locations in the East Zone including upgrading of existing communal septic tanks with secondary treatment levels. There were six (6) sewage and septage treatment plants that were constructed under MTSP. It was in this project that combined sewer and drainage system was implemented. Out of the six (6) facilities, four (4) employed this approach.

In 2015, two (2) new used water facilities became operational, and these are the Marikina North STP and Liwasan ng Kagitingan at Kalikasan STP which have a combined capacity of 175 MLD and by far, the biggest STPs of the Company. Another remarkable feature of the two (2) STPs is that both have the same treatment technology known as the Sequencing Batch Reactor (SBR) whereas the thirty-eight (38) facilities that were constructed under MSSP, MTSP and the take-over projects all employ the Conventional Activated Sludge treatment. As of end of 2016, the Company operates forty (40) used water facilities including the Marikina North and Liwasan ng Kagitingan at Kalikasan STPs, with a total capacity of 310MLD, compared to 40MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the "Sanitasyon Para Sa Barangay" (SPSB) program. Through cooperation with the barangays, the program aims to desludge all septic tanks in a barangay without charge over a specified, set schedule.

For 2018, the Company has provided the service to 209,037 households which is equivalent to 112,836 septic tanks emptied. For the years covering 2007-2017, the total households provided with the desludging service were 2,628,370 equivalent to 814,475 septic tanks desludged. Furthermore, the average availment rate of the program has significantly increased through a more intensive Information, Education and Communication (IEC) program per barangay to educate customers of the East Zone about the importance of a properly maintained septic tanks.

The technical assistance component focus on information and education campaigns on proper liquid waste disposal and environment preservation and the preparation of follow-up programs on sewerage and sanitation, with emphasis on low-cost sanitation systems.

New Business and Investments

The Manila Water Group further brings its expertise in water and used water services outside the East Zone Concession through partnerships with private companies, local water districts and local government units of major cities and municipalities in the Philippines, and emerging cities in Southeast Asia. Manila Water offers value-added services across the water value chain from source development to used water and sanitation services anchored on Public-Private Partnership (PPP) and Business-to-Business (B2B) models.

Manila Water Group also execute several contracts related to the water business such as Performance-Based Contracts (PBCs) for NRW reduction, Bulk Water Supply arrangements, Property Management and Operation (Estate Water) models, Lease Agreements, and Operations and Maintenance Contracts. Furthermore, Merger and Acquisition (M&A) is extensively and aggressively used to support growth especially in the Southeast Asian Region. Towards this end, the Manila Water Group has signed joint venture agreements and/or investment agreements with local and international partners in the last few years.

Laguna Water's Concession Agreement with the Provincial Government of Laguna

Laguna AAAWater Corporation (Laguna Water) is a Joint Venture (JV) between the Provincial Government of Laguna (PGL) and Manila Water Philippine Ventures, Inc. (MWPV) with shareholdings of 30% and 70%, respectively.

On April 09, 2002, Laguna Water and PGL have entered into a Concession Agreement which grants Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive rights and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission, and refurbish the identified facilities required to provide water services to specific areas for an operational period of twenty-five (25) years which commenced on October 20, 2004.

In December 2013, Laguna Water signed an Asset Purchase Agreement with the Laguna Technopark, Inc. (LTI) for the acquisition of the water reticulation system of LTI in Laguna Technopark, a premier industrial park located in Sta. Rosa and Binan, Laguna, which houses the region's largest and more successful light to medium non-polluting industries.

On June 30, 2015, Laguna Water and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

In connection with the amendment to the concession agreement, the Sangguniang Bayan of the Municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan. The provision of services by Laguna Water in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020. Furthermore, the concession period's commencement date was amended to have commenced on September 30, 2010 and shall end on September 30, 2035.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna has approved the inclusion of its municipality within the service area of Laguna Water.

On July 12, 2018, Laguna Water received the Notice of Award from Pagsanjan Water District (PAGWAD) for the implementation of the contractual JV project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD's service area.

On December 11, 2018, Laguna Water entered into four (4) Asset Purchase Agreements (APAs) with Extraordinary Development Corporate Group (EDCG)'s subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

Boracay Water's Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority

Boracay Island Water Company, Inc. (Boracay Water) is a JV between Manila Water and Tourism Infrastructure and Enterprise Zone Authority (TIEZA), formerly Philippine Tourism Authority (PTA) with shareholdings of 80% and 20%, respectively.

On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA. The concession agreement grants Boracay Water the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island for a period of twenty-five (25) years commencing on January 1, 2010 until December 31, 2035.

Clark Water's Concession Agreement with Clark Development Corporation

Clark Water Corporation (Clark Water) is the water and used water concessionaire of Clark Development Corporation (CDC) in the Clark Freeport Zone in Angeles, Pampanga. By virtue of an amendment agreement executed on August 15, 2014, the 25-year concession agreement with CDC was extended by another fifteen (15) years until October 1, 2040. In November 2011, Manila Water acquired 100% ownership of Clark Water through a Sale and Purchase Agreement with Veolia Water Philippines, Inc. and Philippine Water Holdings, Inc.

MW Consortium Agreement with the Provincial Government of Cebu

On March 21, 2012, Manila Water Consortium, Inc. (formerly, Northern Waterworks and Rivers of Cebu, Inc.) (MW Consortium), a consortium of Manila Water (51%), MetroPac Water Investments Corporation (39%) and Vicsal Development Corporation (10%), signed a Joint Investment Agreement (JIA) with the Provincial Government of Cebu (PGC) for the formation of a joint venture company.

Under the JIA, the parties agreed to develop and operate a bulk water supply system that will supply 35 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is thirty (30) years starting March 2012 and renewable for another twenty-five (25) years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (Cebu Water) with an ownership of 51% and 49%, respectively, pursuant to the JIA.

On December 13, 2013, Cebu Water signed a 20-year Bulk Water Supply Contract with the Metropolitan Cebu Water District for the supply of 18 million liters per day of bulk water for the first year and 35 million liters per day of bulk water for years two (2) to twenty (20).

Non-revenue Water (NRW) Reduction Activities in Zamboanga City

On December 19, 2014, Manila Water received a notice from Zamboanga City Water District (ZCWD) awarding the project for NRW reduction in Zamboanga City. On January 30, 2015, Manila Water and ZCWD signed and executed a Joint Venture Agreement (JVA) in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, Manila Water and ZCWD incorporated Zamboanga Water Company (Zamboanga Water) with an ownership of 70% and 30%, respectively, to implement the NRW project.

On June 2, 2015, Zamboanga Water entered into an NRW Service Agreement (NRWSA) with ZCWD. Under the NRWSA, ZCWD grants Zamboanga Water the right to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system.

On July 2, 2018, through a Deed of Absolute Sale of Shares, the Parent Company sold to MWPV, its wholly owned subsidiary, its shares in Zamboanga Water.

<u>Bulk Water Supply Agreements between Davao Water and Tagum City Water District</u>

On July 28, 2015, Tagum Water District (TCWD) awarded the Tagum City Bulk Water Supply Project to Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a consortium of Manila Water and iWater, Inc.

On October 15, 2015, Davao Water has signed and executed a JVA with TCWD. The JVA governs the relationship of Davao Water and TCWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TCWD caused the incorporation of a joint venture company, namely, Tagum Water Company, Inc. (Tagum Water), which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date as defined in the JVA. The Davao Water owns 90.00% while TCWD owns 10.00% of Tagum Water's outstanding capital stock.

Tagum Water was registered with the SEC on December 15, 2015 and its primary purpose is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TCWD.

On February 26, 2016, Tagum Water and TCWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TCWD for a period of fifteen (15) years from the Operations start date.

On May 23, 2018, through a Deed of Absolute Sale of Shares, the Parent Company sold to MWPV its shares in Davao Water.

<u>Estate Water, Aqua Centro MWPV Corporation and EcoWater MWPV Corporation</u>

On January 15, 2016, MWPV entered into a MOA with Ayala Land, Inc. (ALI) and its subsidiaries (collectively, the ALI Group), whereby MWPV shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group. This MOA is implemented through Estate Water, a division of MWPV.

On December 8, 2016, MWPV entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPV will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On October 5, 2017, Aqua Centro MWPV Corporation (Aqua Centro) was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

December 28, 2017, MWPV entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA. As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPV has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

On December 18, 2017, MWPV signed a twenty-five (25) year lease agreement with the Philippine Economic Zone Authority (PEZA). Pursuant to the agreement, MWPV will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone (CEZ) for the provision of water and used water services to the locators therein. MWPV shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement.

On July 27, 2018, MWPV incorporated EcoWater MWPV Corporation (EcoWater) which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in CEZ.

On December 11, 2018, Aqua Centro entered into seven (7) Asset Purchase Agreements (APAs) with Extraordinary Development Corporate Group (EDCG)’s subsidiaries to acquire the subsidiaries’ assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation. As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

<u>Bulacan MWPV Development Corporation and its Asset Purchase Agreements</u>

On January 4, 2017, MWPV entered into an Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) to acquire and operate the latter’s assets used in the water business operations in Asian Land’s developments in the province of Bulacan. The intention of MWPV was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, Bulacan MWPV Development Corporation (BMDC) was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPV assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPV, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC.

On July 26, 2017, BMDC entered into an APA with Solar Resources, Inc. (Solar Resources) to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan. On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

On December 14, 2017, BMDC and Borland Development Corporation (Borland) executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan.

Calasiao Water's Concession Agreement with Calasiao Water District

On December 9, 2016, the Manila Water received a Notice of Award from Calasiao Water District (CWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of CWD in Calasiao, Pangasinan.

On June 19, 2017, Manila Water signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, Manila Water and CWD shall cause the incorporation of a joint venture company where Manila Water and CWD shall own 90% and 10%, respectively, of the outstanding capital stock. On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc. (Calasiao Water)

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement that grants Calasiao Water, the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017.

Filipinas Water Consortium Holdings Corp. and Its Partnerships

On January 24, 2017, the consortium of Manila Water and MWPV received the Notice of Award from Obando Water District (OWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD.

February 2, 2017, Obando Water Consortium Holdings Corp. (now Filipinas Water Consortium Holdings Corporation, or Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between the Parent Company and MWPV with an equity share of 49% and 51%, respectively. The primary purpose of Filipinas Water is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD for the implementation of the project. Subsequently, on October 10, 2017, Obando Water Company, Inc. (Obando Water) was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively. The project includes a Concession Agreement (CA) which was executed on October 12, 2017 for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD in Obando, Bulacan for a period of twenty-five (25) years from the commencement date.

On January 26, 2018, the consortium of Manila Water and MWPV received the Notice of Award from the City of Ilagan Water District (CIWD) for the implementation of a joint venture project for the development, financing, operation, and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in the City of Ilagan, Isabela.

On April 26, 2018, the consortium of Manila Water and MWPV received the Notice of Award from Bulakan Water District (BWD) for the joint venture project for the development, financing, design, engineering, construction, rehabilitation, upgrade, testing, commissioning, operation, management, and maintenance of water facilities and the provision of water and sanitation services in the Municipality of Bulakan.

On August 16, 2018, Filipinas Water and the BWD entered into a JVA for the implementation of the project. On October 16, 2018, the joint venture company was incorporated and was registered with SEC under the name of Bulakan Water Company, Inc. (Bulakan Water). Bulakan Water is owned by Filipinas Water and BWD having an equity share of 90% and 10%, respectively.

On November 16, 2018, Filipinas Water entered into a Joint Venture Agreement with CIWD for the implementation of the project. Upon completion of conditions precedent in the JVA, a JV Company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

MWPV JVA with Tubig Pilipinas Group, Inc. (TPGI)

On December 11, 2017, the Municipality of Malasiqui granted a franchise to MWPV and Tubig Pilipinas Group, Inc. (TPGI) for the implementation of a joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date. On February 20, 2018, the board of directors of MWPV approved the creation of a SPV for this project.

On November 16, 2018, MWPV has signed and executed a JVA with TPGI. Under the agreement, MWPV and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

On December 21, 2018, the consortium of MWPV and TPGI received a Notice of Award from San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the notice of award, the consortium partners and the water district would enter into a JVA that will grant them as contractor to perform certain functions and as agent for the exercise of its right and powers, the sole right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities in the service area, including the right to bill and collect tariff for water and sanitation services supplied in the service area of SJCWD.

Notice to Proceed from the Municipality of Sta. Barbara, Pangasinan

On June 14, 2018, MWPV received a Notice to Proceed from the municipality of Sta. Barbara, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice to Proceed from the Municipality of San Fabian, Pangasinan

On October 15, 2018, MWPV received a Notice to Proceed from the municipality of San Fabian, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV to establish, construct, operate, manage, repair, and maintain water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Leyte Metropolitan Water District (LMWD)

On December 6, 2017, the Manila Water received the Notice of Award from Leyte Metropolitan Water District (LMWD) for the implementation of the joint venture project (the Leyte Project) for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

Notice of Award from Balagtas Water District

On April 25, 2018, a consortium of Manila Water and MWPV received the Notice of Award from Balagtas Water District (BWD) for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Tanauan Water District

On October 12, 2018, the Consortium of Manila Water and MWPV received the Notice of Award from Tanauan Water District (TWD) for the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services in the service area of TWD in the City of Tanauan.

On February 4, 2019, the Consortium and the Tanuaan Water District entered into a JVA for the implementation of the Project.

Notice of Award from Lambunao Water District

On November 27, 2018, the Parent Company received a Notice of Award from Lambunao Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Lambunao Water District in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, Manila Water and Lambunao Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calinog Water District

On November 27, 2018, the Parent Company received a Notice of Award from Calinog Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Calinog Water District in the Municipality of Calinog, Iloilo.

Upon completion of conditions precedent specified in the notice, the Parent Company and Calinog Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calbayog City Water District

On December 27, 2018, the Parent Company received the Notice of Award from Calbayog City Water District for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of Calbayog City Water District in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the Calbayog City Water District in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, the Parent Company shall enter into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a twenty five (25) year contract period.

International New Business and Investments

International new business investments of the Manila Water Group are generally undertaken through its wholly-owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd (MWAP), and its direct subsidiaries, Manila Water South Asia Holdings Pte. Ltd. (MWSAH), Thu Duc Water Holdings Pte. Ltd. (TDWH), Kenh Dong Water Holdings Pte. Ltd. (KDWH), Manila

South East Asia Water Holdings Pte. Ltd (MSEA), and Manila Water Thailand Holdings Pte. Ltd. (MWTC).

In December 2011, TDWH purchased a 49% share ownership in Thu Duc Water B.O.O. Corporation (Thu Duc Water) which owns the second largest water treatment plant in Ho Chi Minh City. Thu Duc Water has a bulk water supply contract with Saigon Water Corporation (SAWACO) for a minimum consumption of 300 MLD on a take-or-pay arrangement.

In July 2012, KDWH completed the acquisition of a 47.35% stake in Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), a Vietnamese company established in 2003 to build, own, and operate major water infrastructure facilities in Ho Chi Minh City.

In October 2013, MWSAH completed the acquisition of 31.47% stake in Saigon Water Infrastructure Corporation (Saigon Water), a listed company in Vietnam. In 2017, MWSAH infused an additional equity of 103B VND, and increased its shareholding percentage to 38%.

In 2015, MWSAH also entered into a Capital Transfer Agreement with Saigon Water Infrastructure Corporation and Vietnam-Oman Investment Company to develop and operate the water network in Cu Chi, a district in Ho Chi Minh City. The project will be undertaken with Cu Chi Water Supply Sewerage Company Limited (Cu Chi Water), a Vietnam limited company. Through this agreement, MWSAH holds 24.5% share in the charter capital of Cu Chi Water.

On November 6, 2015, MWAP signed an MOU with PDAM Tirtawening Bandung City for a non-revenue water reduction demonstration project in Bandung City, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City in West Java, Indonesia.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water at a subscription price of VND16,900.00 per share for a total amount of ₱229.16 million (VND103.87 billion). As a result of this additional subscription, MWSAH now holds 37.99% of the outstanding capital stock of Saigon Water.

On February 19, 2018, the Manila Water signed a SPA with EGCO to acquire EGCO’s 18.72% equity in Eastern Water Resources Development and Management Public Company Limited (East Water). East Water is a publicly listed company whose shares are traded in the Stock Exchange of Thailand. It is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.30 billion to finance MWTC’s acquisition of shares in East Water

On March 14, 2018, MWTC acquired 311,443,190 ordinary shares in East Water representing 18.72% equity of East Water

On March 6, 2018, PT Manila Water Indonesia (PTMWI), a wholly-owned subsidiary of MSEA signed a SPA with PT Triguna Rapindo Mandiri to acquire 4,478 shares of PT Sarana Tirta Ungaran (PT STU) which allowed PT MWI to own twenty percent (20%) of the outstanding capital stock of PT STU.

PT STU is a bulk water supply company servicing PDAM Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.5 million liters per day.

Environmental Compliance

The Company's water and used water facilities must comply with Philippine environmental standards set by the Department of Environment and Natural Resources (DENR) on water quality, air quality, hazardous and solid wastes, and environmental impacts. In keeping with the Company's commitment to sustainable development, all projects are assessed for their environmental impact and where applicable, must obtain an Environmental Compliance Certificate (ECC) from the DENR prior to construction or expansion and the conditions complied with, along with all other existing environmental regulations. During and subsequent to construction, ambient conditions and facility-specific emissions (e.g. air, water, hazardous wastes, treatment by-products) from water and used water facilities are routinely sampled and tested against DENR environmental quality standards using international sampling, testing and reporting procedures.

The Company has made efforts to meet and exceed all statutory and regulatory standards. The Company employs the appropriate environmental management systems and communicates to its employees, business partners and customers the need to take environmental responsibility seriously. The Company uses controlled work practices and preventive measures to minimize risk to the water supply, public health and the environment. The Company's regular maintenance procedures involve regular disinfection of service reservoirs and mains and replacement of corroded pipes. Implementation and effectiveness of established operations and maintenance procedures is being monitored and checked for continual improvement through the Operations Management System (OMS). Monitoring of environmental compliance for operating facilities and on-going projects is being carried out proactively using risk-based assessment checklist in order to internally address compliance risks before it resulted into legal non-compliances. The Company's water and used water treatment processes meet the current standards of the PNSDW, DOH, DENR and Laguna Lake Development Authority (LLDA). The Company continues to undertake improvements in the way it manages both treated water and used water as well as treatment of by-products such as backwash water, sludge and biosolids.

The Company has contingency plans in the event of unforeseen failures in the water and used water treatment or chemical leakage and accidental discharge of septage and sewage. The Company's Customer Care Center is trained to ensure that environmental incidents are tracked, monitored and resolved.

A policy on climate change was formulated to define the Company's commitment to the National Framework Strategy for Climate Change. While the company is undertaking climate change mitigating measures such as greenhouse gas accounting and reporting along with initiatives to optimize consumption of fuel and electricity to reduce its carbon footprint, there is a current emphasis towards climate change adaptation such as intensifying watershed rehabilitation work, vulnerability assessment of water sources and assets, improving the climate-resiliency of existing and future water and used water facilities, strengthening risk reduction and management systems with a business continuity plan, and development of new water sources.

Sustainable Development Projects

Sustainability for Manila Water is the full alignment of its business goals with its socio-environmental objectives. A renewed focus on sustainability issues that are materially affecting the organization from a more strategic perspective characterized the year 2018in terms of embedding and advancing sustainability in Manila Water.

The Sustainable Development Department of Manila Water was transferred to the Operations Group, incorporating it into the Environment Department and Operations Management that has been re-named the Operations Management and Sustainability Department (OMSD). There is now an expanded mandate to reinforce the embedded sustainability principles (Society, Economy and Environment) into the Company's day to day operations and continue developing Sustainability Champions in all of Manila Water's internal and external stakeholders through a programmatic approach of raising employee awareness, communicating its sustainability initiatives to various audiences, encouraging active involvement from all stakeholders and embedding sustainability in Manila Water's planning, core and support processes.

Headed by OMSD and Strategic Asset Planning Department, the Climate Change Committee (CCC) was able to identify gaps and areas for improvement to streamline and optimize Manila Water's efforts to address the impacts of climate change, whether through mitigation initiatives or adaptation efforts. Aside from safeguarding Manila Water's critical infrastructures, the CCC will oversee the implementation of the Company's commitments in promulgating its Climate Change Policy. The Climate Change Policy of Manila Water was just recently revised to be able to cater to the fast-changing needs of the company. The policy focused on, resiliency and adaptation, disaster risk reduction and management, rehabilitation and enhancement of water source and watersheds, climate change mitigation programs, awareness programs, and partnerships.

In addition to the aforementioned management initiatives, Manila Water continued to focus on five (5) sustainability pillars:

a. Developing Employees

Manila Water seeks to embed sustainability in the daily activities of its employees through employee engagement and knowledge transfer programs on top of the training and competency development initiatives of the Company. The objective is to develop more Sustainability Champions to enhance organizational capabilities in managing its resources, adapting to a changing environment and addressing social and environmental risks and impacts.

After a year of introduction, the Manila Water University (MWU) which responses to the needs of a continuously growing organization, was able to launch and complete a competency assessment portfolio. The MWU affords talents with the opportunity to take charge of their individual career development, communicate career aspirations, seek support through coaching, feedback and meaningful job assignments, and eventually drive career growth within the Company. It is also the Company's institutionalized approach to learning, development and competency building that would strengthen and develop competencies that are important to its business. The MWU has online resources on various topics ranging from Asset Management, Finance, Regulatory and Public Policy, among others. There are also trainings and seminars on leadership and functional competencies where employees can register online. MWU focuses on both Center for Leadership Excellence and Center for Technical Excellence. A Technical Cadetship Program was developed under the Center for Technical Excellence, a revival of the proven Cadetship Program but with a more focused and specialized developmental learning.

Aside from training and development, Manila Water complements core and functional competencies with various employee engagement initiatives that seek to instill and cultivate the value of sustainability in the daily activities of its employees. With the Human Resources Group at the forefront of the Company's human development programs through its training and employee engagement initiatives, a number of activities facilitated by various departments (Safety Solutions, Sustainability, Innovations, Energy) have all contributed to the employee development efforts of the Company. Several trainings and seminars on environmental and energy-related topics such as Cleaner Production Assessment, Energy Audit, Hazardous Waste Management, Eco-driving, PCO Basic Training, Continuing education for PCOs, and Climate Change were conducted. Likewise, there were a number of workshops that were also conducted on Safety such as Chemical Safety, Electrical Safety, Fire Safety, Defensive Driving, Confined Space and First Aid. To spur creativity and innovation, Brown Bag meetings were facilitated and conducted as well.

Manila Water recognizes the need for work-life balance of its employees. Employee engagement activities focusing on employee volunteerism, themed programs and sports. *Bawat Patak Tumatatak (BPT)*, Manila Water's employee volunteerism program focuses on education, environment, and emergency disaster response.

b. Helping Build Communities

Manila Water believes that in the course of helping build communities, it is not enough to simply provide access to water and used water services for all. The resiliency of the services being provided is also of primary importance, considering that the Philippines is prone to natural and manmade disasters.

The Company has adopted strategies in order to minimize the adverse impacts of natural and manmade threats on the continuity of the Company's operations. The Climate Change Policy of the Company has been revised to focus on aligning with the country's strategy of prioritizing climate resilience work rather than carbon emissions reduction. The key manifestations of the climate change adaptation commitments of the Company include the mainstreaming of vulnerability assessment in the planning for new water and used water assets, retrofitting assets to be disaster-resilient, having a business continuity plan for its operations, taking a pro-active stance in the management and development of water sources and engaging key stakeholders in addressing risks beyond the control of the Company.

Manila Water's flagship program Tubig Para sa Barangay (TPSB) or Water for Low-Income Communities, continued to benefit the urban poor through the round-the-clock provision of potable water with immeasurable impacts on community life. The program has allowed residents from marginalized communities to avail of the Company's services at considerably lower connection fees and less stringent requirements. As of December 2018, more than 1.8 million people from urban poor communities have been served by the program with 211,681 water service connections. With the total number of water service connections in the East Zone reaching 1,056,701 at the end of 2018, roughly 20% of Manila Water's customers is under the TPSB program.

Complementing the TPSB program which also led to considerable improvements in the quality of community life is Manila Water's Lingap program, which seeks to improve water supply and sanitation facilities in public service institutions such as schools, hospitals, city jails, markets and orphanages, further empowering these institutions to more effectively carry out their respective roles in society. Through Lingap programs, Manila Water has rehabilitated the water reticulation system and installed wash facilities and drinking fountains of public service institutions. As of December 2018, an estimated 1.5 million were people served through the program.

Aside from the aforementioned social initiatives, the Company has strengthened its focus on enhancing operational reliability by strengthening its ability to respond to disasters and other emergency situations. Moreover, Manila Water exhibited its genuine concern for communities by readily providing relief operations in response to major disasters in the country. The Corporate Business Resiliency Department (CBRD) has been very active in disaster response actions by leading Manila Water's Mobile Treatment Plant (MTP) teams to disaster-stricken areas such as in Tacloban, Bohol, Cebu. The CBRD is also responsible for conducting company-wide earthquake drills. The objective of the drill is to be able to simulate Manila Water's incident management system, evaluate earthquake response protocols as well as business continuity plans, and familiarize employees with their individual roles and responsibilities. In this drill, the East Zone service area was divided into four "quadrants" based on Metro Manila Earthquake Impact Reduction Study, which assumes key lifelines of the metro to be unavailable in the event of a major earthquake.

As one of the pioneering members of the Philippine Disaster Recovery Foundation (PDRF), Manila Water's active involvement in PDRF has further leveraged its impact as a provider of lifeline services in times of disaster and the subsequent yet more daunting tasks of rebuilding communities. Last year, Manila Water started talks / dialogues with other lifeline companies in Metro Manila (from the power, telecommunications, transportation among other industries) to discuss interoperability during disasters.

c. Protecting the Environment

To enable the Company to fulfill its service obligations more effectively and to sustain operational efficiency, Manila Water's environmental protection advocacies and programs are geared towards ensuring water security, managing its environmental compliance risks, strengthening its used water program and enhancing operational efficiency.

Watershed management continued to be one of the imperatives for Manila Water, especially now that the El Nino phenomenon would from time to time threaten to put Metro Manila's water supply in an imminent water crisis. Since 2006, the company helps in the protection, rehabilitation and enhancement of critical watersheds. Manila Water provides funding support for the protection of 6,600 hectares Ipo Watershed and rehabilitation of the 2,659 hectares La Mesa Watershed Reservation. Under the joint administration and supervision of MWSS and DENR, Ipo Watershed is patrolled by around 170 Bantay Gubat of mostly Dumagats, the indigenous people living in the watershed.

The La Mesa Watershed Reservation Multi-sectoral Management Council and its Technical Working Group composed of MWSS, DENR, Quezon City LGU, Manila Water, Maynilad and ABS-CBN Lingkod Kapamilya Foundation's Bantay Kalikasan oversee the management of the La Mesa Watershed Reservation. In accordance with the Approved 25- Year La Mesa Integrated Watershed Management Plan, Manila Water continued the enrichment of open canopy forests in La Mesa by planting an additional 40,000 broad leaf forest tree seedlings in 100 hectares and continuous maintenance of 341 hectares of enriched areas planted in 2016 and 2017. The joint validation conducted by DENR and MWSS showed that there was a 91% survival rate in the 100 hectares newly enriched area. Manila Water annually supports the One Million Tree Challenge of MWSS which started in 2017.

On the environmental compliance side, Manila Water has dramatically enhanced its proactive approach in addressing environmental compliance risks through the Facility Self-Assessment Report (FSAR) and risk-weighted compliance audit and monitoring system, further enabling process owners and front liners to actively own compliance at their level.

In terms of its used water treatment operations, the Company was able to treat 44.70 mcm of used water for the whole year of 2018 and in the process removed approximately 5,754 tons of Biological Oxygen Demand (BOD), further alleviating the pollution load in Metro Manila's waterways. As of December 2018, there were 140,455 sewer connections in the East Zone and 112,836 septic tanks were desludged.

The Company continues to implement the Lakbayan Program or the Water Trail Tour to raise awareness on the importance of water, used water and the environment. This program involves an educational tour of the Water Trail to show the participants the process that the raw water undergoes from the source to treatment and prior to distribution to customers, and how the consumers' used water is collected and treated. Participants are given a tour of the water and wastewater treatment facilities of the Company. The Program aims to promote stakeholder awareness on the need to conserve water and to care for water sources. In 2018, Lakbayan Program tours have been participated in by 22,238 participants from Non-Governmental Agencies (NGA), Local Government Units (LGU), academe, media, corporates, Non-Governmental Organizations, and similar entities.

Moreover, Manila Water demonstrates proper used water management through Toka Toka advocacy, aimed at reviving Metro Manila's heavily-polluted rivers and tributaries. This particular campaign encourages consumers and partner organizations to practice proper waste disposal, ensure proper sewer line connections, have their septic tanks desludged every five (5) years and support the Company's other community-based projects. Since 2012, thirty-three (34) Toka Toka partners from LGUs, NGAs and private institutions have pledged their own commitments for the environment.

Manila Water has been harnessing renewable energy with its solar panels in FTI Septage Treatment Facility, Magallanes Sewage Treatment Facility and Delos Santos Pumping Station. The three solar facilities have combined 177,222 kWh power generated in 2018. A 1.2 MW mini-hydro power plant incorporated in NBAQ4 aqueduct that will provide 50% of the electricity needs of Balara Treatment Facilities will be operational by 2021. Manila Water has a pilot waste-to-energy project with sludge as feed to generate electricity at the FTI Septage Treatment Plant.

d. Safeguarding Health and Safety

Manila Water recognizes its responsibility to safeguard health and safety not only of its employees and contractors but also to the general public. It continues to put a high premium on ensuring water quality and ensuring the health and safety of its supply chain.

To provide all personnel with a safe and healthy work environment, Manila Water established Safety Management System Standards that is aligned with an internationally-recognized safety management system, BSI OSHAS 18001 – Health and Safety. This safety management system requires a commitment to safety of the public and its visitors, but the Company also recognizes the risks and mitigation controls unique to its operations. This incorporates quality, environment, occupational safety and health into a single framework so called Operational Management Systems.

To guide employees in achieving a safe work environment for the Company' personnel and vendors, Manila Water defines a rigorous set of operational controls to manage the known hazards and risks of its operations. Full implementation of these controls will ensure that the Company is providing workplaces that meet the requirement to Safety standards. Manila Water extends these safety programs to its vendors through the conduct of monthly Safety Officer's Network Meeting and Contractor's Safety Forum for sharing of best practices amongst contractors.

In addition, Manila Water has established an internal audit process to help ensure that it is effectively implementing its operational controls and management routines. The Company has also engaged recognized external audit firms to assess the compliance status of its operations with applicable laws and regulations and occupational safety and health requirements.

The quality of water that Manila Water supplies has always been 100% compliant with the Philippine National Standards for Drinking Water, and there has been no major water contamination since the Company began its operations in 1997. To maintain this record, the Company collects water samples from raw, untreated water to treatment plants and directly from the faucets of at least 843 customers each month. Water quality is stringently monitored and water samples are tested in a world-class laboratory that is recognized by the Philippine Department of Environment and National Resources, certified with and against ISO 9001 (quality management), ISO 14001:2008 (environmental management), OHSAS 18000 (Occupational Health and Safety), and accredited by the Philippine Department of Health (DOH) and ISO/IEC 17025:2005 (competence for testing and calibration laboratories). A Water Safety Plan was completed in 2009 and is continuously being reviewed as may be necessary. The plan is a multi-barrier approach to ensure that contamination is minimized and/or eliminated at each stage. It involves the application of an extensive risk assessment and risk management approach that encompasses all steps in water supply system from the sources, production, storage and conveyance to consumers to ensure safety of drinking water supply.

e. Contributing to Local and National Economies

To promote inclusive growth, Manila Water's policy on purchases from small- and medium-scale enterprises (SMEs) or cooperatives states that they are guaranteed at least 20% of total contract awards. To date, of the 240 contractors in the Company's Supply Chain, about 40% or around 95 of them are small enterprises (60% or about 145 are big). Some of these contractors were in fact part of the 153 cooperatives under the Kabuhayan Para sa Barangay program of Manila Water Foundation.

The Suki Vendor program has promoted inclusive growth and contributed significantly to local economies. The program aims to develop long term partnerships with the company's regular pipe laying contractors by nurturing these contractors and providing them technical assistance until such time that they have built their own capabilities and have grown into bigger companies as well.

Manila Water infused a total of ₱8.045 billion of CAPEX investments to the economy through the expansion of its water and used water services in 2018.

Employees

As of December 31, 2018, MWCI had 1,994 employees. Approximately 22% were non-management employees and 78% held management positions.

The following table presents the number of employees as of December 31, 2017:

Year	Former MWSS	Direct Hires	Subsidiaries	Total
2018	443	998	553	1,994

The following table presents the number of employees by function as of December 31, 2018:

Group	Management	Non-Management	Total
Office of the President	3	0	3
Corprate Finance & Strategy	74	6	80
Office of the MWO-COO	2	0	2
Corporate Operations	395	150	545
Strategic Asset Management	49	5	54
Corporate Human Resources	28	3	31
East Zone Business Operations	282	57	339
Business & Technology Services	73	16	89
Corporate Project Management	141	31	172
Corporate Regulatory Affairs	12	2	14
Corporate Strategic Affairs	17	7	24
Legal	11	0	11
Internal Audit	7	0	7
MWF	1	0	1
Subsdiaries	470	152	622
	1,565	**429**	**1,994**

Before privatization, the MWSS had 8.4 employees per 1,000 service connections. Manila Water Company has improved this ratio to 1.4 employees per 1,000 service connections as of December 31, 2017. This was accomplished through improvements in productivity achieved through, among other initiatives, value enhancement programs, improvements in work processes, employee coaching and mentoring, transformation of employees into knowledge workers, and various training programs. Manila Water's organizational structure has been streamlined, and has empowered employees through decentralized teams with responsibility for managing territories. In addition, the Company formed multi-functional working teams which are composed of members of the management team tasked with addressing corporate issues such as quality and risk, and crisis management.

As of December 31, 2017, 182 or 13.2% of the employees of the Company are members of the Manila Water Employees Union (MWEU). In 2013, the company and the MWEU concluded negotiations on a new collective bargaining agreement (CBA). MWEU has the option under the law to renegotiate the non-representation provisions of the CBA by the third quarter of 2016. The management of the Company maintains a strong partnership with union officials and members and there has never been any strike since its inception. Grievances are handled in management-led labor councils. The CBA also provides for a mechanism for the settlement of grievances.

The Company has a two-pronged strategy in talent development – strengthening leadership capabilities, and building and strengthening technical expertise to maintain its leadership in the water industry and contribute to national development. Programs were implemented in partnership with the line managers with the aim of ensuring an agile, enabled, mobile and highly engaged workforce that will support the corporate growth strategy.

On the Talent Management and Leadership development front, several initiatives were undertaken to ensure a strategic and holistic approach to talent development.

Cadetship Training Program: The Cadetship Training Program is a 6-month program that provides qualified fresh graduates the opportunities for specialized training and work experience that aim for excellence in business and technical skills. The end in mind is to ensure that the cadets will have strong understanding of business operations, water and used water processes and project management. Their functional competencies are honed through a 4-month immersion in their actual job assignment where they are paired with a mentor who will teach them the ropes of the business. Mentors are provided with competency learning checklist to ensure that every cadet is evaluated the same way and regular checkpoints happen monthly. A revalida with the SLT and Mancom serves as the culminating learning check for the cadets before they are fully deployed to their line functions.

Business Zone Leadership School (BZLS): This is a competency-based training to ensure a steady supply of competent talents in the East Zone Business Operations who can assume the Business Zone Manager (BZM) role as needed by the business.

Succession Management: Manila Water has strengthen its succession management process to further strengthen the senior management pool of the organization. Talents are assessed, received deliberate development interventions such as Individual Development Plan (IDP), stretched assignments and coaching to accelerate their development. Talent Reviews are conducted annually with line managers across the organization to identify and develop talents to assume current and emerging roles. This process has been integrated with the New Business Operations, in the aim that they may become a talent source for the Group.

Complementing the efforts on leadership development, the same level of focus is given to technical roles where talents occupying highly technical positions are likewise given technical development through the Manila Water University's Center for Technical Excellence. It aims to ensure that the Company strengthens the technical competencies of its talents in its fields of operations.

The Company ensures that its reward system is market competitive, performance-based, aligned with business strategies and results, and within regulatory parameters. In 2005, the Company extended an equal cash incentive to each employee covered by the reward system. In succeeding years, the Company further improved the system by taking care of the gaps in the distribution system and aligning the reward system with the yearend goals of the Company, which are anchored on the KPI/ BEM targets. In 2013, the Company updated its guaranteed pay structure to ensure alignment with industry practices. Also in 2013, the company enhanced its variable pay program to increase the alignment of bonus scheme with business results. The Company continues to monitor pay competitiveness and reward talents according to their achievements and contributions to the business objectives.

In 2014, the Company implemented the Talent Mobility Program which is a talent management and reward platform that allows the seamless transition of talents from one Manila Water business unit to another. The program ensures a reasonable, engaging, and competitive secondment process to Manila Water businesses covering pre-deployment, actual deployment, and repatriation benefits and support for secondees.

In 2001, pursuant to the concession agreement (CA), the Company adopted the Employee Stock Option Plan (ESOP). The ESOP was instituted to allow employees to participate directly in the growth of the company and enhance the employees' commitment toward its long-term profitability. In 2005, the company adopted an Employee Stock Ownership (ESOWN) Plan as part of its incentives and rewards system.

Also in 2005, the company's Board of Directors approved the establishment of an enhanced retirement and welfare plan. The plan is being administered by a Retirement and Welfare Plan Committee, which also has the authority to make decisions on the investment parameters to be used by the trustee bank.

Over and above these benefit and reward schemes, the Company gives recognition for employees who best exemplify the Company's culture of excellence through the Chairman's Circle (C2) Awards for senior managers, the President's Pride due to Performance (P3) honors for middle managers and the Huwarang Manggagawa (Model Employee) Awards for the rank-and-file employees. Eight (8) of the Company's model employee awardees have also been awarded 'The Outstanding Workers of the Republic' (TOWER) Award by the Rotary Club of Manila from 1999 to 2009, by far the most number of awards won by any single company over that period.

The exemplary performance of its employees has earned for Manila Water several awards and recognitions. Over the past seventeen years, the Company has been the recipient of numerous awards. A landmark recognition was earned by Company when it was cited the 2006 Employer of the Year by the People Management Association of the Philippines. Another prestigious award earned by the Company was the Asian Human Capital Award given by the Singaporean government in 2012. The 2006 Employer of the Year honors were bestowed upon Manila Water for providing a remarkable example of how a group of much-maligned government workers was transformed into a thoroughly efficient organization that is now a leader in its industry. The Asian Human Capital Award, is one of the biggest recognition earned by the Company as an employer and is an award that is so difficult to obtain due the stringent standards of its giver, the Singaporean Ministry of Manpower. However, the comprehensive selection process did not prevent Manila Water from becoming the first-ever Filipino company to capture the elite honors when the Singaporean government deemed the Company worthy of the award for harnessing its people in transforming from a languishing water service provider into a world-class water and used water company, citing not only its accomplishments but also the way it turned around its business using its human resource.

In 2014, the Company bagged the following awards and recognitions: One of 20 Global Growth Companies (GGC) in East Asia – World Economic Forum (May 2014); No. 2 in the 2014 Sustainability Ranking – Channel NewsAsia (November 2014); Asia's Icon on Corporate Governance – Corporate Governance Asia (November 2014); 1st in Innovation in Water, Wastewater and Stormwater Network Modelling and Analysis for the Marikina North STP Project - Bentley Systems, Inc.'s Be Inspired Awards (November 2014); PSE Bell Award for Corporate Governance, Hall of Fame – Philippine Stock Exchange (November 2014); Asia Geospatial Excellence Award – Asia Geospatial Forum (November 2014); Philippine Esri Best Overall Map Award for 'The Business Risk Exposure Assessment of Manila Water Network

Asset Project Map' – Philippine Esri User Conference and 2nd Philippine Esri Education GIS Conference (September 2014); First Don Emilio Abello Energy Efficiency Award for the San Juan Pumping Station – Department of Energy (October 2014); IABC Quill Awards, Awards of Excellence and Awards of Merit for various business communication programs – International Association of Business Communicators (IABC) Philippines (2014).

In April 2014, the Laguna Lake Development Authority cited the following employees as Outstanding Pollution Control Officers – Blue Ratee for the 7 Sewage Treatment Plants of Manila Water: Sharon B. Cerbito - North Septage Treatment Plant (San Mateo); Jimaima M. Hoque - Sikatuna STP; Jocelyn M. General (PCO), Johannes Paulus O. Costales (Plant Manager) - Fisheries STP; John Von Wernher C. Dela Cruz - Pagasa STP, Heroes' Hill STP; Ninya Kristina L. Cabico - Belarmino Stp, Palosapis STP; and Jeremaine V. Esguerra - East Ave STP. In August 2014, the Department of Health also gave the Typhoon Yolanda 'Unsung Heroes' Plaque of Recognition for Manila Water's Mobile Treatment Plant Operations.

In 2014, Manila Water was given the ISO 50001 Certification for Energy Management System (April 2014). Manila Water was the first Philippine company to receive this certification. As of 2015, Manila Water has the following ISO Certifications: ISO 50001: 2011 Energy Management System (ENMS) for five (5) water supply and five (5) used water facilities; ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System, and OHSAS 18001:2007 Occupational Health and Safety Management System (QEHSMS) for nine (9) water supply and six (6) used water facilities, and two (2) support departments (Laboratory and Maintenance Services); and ISO/IEC 17025:2005 for the Company's Laboratory Management System.

In 2015, the awards and recognitions received by the Company include the following: Awards and Citations for Corporate Governance and Management (2015 One of ASEAN Top 50 Publicly Listed Companies, ASEAN Corporate Governance Conference and Awards; 2015 9th ING-FINEX CFO of the Year for Mr. Luis Juan B. Oreta); Awards and Citations for Corporate Social Responsibility and Sustainability (2015 Change the World List (Ranked No. 29 out of 51), Fortune; 2015 One of Top Corporate Social Responsibility (CSR) Advocates in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; 2015 Winner, Sustainability Strategy and Resource Efficiency Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA); 2015 Runner-up, Supply Chain Sustainability Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA)); Awards and Citations for Operations and Technical Management (2015 Asia Geospatial Excellence Award for the Critical Activity Review and Geographic Information System (GIS) Integration, Asia Geospatial Forum; 2015 Special Award for Performance in Energy Efficiency and Conservation for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Award of Recognition for ASEAN Energy Awards Competition for Balara Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Award for Performance in Energy Efficiency and Conservation for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Energy Manager Award (Mr. Rolando Mosqueda, San Juan Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Special Award for Performance in Energy Efficiency and Conservation for Kingsville Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy); **Awards and Citations for Communications (**2015 Gold Anvil Award and Silver Anvil Awards, 50th Anvil Awards, Public Relations Society of the Philippines (PRSP); 2015 Awards of Excellence and Awards of Merit, Quill Awards, International Association of Business Communicators (IABC) Philippines); **Others (Subsidiaries) (**2015 Case Study Category Winner of the Public-Private Partnerships (PPP) Short Stories Competition for Laguna

Water's Alternative PPP Model: The Laguna Water Story, World Bank Group and the Public-Private Infrastructure Advisory Facility (PPIAF)).

In 2016, the awards and citations received by the Company include the following: Awards and Citations for Corporate Governance and Management (2016 PSE Bell Award for Corporate Governance, Philippine Stock Exchange; 2016 Governance Awardee, Investors' Forum, Institute of Corporate Directors (ICD) in partnership with Fund Managers Association of the Philippines, Philippine Investment Funds Association, Trust Officers Association of the Philippines and PJS Corporate Support Inc.; 2016 Risk Management Professional of the Year Award for Ms. Ma. Victoria P. Sugapong, Ayala Risk Awards; 2016 Delivering Value through Risk Management Award for "The Big One: The East Zone Earthquake Impact and Risk Reduction (EZEIRR) Study," Ayala Risk Awards); Awards and Citations for Operations and Technical Management (2017 Computerworld Premier 100 Technology Leader for Mr. Rodell A. Garcia; 2016 Certified National Expert for Pumping System Optimization for Mr. William Alcantara Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Citation Award for Kingsville Pumping Station Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Chairman's Prize for Healthy Family Purified Water, Ayala Innovation Excellence Awards; 2016 Innovation Excellence Award for the Demand-Based Network Management (DBNM) System, Ayala Innovation Excellence Awards; 2016 CIO 100 (US) Awardee for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, CIO 100 Awards, CIO Asia; 2016 CIO 100 Index (Asia) for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, 15th Annual CIO Asia Awards, CIO Asia; 2016 People's Choice Award and Best Overall Map for Cartographic Design and Analytic Presentation, ESRI Philippines GIS User Conference Map Gallery Competition); Awards and Citations for Corporate Social Responsibility and Sustainability (2016 One of Top 3 Most Sustainable Corporations, Channel NewsAsia Sustainability Ranking; 2016 Unilever Global Development Award for "Tubig Para Sa Barangay", Annual Responsible Business Awards, Business in the Community (BITC) Network of the United Kingdom; Awards and Citations for Communications (2016 Top Award in Communication Management for Boracay Water's "Lingap Para Sa Katutubo," Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines; 2016 Special Award for Excellence in PR for Social Good for "Toka Toka: The First and Only Used Water Advocacy in the Philippines," Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Gold Anvil Awards and Silver Anvil Awards, Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Quill Awards of Excellence and Awards of Merit, Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines)

In 2017, the Company was awarded with the following: 52nd Anvil Awards (Public Relations Society of the Phils.): Gold Anvil Award - Manila Water's 2016 Corporate Video; Gold Anvil Award - Clark Water's Ahon Pinoy Program in Sitio Monicayo; Silver Anvil Award - Boracay Water's Amot Amot (Toka Toka) Sa Malimpyong Boracay; Silver Anvil Award - Laguna Water's Inauguration of the Laguna Wellfield; Silver Anvil Award - The Laguna Water Story Video; Silver Anvil Award - The Month-Long and Nationwide Celebration of the 2016 Global Handwashing Day; Rodell Garcia, Named one of 2017 Computerworld Premier 100 Technology Leaders; 'Kampeon ng Katubigan' Award, 2017 World Water Day Awards (organized by Maynilad and the National Water Resources Board); No. 1 Best Managed Utilities Company in Asia, 17th Annual Asia's Best Companies, Finance Asia; 15th Philippine Quill Awards (International Association of Business Communicators): Quill Award of Excellence – Si Rungis at Si Linis: Ang Kwento ng Dalawang Patak ng Tubig; Quill Award of Excellence - Manila Water's 2016 Corporate Video; Quill Award of Merit – Gawad Iwas-Lunas Risk Management Excellence Awards, Best Corporate Investor Relations (by Country) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Luis Juan Oreta, Asia's Best CFO (Investor Relations) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Outstanding Blood Services Partner of the Year Award, Blood Donors Recognition Ceremony, Philippine Red Cross; Ferdinand Dela Cruz, 2017 Most Distinguished Alumnus Award, University of the Philippines Alumni Engineers (UPAE); Clark Water, One of Top Community Care Companies in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; Award of Excellence for 10 Million Safe Man-Hours, Safety Organization of the Philippines Inc. (SOPI); 2017 Don Emilio Abello Energy Efficiency Awards (Department of Energy): Special Award - Balara Pumping Station, Special Award - San Juan Pumping Station, Outstanding Award - Lucban Pumping Station, and Outstanding Energy Manager Award - John Paul Galman.

For 2018, Manila Water was awarded with the following: The Asset Platinum Award (Excellence in Environmental, Social and Governance Practices), Top 50 ASEAN Publicly Listed Companies (PLC) during the 2nd ASEAN Corporate Governance (CG) Awards, 2017 Top 10 PLC, Top 5 PLC – Industrial Sector – by the Institute of Corporate Directors for the ASEAN CG Scorecard, ASEAN Energy Awards – First Runner-up for Energy Management – Building and Industries, Small and Medium Industry Category for "Project Lights-Out" at N. Domingo Pumping Station, Award of Excellence for 12.7 Million Safe Man-Hours without Lost-Time Accident Safety Organization of the Philippines Inc., Chairman's Prize for Emergency Reservoirs at the Ayala Innovation Excellence Awards, Enterprise Risk Programme of the Year Award during the StrategicRISK Asia-Pacific Risk Management Awards, Gold Anvil Awards – Public Relations Society of the Philippines for the 2016 Integrated Annual and Sustainability Report (PR Tools – Publications), The Marikina North Sewerage System Project Story (PR Tools – Multimedia/ Audio-Visual Presentation), Silver Anvil Awards, Public Relations Society of the Philippines for Kasangga Day: Manila Water's Customer Appreciation Program (PR Program – Consumers/ Communities), Manila Water's 20th Anniversary Corporate Video and Mural (PR Tool – Multimedia/ Audio-Visual Presentation), Clark Water's Sitio Haduan Water Project (PR Program – Indigenous People) Boracay Water's Lingap Eskwela (PR Program – Communities/Schools) Laguna Water TSEK ng Bayan!: Tamang Sanitasyon Equals Kalinisan, Kalusugan at Kaunlaran ng Bayan (PR Program – Consumers/Communities), Quill Award of Excellence by the International Association of Business Communicators Philippines for the 2016 Integrated Annual and Sustainability Report (Communication Skills – Publications), and Quill Award of Merit by the International Association of Business Communicators Philippines for Manila Water's 20th Anniversary Corporate Video (Communication Skills – Audio-Visual Category).

Related Party Transactions

To further instill the Company's policies on related party transactions, the Board adopted the Policy on Related Party Transactions (the "RPT Policy"). The RPT Policy confirms that the Company and its subsidiaries shall enter into any related party transactions solely in the ordinary course of business, on ordinary commercial terms, and on the basis of arm's length arrangements, which shall be subject to appropriate corporate approvals and actions of the Company or the related parties, as the case may be.

Any related party transactions entered into by the Company or its affiliates shall be in accordance with applicable law, rules and regulations, and the RPT Policy. Related party transactions entered into by the Company with one or more of its directors or officers are voidable at the option of the Company, unless the transaction is deemed fair and reasonable under the circumstances and at arm's length, and the procedure for the procurement and approval for similar transactions was strictly complied with.

The RPT Policy provides for the process of approving related party transactions, as well as the implications for violations. In addition, the RPT Policy prohibits related party transactions involving loans and/or financial assistance to a director and loans and/ or financial assistance to members of the Management, except when allowed pursuant to an established Company benefit or plan. Under the RPT Policy, the approval of the Related Party Transactions Committee is required for material related party transactions.

Risks Disclosure

2018 TOP ENTERPRISE RISKS	MITIGATION STRATEGIES
POLITICAL AND REGULATORY / COMPLIANCE Failure to manage regulatory and socio-political uncertainties that may adversely affect the organization; Failure to meet regulatory requirements / obligations resulting to penalties, fines etc.	Programs have been implemented to ensure control of regulatory, socio-political and compliance risks at both operational and strategic levels. Enhanced stakeholder relationship management has been given key priority, with regular coordination and strategic direction setting undertaken with groups involved in stakeholder engagement at the corporate and enterprise levels. There were organizational and process changes to improve the regulatory compliance of the organization. The document management system has been enhanced to improve readiness in regulatory review and audit..
RATE REBASING Failure to manage the rate rebasing process leading to unfavorable ruling by regulators, negative investor perception, loss in value and unrealistic rate rebasing commitments.	The Business Plan was approved on September 27, 2018 with a partial award of tariff to be implemented in the years of 2018, 2019, 2020, 2021 and 2022. Regular coordination meetings with the MWSS Regulatory and Corporate Offices were conducted involving discussions on medium-term water sources, corporate income taxes and other issues relative the concession. Key concession guidelines are developed to ensure that rate rebasing audits in the future will be facilitated in accordance with the CA.
WATER SUPPLY Failure to ensure adequacy, security, quality and reliability of water supply.	Activities are being done to further increase adequacy, security, quality, reliability and efficiency of the current water supply system such as the development of medium-term water sources, rehabilitation of deep wells, weekly monitoring and investigation of non-revenue water (NRW) contributors, weekly monitoring of dam water levels, preventive and corrective maintenance of dam facilities, aqueducts and water treatment facilities.

2018 TOP ENTERPRISE RISKS	MITIGATION STRATEGIES
BUSINESS CONTINUITY Failure to ensure recovery and continuity of business operations through a comprehensive business continuity management plan.	A project team has been established and a consultant has been engaged to enhance the Company's business continuity management system. There were organizational changes to improve the resiliency of the Company. Drills are regularly conducted following contingency standards, procedures and processes which increased readiness and awareness of employees on emergency protocols. Emergency response plans are continuously reviewed and enhanced resulting in continuous operations of facilities even during natural calamities such as floods and incidents such as power interruptions.
CAPEX EXECUTION Failure to meet CAPEX targets within the approved cost, time and quality.	Monitoring of project milestones is being done to ensure timely completion of projects. An Enterprise Portfolio and Project Management System (EPPM) is implemented to improve project visibility. Manila Water conducts a rigorous review and approval process for project approval, variation orders and time extensions. Project management is risk-based such that review and reporting frequency, and escalation levels depend on a project's risk level. In addition, process improvements were implemented to eliminate repetitive tendering and approval activities.
NEW BUSINESS OPERATIONS Failure to operate new businesses properly as a result of poor integration, planning and execution.	The Enterprise Functional Council (EFC) was created to enable the Enterprise Group Directors, with no line relationship to the subsidiaries, to enforce functional standards across the business units. The EFC provides a venue for subject matter experts to share best practices. A Subsidiary Operations Group Director (SOGD) was appointed to oversee all operating subsidiaries.
NEW BUSINESS DEVELOPMENT Failure to launch significant new businesses to meet current and future business objectives.	A Regional Business Development structure is in place to provide more focus to business expansion opportunities. A comprehensive project development process and framework has been instituted, determining specific parameters, opportunities, and initiatives required that not only increase return on effort, but also improve the overall hit rate of project closure. The specific intent is to deliberately establish a pipeline of projects with significant size, economies of scale, and clear synergy with existing and established business units. Project viability is evaluated through a multi-stage approval process, assessing resource allocation and risk, which is subsequently considered in the determination of the cost of capital and appropriate development costs.

2018 TOP ENTERPRISE RISKS	MITIGATION STRATEGIES
PLANNING AND EXECUTION Failure to plan and execute major initiatives in a systematic and well-coordinated manner leading to non-achievement of business and financial objectives;	An Enterprise Portfolio Management Office (EPMO) is in place to provide the necessary governance structure and support to facilitate timely and effective execution of enterprise plans. The EPMO facilitates the alignment of objectives, resources, structures and systems across the various project portfolios / change initiatives.
PORTFOLIO MANAGEMENT Failure to manage the risks associated with managing a portfolio.	A Portfolio Review Committee was established to objectively assess the financial and operating performance of current business units. Policies regarding investment and divestment of resources are in place, ensuring proper resource allocation across the enterprise.
TALENT MANAGEMENT Failure to address the talent requirements of the organization to achieve current and future business objectives.	A robust succession plan is in place to ensure a strong pipeline for critical roles. The Human Capital Management System (HCMS), a unified platform for all HR services, was implemented. In addition, on-time enhancements were made on rewards programs to maintain market competitiveness while being mindful of regulatory thresholds of the business.

In order to achieve its corporate objectives, Manila Water acknowledges the need for the active management of the risks inherent in its business which should involve the entire enterprise. For this reason, Manila Water has established an Enterprise Risk Management (ERM) Program which aims to use a globally accepted approach in managing imminent and emerging risks in its internal and external operating environments. Under the ERM Program, Manila Water shall appropriately respond to risks and manage them in order to increase shareholder value and enhance its competitive advantage.

Manila Water, through its Enterprise Risk Management Department (ERIM Department), seeks to integrate risk awareness and responsibility into each level of management activities, and into all strategic planning and decision-making processes within Manila Water and its subsidiaries to support the achievement of strategies and objectives.

In its report to the Board of Directors adopted in its meeting held on February 22, 2019, the Audit Committee confirmed that:

- The Committee reviewed and approved the quarterly unaudited consolidated financial statements and the annual Audited Consolidated Financial Statements of Manila Water Company, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2018, with the Company's Management, internal auditors, and SGV & Co. These activities were conducted in the following context:

    - Management has the primary responsibility for the financial statements and the reporting process.
    - SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards.

- The Committee reviewed and approved the Management representation letter before submission to the Company's independent external auditors.
- The Committee recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditors for 2018 based on its review of SGV's performance and qualifications, including consideration of Management's recommendation.
- The Committee reviewed and approved all audit and audit-related services provided by SGV & Co. to the Company and the related fees for such services.
- The Committee discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and of SGV & Co., the results of their audits and their assessment of the Company's internal controls, and the overall quality of the financial reporting process.
- The Committee discussed the reports of the internal auditors and ensured that Management is taking appropriate actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Committee, through the audits conducted by SGV & Co. and Internal Audit, has reviewed Management's system of internal controls and the Committee found the internal control system to be adequate and effective.
- The Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
- The Committee reviewed and confirmed that the existing Audit and Internal Audit Charters are sufficient to accomplish the Committee's and Internal Audit's objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
- The Committee conducted a self-assessment of its performance to confirm that the Committee continues to meet the expectations of the Board, Management and shareholders.

Government Regulations

Through the Company's Integrated Management System which include Quality, Environment, Health and Safety and Energy Management Systems, the company meets the requirements of environmental laws and regulations which include:

- *General Environmental Safeguards*
  - Presidential Decree No. 1586 (Philippine Environmental Impact Statement System)
  - Republic Act No. 7586 – National Integrated Protected Areas System (NIPAS)
  - DENR Administrative Order No. 30, Series of 2003 (Implementing Rules and Regulations for the Philippine Environmental Impact Statement System)
  - DENR Administrative Order No. 2000-08 (Implementing Guidelines on Engineering Geological and Geohazard Assessment as Additional Requirement for ECC Applications)
  - DENR Administrative Order No. 02, Series of 2014 (Appointment/Designation of Pollution Control Officers)
  - DENR Administrative Order No. 27, Series of 2003 (Self-Monitoring Report System)
  - DENR Administrative Order No. 2017-15 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System)
  - EMB MC 2014-005 (Revised Guidelines for Coverage Screening and Standard Requirements under PEISS)

- *Water*
  - Republic Act No. 9275 or the Philippine Clean Water Act of 2004
  - DENR Administrative Order No. 10, Series of 2005 (Implementing Rules and Regulations of R.A. No. 9275)
  - DENR Administrative Order No. 35, Series of 1990 (General Effluent Standards)
  - DENR Administrative Order No. 39, Series of 2003 (Environmental Users Fees)
  - DENR Administrative Order 2016-08 (Water Quality Guidelines & General Effluent Standards)
  - DOH Operations Manual on the Rules and Regulations Governing Domestic Sludge and Septage
- *Air*
  - Republic Act No. 8749 or the Philippine Clean Air Act of 1999
  - DENR Administrative Order No. 81, Series of 2000 (Implementing Rules and Regulations of R.A. 8749)
  - EMB Memorandum Circular 2007-003 (Policy on Compliance and Permitting for Industrial Facilities Relating to Air Quality)
- *Solid Waste*
  - Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000
  - DENR Administrative Order No. 34, Series of 2001 (Implementing Rules and Regulations of R.A. No. 9003)
- *Hazardous Wastes and Chemicals*
  - Republic Act No. 6969 or the Toxic Substances, and Hazardous and Nuclear Waste Control Act of 1990
  - Philippine Drug Enforcement Agency – Republic Act 9165- Regulatory Controls in Licit Trade of Controlled Precursors and Essential Chemicals
  - Philippine National Police – License to Possess/Purchase Explosives (Chemical used in the laboratory that are ingredients/kind of explosives)
  - DENR Administrative Order No. 29, Series of 1992 (Implementing Rules and Regulations of R.A. No. 6969)
  - DENR Administrative Order 2004-36 (Revised Procedural Manual on Hazardous Waste Management)
  - DENR Administrative Order No. 22, Series of 2013 (Revised Procedures and Standards for the Management of Hazardous Waste)
  - DENR Administrative Order 2005-27 (Revised Priority Chemical List)
  - Please include DENR Administrative Order 2007-23 (Prescribing additional Requirements for the Issuance of the Priority Chemical List Compliance Certificate)
  - DENR Administrative Order for all Chemical Control Orders
  - DENR Administrative Order 2013-24 Chemical Control Order for Lead
    - DENR Administrative Order 1997-38 Chemical Control Order for Mercury & Mercury Compounds
    - DENR Administrative Order 1997-39 Chemical Control Order for Cyanide & its Compound
    - DENR Administrative Order 2004-08 Revised Regulations on the Chemical Control Order for Ozone Depleting Substances (ODS)
    - DENR Administrative Order 2000-02 Chemical Control Order for Asbestos
    - DENR Administrative Order 2004-01 Chemical Control Order for Polychlorinated Biphenyls (PCB)

- LLDA
    - Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
    - Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
    - Board Resolution No. 248, Series of 2005 (Providing Guidelines on the Use of Shoreland Areas Surrounding the Laguna De Bay)
    - Board Resolution No. 283, Series of 2006 (Resolution Providing Guidelines on Reclamation within the Shoreland of Laguna De Bay)
    - Board Resolution No. 113, Series of 1999 (Adding the Implementing Guidelines Governing the Lease of the Laguna De Bay Shoreland Areas)
    - Board Resolution No. 523, series of 2017, Adoption of Department Administrative Order 2016-08 of the DENR as the New Effluent Standards for the Continuous Implementation of the Environmental Users Fee System and Water Quality Guidelines for Surface Waters within the Laguna de Bay Region and for Other Purposes

- *Others*
    - Republic Act No. 4850 or the Act Creating the LLDA
    - Relevant LLDA Board Resolutions and Memorandum Circulars, including but not limited to Resolution No. 25, Series of 1996 (Environmental User Fee System in the Laguna de Bay Region) and Resolution No. 33, Series of 1996 (Approving the Rules and Regulations Implementing the Environmental User Fee System in the Laguna de Bay Region)
    - Presidential Decree No. 856 or the Philippine Sanitation Code
    - Implementing Rules and Regulations of the Philippine Sanitation Code
    - RA 9514 Fire Code of the Philippines
    - Philippine National Standards for Drinking Water 2007
    - NWRB Resolution No. 03-0715 0f 2015 (Approval of the revised 2015 NWRB Fees & Charges
    - PD 1067 Water Code of the Philippines
    - IRR of Water Code of the Philippines 1979
- *Social*
    - Republic Act 8371 - The Indigenous Peoples Rights Act of 1997.

Other Matters

The Group has not been involved in any bankruptcy, receivership or similar proceeding as of December 31, 2018.

Further, except as discussed above, the Group has not been involved in any material reclassification, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business. The Group is not dependent on a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the Group.

Item 2. Properties

The Group has various properties across the Philippines which are generally used in its provision of water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management services. The Group's properties are either company-owned or are required to be turned over to grantors of the Group's concession agreements.

Property, Plant and Equipment

Major property, plant and equipment of the Group are as follows:

Locations	Types of Assets
Metro Manila, Bataan, Batangas, Bicol, Bulacan, Cavite, Laguna, Nueva Ecija, Pampanga, Quezon, Rizal, Cebu, Iloilo, Negros Occidental, andDavao	Water service connection, Water network, Wells and facilities, Distribution reservoir and boosters, Transmission and distribution mainline, Sewer facilities, and Sewer network
Zamboanga	Asset management and leak detection tool
Metro Manila	Water purification and bottling facilities

Further details of the Group's property, plant and equipment are in Note 9 of the consolidated financial statements.

Assets Held in Trust under Concession Agreements

<u>MWSS</u>
The Parent Company is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company.

The Concession Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both the East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Parent Company on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 billion.

Pursuant to the terms of the Concession Agreement, new assets contributed to the MWSS system by the Company during the term of the Concession Agreement are reflected in the Company's financial statements and remain with the Company until the Expiration Date (as defined in the Concession Agreement), at which time all right, title and interest in such assets automatically vest to MWSS. The Concession Agreement allows the Company to mortgage or create security interests over its assets solely for the purpose of financing, or refinancing, the acquisition or construction of the said assets, provided that no such mortgage or security interest shall (i) extend beyond the Expiration Date of the Concession Agreement, and (ii) be subject to foreclosure except following an event of termination as defined under the Concession Agreement.

In 2015, the Parent Company engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by the Parent Company as of 2014, based on the asset registry as of December 31, 2013. Total reproduction cost as of December 31, 2015 amounted to ₱123.47 billion, with a sound value of ₱69.10 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. The lease was last renewed on October 27, 2006. On August 28, 2012, additional office space was leased by the Parent Company. Rent expense amounted to ₱32.25 million, ₱27.75 million, and ₱18.46 million in 2018, 2017, and 2016, respectively. These are included under "Occupancy costs" in the consolidated statements of comprehensive income.

In March 2015, the Parent Company and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by the Parent Company as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2016 to 2018 amounted to ₱16.20 million each year which is included under "Occupancy costs" in the consolidated statement of comprehensive income.

On July 17, 2008, the Parent Company, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligations of the Company to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the Parent Company in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by the Company, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released the Company from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where the Company is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, the Company agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either the Company or MWSS. Currently, all lenders of the Company are considered Concessionaire Lenders and are on *pari passu* status with one another.

PGL

Laguna Water is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by Laguna Water, such property shall be returned to PGL in its then condition at no charge to PGL or Laguna Water.

In 2014, Laguna Water engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2,138.38 million with a sound value of ₱1,596.19 million.

TIEZA

Boracay Water is granted the right to operate, maintain in good working order, repair, decommission and refurbish all fixed and movable property (except retained assets) required to provide the water and sewerage services under its concession agreement with TIEZA. The legal title to all these assets in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of such assets as may be determined by Boracay Water, such assets shall be returned to TIEZA in its then-current condition at no charge to TIEZA or Boracay Water.

The net book value of the facilities transferred to Boracay Water on commencement date based on TIEZA's closing audit report amounted to ₱618.24 million.

In 2015, Boracay Water engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.11 billion with a sound value of ₱793.41 million.

OWD

On October 12, 2017, Obando Water is granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD

On October 23, 2017, Calasiao is granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

Lease Commitments

Operating Leases – as a Lessee

The Group leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period. As of December 31, 2018 and 2017, the Group's future minimum lease payments are as follows:

	2018	2017
Within one year	**₱54,394,653**	₱52,548,616
After one year but not more than five years	**101,974,116**	128,680,796
More than five years	**253,990,310**	266,646,378
	₱410,359,079	₱447,875,790

Item 3. Legal Proceedings

The Company is presently involved in the following cases:

1. ***Manila Water Company, Inc. vs. The Republic of the Philippines***
In the Matter of the Notice of Arbitration to the Republic of the Philippines
Arbitration under the United Nations Commission on International Trade Law ("UNCITRAL") Rules (1976)
Permanent Court of Arbitration

On April 23, 2015, the Company served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its *Notice of Claim* of even date demanding that the Republic indemnify the Company in accordance with the indemnity clauses in Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009.

At present, the arbitration case remains pending.

2. ***Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al.***
CBAA Case No. L-69
Central Board of Assessment Appeals ("Central Board")

This is an appeal from the denial by the Local Board of Assessment Appeals of Bulacan Province (the "Local Board") of the Company's (and Maynilad Water Services, Inc.'s [Maynilad]) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of P357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. The Company is being assessed for half of the amount.

In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed both the Concessionaires (the Company and Maynilad) that their total real property tax accountabilities have reached P648,777,944.60 as of December 31, 2007. This amount, if paid by the Concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The Concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by MWSS, which is both a government-owned and controlled corporation and an instrumentality of the National Government exempt from taxation under the Local Government Code.

The Central Board conducted a hearing on June 25, 2009. In the said hearing, the parties were given the opportunity and time to exchange pleadings regarding a motion for reconsideration filed by the Municipality of Norzagaray, Bulacan to have the case remanded to and heard by the Local Board rather than by the Central Board.

The Company and Maynilad have already concluded presentation of their respective evidence and witnesses, while MWSS waived its right to present evidence.

On August 12, 2015, the newly-constituted members of the Central Board's Panel conducted an ocular inspection of the subject properties. On September 17, 2015, the Province of Bulacan presented its first witness, Ms. Gloria P. Sta. Maria, the former Municipal Assessor of Norzagaray, Bulacan. The Company, Maynilad and MWSS have completed their cross-examination of Ms. Sta. Maria.

In an Order dated July 15, 2016, the Central Board denied the motion for reconsideration of the Municipality of Norzagaray, Bulacan for which it filed a Petition for Certiorari with the Court of Tax Appeals (CTA) on August 24, 2016. In compliance with the directive of the CTA, the Company filed a Comment dated January 3, 2017. MWSS and Maynilad have likewise filed their respective Comments.

On January 31, 2017, the CTA requested the parties to file their respective memoranda. The Company filed its Memorandum on March 27, 2017. Maynilad filed its Memorandum dated March 16, 2017 while the Office of the Solicitor General (OSG) filed its Memorandum last March 29, 2017.

On May 10, 2018, the CTA rendered a Decision denying the Petition for Certiorari finding that there was no grave abuse of discretion on the part of the Central Board.

At present, the Company has not received any motion for reconsideration or appeal from the Municipality of Norzagaray, Bulacan of the said Decision.

To date, this case remains pending.

3. ***Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al.***
CA-G.R. No. 112023 (DENR-PAB Case No. NCR-00794-09), Supreme Court

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against the Company, Maynilad and the MWSS for alleged violation of R.A. No. 9275 (Philippine Water Act of 2004), particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On April 22, 2009, the PAB, through the Department of Environment and Natural Resources (DENR) Secretary and Chair Jose L. Atienza, Jr., issued a Notice of Violation finding the Company, Maynilad and MWSS to have committed the aforesaid violation of R.A. 9275. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical

Conference, the Company, MWSS and Maynilad explained to the PAB their respective positions and it was established that DENR has a great role to play to compel people to connect to existing sewage lines and those that are yet to be established by the Company and Maynilad.

In addition to the explanations made by the Company during the Technical Conference, the Company together with MWSS and Maynilad wrote a letter dated May 25, 2009 and addressed to the respondent Secretary where they outlined their position on the matter.

In response to the May 25, 2009 letter, the OIC Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective Comments. The Company thereafter submitted its letter dated July 13, 2009 to the PAB where it detailed its compliance with the provisions of R.A. No. 9275 and reiterated its position that the continuing compliance should be within the context of the Company's Concession Agreement with MWSS. Despite the explanations of the Company, the PAB issued an Order dated October 7, 2009 which found the Company, Maynilad and MWSS to have violated R.A. 9275. The Company filed its Motion for Reconsideration dated October 22, 2009 which the PAB denied in an Order dated December 2, 2009. Hence, the Company filed its Petition for Review dated December 21, 2009 with the Court of Appeals. The Company thereafter filed an amended Petition for Review dated January 25, 2010.

In a Decision dated August 14, 2012, the Court of Appeals denied the Company's Petition for Review and on September 26, 2012, the Company filed a Motion for Reconsideration of the Court of Appeals' Decision.

On April 29, 2013, the Company received the Resolution dated April 11, 2013 of the Court of Appeals, denying its Motion for Reconsideration.

The Company has filed its appeal from the Decision and Resolution of the Court of Appeals in the form of a Petition for Review on Certiorari with the Supreme Court on May 29, 2013. In this Petition, the Company reinforced its argument that it did not violate Section 8 of R.A. 9275 as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the Court of Appeals.

Per Resolution dated September 19, 2017, the Supreme Court acted on the Manifestation and Motion to Withdraw Appearance dated August 1, 2017 filed by Atty. A. Edsel C.F. Tupaz, counsel for petitioner Water for All Refund Movement, Inc. in G.R. No. 212581, and resolved to: (a) note the Manifestation, stating that he has been representing Petitioner Water for All Refund Movement in a pro bono capacity since the commencement of the case but he had recently been appointed to a public office since March 13, 2017; (b) defer action on the Motion to Withdraw Appearance; (c) grant Atty. Tupaz's request that notice relative to the instant Manifestation and Motion to Withdraw Appearance be sent to his current address of record; (d) note the Letter dated August 15, 2017 submitting the compact disc containing the soft copy of the aforementioned Manifestation and Motion to Withdraw.

To date, this case remains pending.

4. *The Consolidated Cases:*

A. Waterwatch Coalition, Inc. et al. vs. Ramon Alikpala, MWSS, et al., G.R. No. 207444

B. Water for All Refund Movement vs. MWSS, et al., G.R. No. 208207

C. Javier vs. MWSS, et al., G.R. No. 210147

D. ABAKADA Guro Party List vs. MWSS, et al. GR No. 213227

E. Neri Colmenares and Carlos Isagani Zarate, Representatives of Bayan Muna Partylist vs. Cesar V. Purisima, in his capacity as the Secretary of Finance, et al. G.R. No. 219362

A. The Waterwatch Petition:

On June 25, 2013, the Company received a copy of the Petition for Certiorari and Mandamus with Prayer for the Issuance of a Temporary Restraining Order dated June 20, 2013 filed by the Waterwatch Coalition ("Waterwatch"), Inc. The issues raised in the Petition are as follows:

(a) The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires which insist they are private entities and mere agents of the MWSS;
(b) The Concessionaires are public utilities;
(c) The Concession system of MWSS, the Company and Maynilad is in a state of regulatory capture;
(d) The Concession Agreements are State Contracts and cannot invoke the non-impairment clause in the Constitution;
(e) The Concessionaires have no vested property rights; and
(f) MWSS is in a state of regulatory capture.

B. The WARM Petition

On August 14, 2013, the Company received a copy of a Petition for Certiorari, Prohibition and Mandamus dated August 5, 2013 filed by the Water for All Refund Movement (WARM). The issues raised in the WARM Petition are as follows:

(a) The Concession Agreements unduly grant to the Concessionaires the exercise of governmental powers even without the benefit of legislation or, at the very least, a franchise for such purpose;
(b) Concessionaires are performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
(c) Concessionaires are public utilities, not mere agents or contractors of the MWSS;
(d) Public utility or not, Concessionaires may not pass on their income taxes to the water consumers as expenditures; and

(e) The Concession Agreements cannot cause the creation of a Regulatory Office, a public office performing public functions, or even source its funding from the Concessionaires, which are the very same entities it is supposed to regulate.

C. The Javier Petition

On January 3, 2014, the Company received a copy of a Petition for Certiorari, Prohibition and Mandamus dated December 13, 2013 filed by the Virginia S. Javier, et.al, ("Javier") who were suing in their capacity as consumers/customers of the Concessionaires. The issues raised in the Javier Petition are as follows:

(a) The Concession Agreements are unconstitutional and/or ultra vires for being delegations of sovereign power without the consent of Congress;
(b) The Concessionaires are public utilities;
(c) Respondents have improperly implemented RORB calculations for purposes of establishing tariffs;
(d) The Concession Agreements are not protected by the non-impairment clause;
(e) Respondents should be enjoined from proceeding with arbitration; and
(f) MWSS is in a state of regulatory capture.

On February 4, 2014, the Company received a copy of the Supreme Court's Resolution dated January 14, 2014 consolidating the three (3) cases. The Company filed a Consolidated Comment on the aforesaid Petitions. The arguments raised by the Company in response to the Petitions are as follows:

(a) The Concession Agreements are valid, legal and constitutional as these have statutory basis and do not involve any grant or delegation of the "inherent sovereign powers of police power, eminent domain and taxation";
(b) The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (MWSS);
(c) The Concession Agreements are protected by the non-impairment clause. Petitioners cannot invoke police power for courts to nullify, modify, alter or supplant the Concession Agreements. Police power is exercised by Congress, through the enactment of laws for the general welfare. No such law or enactment is involved in this case. If and when Congress passes a law affecting the Concession Agreements, only then will it be proper to examine the interplay between police power vis-à-vis due process and the non-impairment clause;
(d) The rates set under the Concession Agreements are compliant with the 12% rate of return cap in the MWSS Charter. Not being public utilities but mere agents of the MWSS, the Concessionaires are not subject to audit by the Commission on Audit (COA); and
(e) The Concessionaires are authorized to pass on corporate income taxes to water consumers.

D. The ABAKADA-Guro Petition

On September 22, 2014, the Company received another Petition for Certiorari and Prohibition filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. This Petition was likewise consolidated with the Waterwatch, WARM and Javier Petitions due to similarities in the issues raised.

In particular, the Petition questions the constitutionality of the Concession Agreements entered into by MWSS with both the Company and Maynilad and the extension of the Concession Agreements for another fifteen (15) years from year 2022. The Petition also seeks to nullify the arbitration proceedings between MWSS and the Concessionaires. The Company has filed its Comment on the Petition.

In its Resolution dated April 21, 2015, the Supreme Court directed the parties to file their respective memoranda within thirty (30) days from notice thereof. After moving for the extension of the deadline on several occasions, on September 18, 2015, the Company filed its Memorandum.

Maynilad, MWSS and Waterwatch have likewise filed their respective Memoranda. Petitioners WARM, ABAKADA-Guro and Javier, et al. have manifested that they would adopt their respective Petitions as their Memoranda.

E. The Colmenares Petition

This case is a Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated August 6, 2015 filed by petitioners Neri Colmenares and Carlos Isagani Zarate, representatives of Bayan Muna Partylist. The Petition was filed primarily for the following purposes:

(a) To nullify, supposedly for being unconstitutional, the Arbitration Clause contained in the Concession Agreements entered into by MWSS with the Company and Maynilad, respectively;
(b) To nullify, supposedly for being unconstitutional, the Sovereign Guarantee contained in the Undertaking Letters executed by the Republic in favor of the Concessionaires; and
(c) To declare that the Concessionaires' payments for corporate income taxes cannot be deducted as part of their operational expenditures; and
(d) To prevent Secretary Cesar V. Purisima and President Benigno Simeon C. Aquino III from processing the Concessionaires' claims under the Sovereign Guarantee.

On November 16, 2015, the Supreme Court issued a Resolution consolidating the Colmenares Petition with the Waterwatch, WARM, Javier, and ABAKADA-Guro Petitions and directing the respondents to file their respective Comments. On November 23, 2015, the Company filed its Comment/Opposition (Re: Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated August 6, 2015). On November 13, 2015, the MWSS and MWSS-Regulatory Office filed their Comment. On November 28, 2015, Maynilad filed its Comment with Opposition (To the Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction).

On March 10, 2016, the Company received the Manifestation dated March 7, 2016 of the OSG requesting that the Department of Finance and the said Office be excused from filing a Comment on the instant Petition in view of the pendency of the arbitration proceedings related to the Undertaking Letters.

On May 26, 2016, the Company received Maynilad's Counter-Manifestation and Motions dated May 17, 2016, praying that the OSG be required to comment on the instant Petition. Maynilad also prayed that the instant case be set for oral arguments in accordance with the Rules of Court.

In its Resolution dated March 15, 2016, the Supreme Court noted and granted the Manifestation dated March 7, 2016 of the OSG and excused the same from filing a Comment on the instant

Petition. On June 16, 2016, the Company received Maynilad's Motion for Reconsideration dated June 7, 2016 praying that the Supreme Court reconsider its Resolution dated March 15, 2016.

On July 25, 2016, the Company filed its Manifestation and Motion of even dated ("Manifestation and Motion"), where the Company joined Maynilad in seeking a reconsideration of the Supreme Court's Resolution dated March 15, 2016 and moved to set the consolidated cases for oral arguments. The Company's Manifestation and Motion was noted in the Supreme Court's Resolution dated August 2, 2016.

On August 15, 2016, the Company received the Manifestation dated August 10, 2016 of the Secretary of Finance Carlos G. Dominguez III, represented by the OSG, stating that he is adopting the position taken by his predecessor in office as stated in the Manifestation dated March 7, 2016, that the Secretary of Finance and the OSG be excused from filing a comment on the instant Petition.

The Manifestation and Motion filed by the Company, as well as the Manifestation dated August 10, 2016 filed by Secretary of Finance Carlos G. Dominguez III, were noted in the Supreme Court's Resolution dated August 23, 2016.

In a Resolution dated September 19, 2017, the Supreme Court denied Maynilad's Motion for Reconsideration. Maynilad again filed another Motion for Reconsideration dated November 6, 2017 to apprise the Supreme Court that in the interim, the arbitration between the Republic and Maynilad had been resolved by the issuance of an award in favor of Maynilad. Thus, according to Maynilad, the OSG can no longer use said arbitration proceeding as an excuse from filing its comment. Last December 12, 2017, the Company filed a Manifestation and Comment in support of Maynilad's Motion.

In a Resolution dated March 6, 2018, the Supreme Court granted the Motion for Reconsideration dated November 6, 2017 filed by Maynilad and the Motion for Leave to File Manifestation and Comment dated December 12, 2017 by the Company.

On July 31, 2018, the Company received MWSS' Comment dated July 18, 2018 on the Petition.

To date, the foregoing cases remain pending.

5. Allan Mendoza et al. vs. Manila Water Company, Inc.
Special Civil Action No. R-QZN-14-04863-SC, RTC QC Branch 77

On May 23, 2014, Allan Mendoza, et al. ("Petitioners") filed a Petition for Mandamus under Rule 65 of the Rules of Court praying that the Company and its President, Mr. Gerardo C. Ablaza, Jr. be commanded to: (a) reinstitute the Welfare Fund, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan; to make an accounting, and reimburse and/or return to the MWC Welfare Fund the employer's share as of December 2005 which was diverted to the MWC Retirement Plan; and to implement the progressive employer share from the time the Welfare Fund was dissolved in 2005 up to the time when the Fund is finally reinstituted for the petitioners who are still employed, and up to the end of employment for those who are already separated on account of resignation, retirement, termination, etc.; (b) to implement correctly the benefits of petitioners which are guaranteed against non-diminution, as indicated in Exhibit "F" of the Concession Agreement; (c) to allow petitioners to accumulate their paid leaves of fifteen (15) days of vacation leave and fifteen (15) days of sick leave annually; and (d) to pay interest on the foregoing at 12% per annum.

In an Order dated June 11, 2014, the Company and Mr. Ablaza were directed to file their Comment. On June 27, 2014, the Company and Mr. Ablaza filed their Comment and argued as follows: (a) the court has no jurisdiction over the subject matter of the instant Petition; being essentially an action for payment of employee benefits, the Labor Arbiters under the National Labor Relations Commission have original and exclusive jurisdiction over this case; (b) petitioners have resorted to mandamus in order to avoid payment of filing fees for a collection case; thus, the court has not acquired jurisdiction over the case for failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) petitioners are not entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) the case should not be treated as a class suit; (f) the claims of petitioners have prescribed; (g) the Complaint should be dismissed because petitioners' alleged cause of action is barred by laches; and (h) petitioners have received benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS.

In an Order dated July 28, 2014, the Court set the presentation of petitioners' evidence on September 10, 2014 and October 8, 2014. However, the September 10, 2014 hearing was cancelled because the branch clerk of court, the clerk-in-charge of civil cases, the court interpreter and the court aide of the branch were attending a seminar for the e-Court system.

Thereafter, petitioners filed a Motion to Cancel (the October 8, 2014) Hearing and to Allow Parties to Submit Memoranda. In their Motion, petitioners claimed that the issues for resolution in the instant case are legal questions and prayed that the parties be required to submit Memoranda in lieu of presentation of evidence.

On October 1, 2014, the Company and Mr. Ablaza filed a Comment on the Motion and stated that they do not entirely agree with petitioners' statement as they have made factual allegations in their Petition that would need to be proven in a full-blown trial. These allegations include, among others, that the employees have suffered diminution of benefits and that the Company had allegedly used part of the Welfare Fund as seed money for the Retirement Fund.

However, the Company and Mr. Ablaza proposed that the following legal issues be initially disposed of by way of simultaneous Memoranda to be submitted by the parties, namely, whether or not: (a) the court has jurisdiction over the subject matter of the Petition being essentially an action for payment of employee benefits; (b) the court has acquired jurisdiction over the case considering the failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) the petitioners are entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) this case should be treated as a class suit; (f) the claims of petitioners have prescribed; and (g) the Petition should be dismissed because petitioners' alleged cause of action is barred by laches.
On October 8, 2014, the scheduled hearing for the initial presentation of petitioners' evidence was cancelled reset to March 5, 2015 due to the absence of the presiding judge. At the March 5, 2015 hearing, petitioners reiterated their prayer that the parties be required to submit Memoranda in lieu of presentation of evidence considering that only legal questions are involved. The Company and Mr. Ablaza again countered that petitioners have made factual allegations in their Petition that would need to be proven in a full-blown trial.

The presiding judge stated that the proceedings for a petition for mandamus are summary in nature. Thus, he directed the parties to simultaneously submit their respective Memoranda within sixty days, or by May 5, 2015. He directed the parties to address all legal issues and if there are factual issues, to attach judicial affidavits of witnesses. Upon submission of the Memoranda, he will determine if a party would be allowed to cross-examine the other's witnesses or if he would still conduct oral arguments.

The parties subsequently filed their respective Memoranda.

In an Order dated September 14, 2015, the parties were directed to manifest whether they would be submitting the case on the basis of their respective Memoranda or if they would request for a trial on the merits. At the October 12, 2015 hearing before the clerk of court, the Company and Mr. Ablaza, through counsel, reiterated that they would prefer if the issues on jurisdiction and other grounds for dismissal be resolved first before deciding whether or not the case should go to trial. The clerk of court noted this manifestation for discussion with the presiding judge.

The trial court thereafter set the case for initial trial on March 30, 2016. During the hearing, both parties stated that their respective positions are already set forth in the Memorandum each submitted. The issues on jurisdiction and other grounds for dismissal were submitted for resolution. In an Order dated April 1, 2016, the trial court dismissed the case, without prejudice, on the ground that the Petition filed by Mr. Mendoza failed to state a cause of action for mandamus. In an Order dated July 14, 2016, the trial court denied the Motion for Reconsideration of the petitioners.

Mr. Allan M. Mendoza proceeded to file a Petition for Certiorari with the Court of Appeals. On October 24, 2016, the Court of Appeals ordered the counsel of Mr. Mendoza to submit an Amended Petition, this time impleading the names of the other petitioners, stating their actual addresses, and appending copies of their Special Powers of Attorney. On December 1, 2016, the Amended Petition was filed.

In a Resolution dated January 19, 2017, the Court of Appeals directed the counsel for the petitioners to submit the addresses of some of the co-petitioners and to implead one additional petitioner. On February 21, 2017, the Company received a Second Amended Petition filed by petitioners supposedly to comply with the directive of the court.

In a Resolution dated September 8, 2017, the Court of Appeals directed the Company to comment on the Amended Petition. The Company filed its Comment on October 30, 2017.

The Court of Appeals thereafter referred the parties to compulsory mediation, which however failed. In a Resolution dated March 6, 2018, the parties were directed to file their respective Memoranda. The Company filed its Memorandum on May 24, 2018.

In a Resolution dated July 31, 2018, the Court of Appeals admitted the Memorandum filed by the Company. However, the Memorandum filed by the Petitioners was deemed not filed, as their Motion for Extension of Time to file the same was unsigned. The Petitioners were directed to show cause why their Memorandum should be admitted despite being filed late. In a Compliance with Manifestation and Motion to Admit, Petitioners' counsel explained that late filing was an oversight caused by counsel's recent surgery and the medications prescribed, and prayed that Petitioners' Memorandum be admitted.

To date, this case remains pending.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth (4th) quarter of 2018 to a vote of security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

On March 18, 2005, the Company was listed in the Philippine Stock Exchange and its listed shares have since been actively traded therein. The high and low sale prices for each quarter that the Company's shares have been listed for the past three years are as follows:

	HIGH / LOW PRICE					
	2018		**2017**		**2016**	
	High	Low	High	Low	High	Low
1st Qtr	29.15	25.70	31.60	28.65	24.00	27.40
2nd Qtr	28.35	25.05	33.05	30.00	26.00	28.25
3rd Qtr	27.70	23.45	32.50	30.20	25.65	29.80
4th Qtr	28.25	24.00	32.05	27.80	27.30	32.35

Description of Major Shareholders

The Company has an authorized capital stock of ₱3.5 billion divided into 3.1 million common shares with a par value of ₱1.00 per share and 4 billion participating preferred shares (PPS) with a par value of ₱0.10 per share.

The Company had a total of 949 certificated stockholders owning at least one (1) board lot each as of December 31, 2018. The Scripless shareholders of the Company are counted under PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino). Please refer to Exhibit 1.D for the names of the top 20 holders of common shares, the number of shares held and the percentage of total outstanding shares held by each.

The Company has two (2) classes of equity: common shares and PPS. As of December 31, 2018, outstanding shares of the Company consisted of 2,064,839,617 common shares and 4 billion PPS.

Ayala Corporation

Ayala Corporation is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during its annual stockholders' meeting, stockholders ratified the amendment of the Forth Article of the Articles of Incorporation (AOI) to extend the corporate term for 50 years from January 23, 2018. The amendment to the AOI was approved by the SEC on April 5, 2017. Ayala Corporation's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. Ayala Corporation is a publicly listed company which is 47.04% owned by Mermac, Inc., 5.99% owned by Mitsubishi Corporation and the rest by the public.

Ayala Corporation is the holding company of the Ayala Group (the "Group"), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics manufacturing, industrial technologies, automotive, power generation, transport infrastructure, international real estate, healthcare, education and technology ventures.

Philwater Holdings Company, Inc.

Philwater Holdings Company, Inc. ("Philwater") was incorporated and domiciled in the Philippines and registered with the SEC on December 8, 2004 primarily to invest in shares of stock of any corporation. Philwater started commercial operations on January 1, 2005. Philwater's registered place of business is MWSS Bldg, Katipunan Road, Balara, Quezon City.

Philwater is a wholly-owned subsidiary of Ayala Corporation.

Dividends

Subject to the preferential dividend rights of the participating preferred shares (PPS), each holder of a share of stock is entitled to such dividends as may be declared in accordance with the Company's dividend policy. Under the Company's cash dividend policy, common shares shall be entitled to annual cash dividends equivalent to 35% of the prior year's net income, payable semi-annually in March and October. The Company's Board may change the cash dividend policy at any time.

The Company's Board is authorized to declare cash dividends. A cash dividend declaration does not require any further approval from the stockholders in accordance with the Corporation Code. A stock dividend declaration requires the further approval of stockholders representing not less than two-thirds (2/3) of the Company's outstanding capital stock. The Corporation Code defines the term "outstanding capital stock" to mean the "total shares of stock issued", regardless of nomenclature, classification or voting rights, except treasury shares. Such stockholders' approval may be given at a general or special meeting duly called for the purpose. Dividends may be declared only from unrestricted retained earnings. Some of the Company's loan agreements carry covenants that restrict declaration of payments of dividends under certain circumstances, such as in the event of default or if payment would cause an event of default, if certain financial ratios are not met or if payment would cause them not to be met, requiring revenues of the Company to be applied toward certain expenses prior to the payment of dividends, and other circumstances.

Within the last three years, the Company has declared the following dividends:

Declaration Date	Payment Date	Amount* (₱ thousands)	Nature of Dividends Declared
November 20, 2018	December 20, 2018	40,000	10% cash dividends to PPS
October 02, 2018	October 31, 2018	884,316	0.4283 cash dividends to common shares
October 02, 2018	October 31, 2018	171,309	0.04283 cash dividends to PPS
March 01, 2018	March 28, 2018	883,608	0.4302 cash dividends to common shares
March 01, 2018	March 28, 2018	172,080	0.04302 cash dividends to PPS

Declaration Date	Payment Date	Amount* (₱ thousands)	Nature of Dividends Declared
November 23, 2017	December 20, 2017	40,000	10% cash dividends to PPS
October 03, 2017	November 02, 2017	871,695	0.4244 cash dividends to common shares
October 03, 2017	November 02, 2017	169,760	0.04244 cash dividends to PPS
March 01, 2017	March 31, 2017	871,695	0.4244 cash dividends to common shares
March 01, 2017	March 31, 2017	169,760	0.04244 cash dividends to PPS
November 22, 2016	December 16, 2016	40,000	10% cash dividends to PPS
October 03, 2016	October 28, 2016	855,879	0.4167 cash dividends to common shares
October 03, 2016	October 28, 2016	166,680	0.04167 cash dividends to PPS
February 26, 2016	March 23, 2016	855,879	0.4167 cash dividends to common shares
February 26, 2016	March 23, 2016	166,680	0.04167 cash dividends to PPS

Recent Sale of Unregistered Securities

Date	Security Sold	No. of Shares	Purchaser	Consideration
February 1999	Common Shares	104,443,965	ESOP Shareholders	₱1.00 par
April 2004	RPS	310,344,828	Ayala	₱1.00 par
April 2004	RPS	68,965,517	BPI Capital	₱1.00 par
April 2004	RPS	120,689,655	United Utilities	₱1.00 par
August 2004	Common Shares	176,400,000	IFC	₱4.75 per share

The table above sets out details of the issuance of new shares from 1999 up to December 31, 2004. Under existing regulations, the original issuance, an issuance to existing shareholders, and issuance pursuant to a private placement are exempt from the registration requirement for the sale of securities.

Item 6. Management's Discussion and Analysis

Management Report

Management's Discussion & Analysis of Results of Operations and Financial Condition

The following management's discussion and analysis (MD&A) of Manila Water Company Inc. and subsidiaries' (Group) financial condition and results of operations should be read in conjunction with the Group's audited financial statements, including related notes. This report may contain forward-looking statements that involve risks and uncertainties. The actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to, economic, regulatory, socio-political, financial and other risk factors.

Any references in this MD&A to "our", "us", "we", "MWCI" or the "Group" shall refer to Manila Water Company, Inc., including its subsidiaries. Any reference to "Manila Water Company", "Manila Water", "MWC" or the "Company" shall refer to the parent company only.

Additional information about the Group, including recent disclosures of material events and annual/ quarterly reports, are available at our corporate website at www.manilawater.com.

Overview of the Business

Manila Water Company holds the right to provide water and used water services to the eastern side of Metro Manila (Manila Concession or East Zone) under a Concession Agreement (CA) entered into between the Company and Metropolitan Waterworks and Sewerage System (MWSS) in August 1997. The original term of the concession was for a period of 25 years to expire in 2022. The Company's concession was extended by another 15 years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than six million people in the East Zone, comprising a broad range of residential, semi-business, commercial and industrial customers. The East Zone encompasses 23 cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa.

Under the terms of the CA, the Company has the right to the use of land and operational fixed assets, and the right, as agent and concessionaire of MWSS, to extract and treat raw water, distribute and sell water, and collect, transport, treat and dispose used water, including reusable industrial effluent discharged by the sewerage system in the East Zone. The Company is entitled to recover over the concession period its operating, capital maintenance and investment expenditures, business taxes, and concession fee payments, and to earn a rate of return on these expenditures for the remaining term of the concession.

Aside from the Manila Concession, the Group has a holding company for all its domestic operating subsidiaries in Manila Water Philippine Ventures, Inc. (MWPV). Currently under MWPV are Clark Water Corporation (Clark Water), Laguna AAA Water Corporation (Laguna Water), Boracay Island Water Company (Boracay Water), Manila Water Consortium, Inc. (MW Consortium), a subsidiary of MW Consortium – Cebu Manila Water Development, Inc. (Cebu Water), Bulacan MWPV Development Corporation (BMDC), Filipinas Water Consortium Holdings Corp. (Filipinas Water), subsidiaries of Filipinas Water – Obando Water Company, Inc. (Obando Water) and Bulakan Water Company, Inc. (Bulakan Water), Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a subsidiary of Davao Water – Tagum Water Company, Inc. (Tagum Water), Zamboanga Water Company, Inc. (Zamboanga Water), Manila Water International Solutions, Inc (MWIS), Aqua Centro MWPV Corporation (Aqua Centro MWPV), EcoWater MWPV Corporation (EcoWater), and Leyte Water Company, Inc. (Leyte Water). Also under MWPV is Estate Water, which is its division that operates and manages the water systems of townships developed by Ayala Land, Inc. Another subsidiary of Manila Water is Calasiao Water Company, Inc. (Calasiao Water), a water supply project for the Calasiao Water District.

The holding company for its international ventures is Manila Water Asia Pacific Pte. Ltd. (MWAP). Under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.O.O Corporation (Thu Duc Water) and Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), both supplying treated water to Saigon Water Corporation (SAWACO) under a take-or-pay arrangement. Also under MWAP are Saigon Water Infrastructure Corporation (Saigon

Water), a holding company listed in the Ho Chi Minh City Stock Exchange, Cu Chi Water Supply Sewerage Company, Ltd. (Cu Chi Water) and another company tasked to pursue non-revenue water reduction projects in Vietnam called Asia Water Network Solutions Joints Stock Company (Asia Water). Apart from its operations in Vietnam, MWAP has affiliates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (East Water), and PT Sarana Tirta Ungaran (PT STU), respectively.

Lastly, Manila Water Total Solutions Corporation (MWTS), a wholly-owned subsidiary, handles after-the-meter products and services. Its current offerings include pipelaying, integrated used water services, and the sale of Healthy Family Purified Water as five-gallon and 500-ml purified water in selected areas in Metro Manila.

Consolidated Financial Performance

The Group's key financial performance indicators are discussed below:

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	**Increase/ (Decrease)**	**%**
Total operating revenues	**19,836,292**	18,515,772	1,320,520	7%
Total cost and expenses (excluding depreciation and amortization)	**8,076,088**	7,360,379	715,709	10%
Other income (expense) - net	**878,781**	540,980	337,800	62%
Equity share in net income of associates	**699,142**	457,208	241,934	53%
Others	**179,639**	83,772	95,867	114%
EBITDA	**12,638,985**	11,696,373	942,612	8%
Depreciation and amortization	**2,655,669**	2,556,999	98,670	4%
Income before other income/expenses	**9,983,316**	9,139,374	843,942	9%
Interest income (expense) - net	**(1,371,926)**	(1,057,498)	(314,428)	30%
Income before income tax	**8,611,390**	8,081,876	529,514	7%
Provision for income tax	**1,976,357**	1,941,929	34,428	2%
Net income	**6,635,033**	6,139,947	495,086	8%
Non-controlling interest	**111,332**	(6,661)	117,993	-1771%
Net income attributable to MWC	**6,523,701**	6,146,608	377,093	6%

Consolidated operating revenues grew by 7% to ₱19,836 million in 2018 from ₱18,516 million the previous year, on account of higher billed volume driven largely by the Manila Concession.

A breakdown of the revenue drivers is shown below:

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	**Increase/ (Decrease)**	**%**
Water	**15,231,518**	14,269,066	962,452	7%
Environmental charges	**2,719,651**	2,481,248	238,403	10%
Sewer	**520,401**	455,606	64,795	14%
Other operating income	**1,364,722**	1,309,852	54,870	4%
Total operating revenues	**19,836,292**	18,515,772	1,320,520	7%

The Group derived 77% of its operating revenues from the sale of water, while 16% came from environmental and sewer charges. Other revenues, which accounted for the balance of 7%, were from after-the-meter services, connection fees and septic sludge disposal, among others.

On the other hand, consolidated costs and expenses (excluding depreciation and amortization) increased by 10% to ₱8,076 million in 2018, led by a 17% growth in direct costs to ₱3,514 million. This is due to higher costs of water treatment chemicals, higher contractual services, and increase in desludging costs due to higher number of households desludged. Another driver of operating costs and expenses was personnel costs brought about by higher headcount at the subsidiaries, driven by continued business expansion.

Below is a summary of the operating expenses incurred during the period:

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	**Increase/ (Decrease)**	**%**
Salaries, wages and employee benefits	**2,323,082**	2,059,203	263,879	13%
Non-personnel costs	**5,329,406**	4,830,378	499,028	10%
Direct costs	**3,514,476**	2,992,401	522,075	17%
Overhead	**1,427,710**	1,507,402	(79,692)	-5%
Premises	**387,220**	330,575	56,645	17%
Other expenses	**423,600**	470,798	(47,198)	-10%
Total cost and expenses (excluding depreciation and amortization)	**8,076,088**	7,360,379	715,709	10%

Meanwhile, other income (net of expense) grew by 62% to ₱879 million in 2018 from ₱541 million the previous year, due to higher equity share in net income of associates and net foreign exchange gains. The two bulk water companies in Vietnam, namely Thu Duc Water and Kenh Dong Water, together with additional contributions coming from new acquisitions, East Water in Thailand and PT Sarana Tirta Ungaran in Indonesia, contributed ₱699 million in net income, growing by 53% year-on-year.

The movements in operating revenues and expenses as well as other income resulted in consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA) of ₱12,639 million in 2018, improving by 8% from the previous year. EBITDA margin was recorded at 64%.

Depreciation and amortization rose by 4% to ₱2,656 million in line with the Group's continued asset build-up. Meanwhile, net interest expense was higher by 30% to ₱1,372 million due to incremental interest expense arising from the second and final drawdown from the Yen loan facility of the Manila Concession, as well as the new loan drawdowns of the subsidiaries. Provision for income tax increased by 2% to ₱1,976 million due to the higher taxable base of the Group. These developments resulted in a reported net income of ₱6,524 million in 2018, growing 6% from 2017.

Business Units' Financial and Operating Performance

Manila Concession

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	**503.3**	**488.4**	**14.9**	**3%**
Domestic	324.2	317.7	6.6	2%
Semi-Business	63.7	60.5	3.2	5%
Commercial	91.5	87.2	4.3	5%
Industrial	23.9	23.0	0.9	4%
Number of billed connections	986,756	961,663	25,093	3%
Non-revenue water	11.4%	11.6%	0.2% pt	
Financial Highlights (in thousand Pesos)				
Revenues	16,234,100	15,082,828	1,151,272	8%
Cost and expenses	4,804,285	4,235,462	568,823	13%
EBITDA	11,616,869	10,861,683	755,186	7%
Net income	6,521,192	5,949,821	571,371	10%

The Manila Concession's billed volume increased by 3% in 2018 to 503.3 million cubic meters (mcm), on account of a 3% improvement in billed water connections (net of permanent disconnections) to 986,756 customers at the end of the period. Average consumption slightly increased by 0.02% to 42.97 cubic meters per connection, while average effective tariff increased by 4% to ₱31.11 per cubic meter.

Billed volume growth was driven by the improvement in semi-business and commercial accounts both growing by 5%, with the latter due to increased foot traffic in business establishments and the reclassification of major accounts. Domestic accounts likewise grew by 2% mainly due to new regular accounts and the realization of prior year's projects. Lastly, industrial accounts grew by 4% driven by new developments under construction particularly in Taguig and Marikina areas.

The level of system losses, as measured by non-revenue water (NRW), improved to 11.4% at the end of the period from 11.6% during the same period in 2017, resulting from replaced pipelines and repaired assets. Meanwhile, collection efficiency in 2018 was at nearly 100%, with average accounts receivable days maintained at 19 days.

On September 27, 2018, the Metropolitan Waterworks and Sewerage System approved the Rate Rebasing Adjustment for the fifth Rate Rebasing period (2018 to 2022) amounting to an increase of 24.89%. To mitigate the impact of the tariff increase, Manila Water will stagger its implementation over a five-year period: (1) October 2018 at ₱1.46; (2) January 2019 at ₱0.00; (3) January 2020 at ₱2.00; (4) January 2021 at ₱2.00; and (5) January 2022 from ₱0.76 to ₱1.04. On October 16, 2018, the first tranche was implemented on the current basic tariff of ₱24.82 per cubic meter.

Supported by robust billed volume growth, revenues increased by 8% to ₱16,234 million in 2018. Cost and expenses, on the other hand, rose by 13% to ₱4,804 million due to an increase in direct and overhead costs, notably for the higher water turbidity at La Mesa intake and payment of management and legal services, respectively. This resulted in an EBITDA of ₱11,617 million and an EBITDA margin of 72%. Net income reached ₱6,521 million at the end of 2018, growing 10% from the same period last year.

Manila Water Philippines Ventures (MWPV)

The following discussion includes the consolidated results of Manila Water Philippines Ventures, as well as the individual performance of the domestic operating subsidiaries in Boracay Water, Clark Water, Laguna Water, and Estate Water, which is a division within Manila Water Philippine Ventures.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	82.2	83.9	(1.7)	-2%
Financial Highlights (in thousand Pesos)				
Revenues	3,295,267	3,111,778	183,489	6%
Cost and expenses	2,288,540	2,279,786	8,754	0%
EBITDA	1,051,469	886,720	164,749	19%
Net income attributable to MWC	194,877	287,473	(92,596)	-32%

On a consolidated MWPV level, revenues grew 6% to ₱3,296 million due to higher average tariff of Boracay Water and Laguna Water, as well as income coming from new subsidiaries Obando Water, BMDC, Aqua Centro and Calasiao Water. Operating expenses slightly rose by 1% year-on-year as business building efforts continue. These include business development costs of ₱129 million for 2018. While cost and expenses were held steady, higher interest expense resulting from loan availments of the subsidiaries placed a strain on net income, ending at ₱195 million in 2018. This is a 32% decline from the previous year.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Clark Water				
Billed volume (in million cubic meters)	14.1	14.5	(0.4)	-3%
Net income (in thousand Pesos)	80,188	94,200	(14,012)	-15%
Laguna Water				
Billed volume (in million cubic meters)	42.5	44.1	(1.6)	-4%
Net income (in thousand Pesos)	308,206	(321,393)	629,599	-196%
Boracay Water				
Billed volume (in million cubic meters)	3.9	5.5	(1.6)	-29%
Net income (in thousand Pesos)	5,680	142,434	(136,754)	-96%
Estate Water				
Billed volume (in million cubic meters)	5.7	4.5	1.2	27%
Net income (in thousand Pesos)	133,324	254,967	(121,643)	-48%

Clark Water registered lower billed volume of 14.1 mcm in 2018, 3% down from 14.5 mcm in 2017 due to lower consumption of several key locators. It also faced a deterioration in NRW as it increased by 1.2%-points to 6.7% in 2018 from 5.5% the previous year. Its average effective tariff, however, improved by 3% to ₱31.05 per cubic meter. Clark Water spent ₱53 million in capital expenditures, mostly going to water supply projects. With lower billed volume, Clark Water's revenues dropped slightly by 1% to ₱455 million in 2018. Furthermore, cost and expenses rose by 2% to ₱256 million resulting in a 5% decline in EBITDA to ₱199 million. As a result, Clark Water net income declined by 15% to ₱80 million at the end of 2018.

Meanwhile, billed volume of Laguna Water dropped by 4% to 42.5 mcm in 2018, brought about by water conservation efforts undertaken by several of its LTI locators. On the other hand, NRW improved by 2.8%-points as it reached 16.7% at the end 2018 from 19.5% the previous year. Laguna Water spent ₱561 million in capital expenditures during the period, mostly for the expansion of water and used water networks. Revenues grew 10% in 2018 to ₱1.34 billion, on the back of a 13% improvement in average effective tariff to ₱27.81 per cubic meter and additional revenues from supervision fees. On the other hand, cost and expenses dropped 41% from 2017 to ₱724 million due to provision for unrecoverable receivables recognized the previous year. These movements resulted in a significant improvement in EBITDA to ₱636 million and 196% net income growth to ₱308 million at the end of 2018. The management takes a prudent approach in reflecting an objective view of the business. In 2018, Laguna Water recognized additional depreciation expense from its completed projects covering both the current and prior years and which resulted to a restatement of Laguna Water's 2017 statutory reported net loss. The additional depreciation expense was recognized in full in the 2018 consolidated operating expenses which does not materially affect the consolidated operating results of the Group for both 2018 and 2017.

Moving on to Boracay Water, its billed volume ended at 3.93 mcm in 2018, down by 29% from the previous year. This was a direct result of the island's closure in April 26, 2018 as part of the government's drive towards the island's environmental rehabilitation. Said closure led to a 53% decline in tourist arrivals during the period, with only 670,000 visitors allowed entry during the rehabilitation. Consequently, NRW improved by 8.7%-points to 13.8% during said period as leaks in the waterlines caused by the road improvements were repaired. Boracay Water spent capital expenditures of ₱444 million in 2018 for pipelaying and expansion of used water services. This is 4% lower than the previous year, mainly caused by project stoppage during the island's closure. Boracay Water's average effective tariff increased by 20% to ₱119.91 per cubic meter in line with the approval of its new rates by the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) Regulatory Office in 2017. However, the 29% decline in billed volume due to the island closure caused revenues to decrease by 24% to ₱454 million. Meanwhile, cost and expenses were managed and grew by only 1% to ₱287 million. With the significantly impaired revenue base, EBITDA declined by 47% to ₱167 million, translating to a 96% drop in net income to ₱6 million in 2018.

Lastly, Estate Water posted billed volume growth of 25% to 5.7 mcm in 2018, on the back of a 3% increase in billed connections coming from the brownfield Ayala Land developments it has taken over. However, capital expenditures spent mostly for the development of water and used water networks in its greenfield projects, dropped by 3% to ₱490 million as it encountered delays in the construction start for several developments. Revenues and other income remained steady at ₱638 million in 2018. On the other hand, cost and expenses rose 57% to ₱431 million, resulting in a drop in EBITDA of 43% to ₱207 million. Estate Water posted a net income of ₱133 million in 2018, declining 48% from the previous year.

Manila Water Asia Pacific (MWAP)

The following discussion includes the consolidated results of Manila Water Asia Pacific, as well as the individual performance of the associates in Vietnam.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	574.9	236.7	338.2	143%
Financial Highlights (in thousand Pesos)				
Equity Share in Net Income of Associates	699,142	457,208	241,934	53%
Cost and expenses	224,172	164,925	59,247	36%
EBITDA	412,842	332,043	80,799	24%
Net income attributable to MWC	278,434	332,579	(54,146)	-16%

On a consolidated MWAP level, equity share in net income of associates increased by 53% to ₱ 699 million, from the combined income of Thu Duc Water, Kenh Dong Water, Saigon Water, and the addition of East Water and PT STU. Operating expenses increased by 36% to ₱224 million, driven by additional personnel and management and professional costs during the year. These also include business development costs amounting ₱90 million for 2018. In addition, an impairment loss amounting to ₱65.4 million was recognized by MWAP in relation to its investment in Saigon Water due to the difference in the volume weighted average price (VWAP) and carrying value of the Company's investment in Saigon Water. As a result, 2018 net income ended at ₱278 million, 16% lower than the previous year due also to the interest expense related to the loan which financed the East Water acquisition.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Thu Duc Water				
Billed volume (in million cubic meters)	110.2	110.9	(0.7)	-1%
Net income (in million VND)	105,406	104,057	1,349	1%
Net income at 49.00% contribution (in thousand Pesos)	254,895	241,946	12,949	5%
Kenh Dong Water				
Billed volume (in million cubic meters)	57.0	57.8	(0.8)	-1%
Net income (in million VND)	74,452	76,251	(1,799)	-2%
Net income at 47.35% contribution (in thousand Pesos)	152,656	148,387	4,269	3%

Thu Duc Water sold a total of 110.2 mcm in 2018, dropping slightly by 1% from a billed volume level of 110.9 mcm the previous year. The decline was due to the lower water intake of Saigon Water Corporation (SAWACO). Under the Vietnamese Accounting Standards (VAS), revenues grew by 2% to VND335 billion. Thu Duc Water's operating expenses were held steady, increasing by 1% to VND112 billion. This led to an improvement in EBITDA by 2% to VND223 billion. Consequently, net income increased by 1% equivalent to VND105 billion, further supported by the 2% increase in average tariff. In peso terms, the PFRS-translated income reflected in the consolidated financial statements as equity share in net income of associates amounted to ₱255 million in 2018, equivalent to Manila Water's 49% stake in Thu Duc Water.

Kenh Dong Water's billed volume slightly declined by 1% in 2018 to 57.0 mcm from the 57.8 mcm registered in 2017. This is due to lower production to SAWACO caused by low water supply. Under the Vietnamese Accounting Standards (VAS), Kenh Dong Water posted revenues of VND221 billion and an EBITDA of VND148 billion. With higher direct costs, Kenh Dong's net income declined to VND74 billion, down 2% from 2017. Similar to Thu Duc Water, income from Kenh Dong Water is translated into PFRS and is reported as equity share in net income of associates in the consolidated financial statements. In peso terms, the PFRS-translated income of Manila Water's 47.35% stake in Kenh Dong Water amounted to ₱153 million in 2018.

Aside from Thu Duc Water and Kenh Dong Water, MWAP's investment in Saigon Water, the listed holding company in Vietnam, contributed a net income of ₱27 million in 2018. MWAP's new associates in Thailand and Indonesia, East Water and PT STU, contributed ₱263 million and ₱1.4 million, respectively.

Balance Sheet

The consolidated statement of financial position as of the end 2018 reflected the Group's continuous asset base expansion. Total assets rose by 19% to ₱122.53 billion, as the Group undertook additional investments in East Water and PT STU during the first quarter. Liabilities increased by 26% to ₱68.91 billion primarily to fund expansion and new acquisitions. Cash and cash equivalents stood at ₱9.39 billion.

With respect to the Group's loans, debt to equity ratio stood at 1.16x, excluding service concession obligations, while net bank debt to equity registered at 0.64x.

Under the Company's dividend policy, common shares are entitled to annual cash dividends equivalent to 35% of the prior year's net income, payable semi-annually. On March 1, 2018, the Company declared cash dividends for the first half of the year, set at ₱0.4302 per common share and ₱0.04302 per preferred share, amounting to ₱1.06 billion. On October 2, 2018, the Company declared cash dividends for the second half of the year, set at ₱0.4283 per common share and ₱ 0.04283 per preferred share, totaling ₱1.06 billion.

Capital Expenditures

The Group ended 2018 with total capital expenditures of ₱9,979 million, 23% lower than the previous year.

The Manila Concession spent a total of ₱8,045 million (inclusive of concession fee payments) for capital expenditures in 2018.Of the total amount, 93% was spent on wastewater expansion, network reliability, and water supply projects, while the balance of 7% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries dropped by 20% to ₱1,850 million from the ₱2,315 million spent in 2017. Of the total amount, ₱561 million was spent by Laguna Water for its water network expansion, while Boracay Water and Tagum Water disbursed ₱444 million and ₱203 million, respectively. Estate Water spent ₱490 million for its greenfield and brownfield projects, with the balance being taken on by the remaining subsidiaries for its various projects.

Material Changes (Increase or Decrease of 5% or more in the Financial Statements)

Consolidated Statements of Income (Year-End 2018 vs. Year-End 2017)

Revenues

Water, environmental charges, and sewer revenues – 7% increase
Increase of ₱1,321 million was largely driven by the Manila Concession's billed volume growth, as well as higher effective tariff following the implementation of the CPI adjustment and the first tranche of the approved 2018 Rate Rebasing tariff increase.

Cost of Services and Operating Expenses

Salaries, wages and employee benefits – 13% increase
Increase of ₱264 million brought about by the higher headcount of the subsidiaries driven by business expansion, and the related annual merit increases of the Group. The Group also recognized higher retirement and shared options expense.

Power, light and water – 11% increase
Increase of ₱136 million was brought about by the combined higher year-on-year utilities consumption of the Group and average tariff rates in the Group's facilities and offices.

Management, technical and professional fees – 24% increase
Increase of ₱147 million was on account of various legal, consultancy, advisory, and due diligence services for the ongoing arbitration of the Parent Company and due diligence services for new business development and acquisitions.

ECL on receivables and concession financial receivables – 70% decrease
Decrease of ₱411 million was mainly due to Laguna Water's one-time provision for ECL on its uncollectible receivables recognized in 2017.

Contractual services – 25% increase
Increase of ₱96 million was mainly due to the higher number of project-based consultants employed by the domestic subsidiaries for its operations.

Repairs and maintenance – 13% increase
Increase of ₱63 million arose from various leak repair initiatives, network improvement programs, and additional software-related subscriptions of the Group.

Occupancy costs – 21% increase
Increase of ₱51 million was mainly due to the hike in the rental rate of the Parent Company, new office leases of Calasiao Water and Obando Water, and additional security costs for new facilities and deep wells.

Taxes and licenses – 47% increase
Increase of ₱102 million was due to increase in real property and business permits and taxes of the Group driven by the growth in revenues, as well as higher rates for business taxes, and payments to the Bureau of Internal Revenue (BIR).

Regulatory costs – 12% increase
Increase of ₱24 million was due to the cumulative effects of CPI adjustments of the Parent Company and higher concession fees paid by Laguna Water to PGL.

Amortization of water service connections – 6% decrease
Decrease of ₱12 million was mainly due to the lower number of additional water connections year-on-year of the Parent Company and major subsidiaries.

Wastewater costs – 22% increase
Increase of ₱36 million due to the increase in septic sludge services provided by the business areas of the Parent Company as well as Estate Water.

Cost of packaged water – 15% increase
Increase of ₱17 million was attributable to the higher sales of MWTS' Healthy Family 300 ml bottled water in 2018.

Collection fees – 25% increase
Increase of ₱28 million was on account of higher volume of collections arising from additional billed service connections mostly coming from the Parent Company.

Water treatment chemicals – 119% increase
Increase of ₱128 million due to higher water treatment chemicals used by the Parent Company to treat water turbidity coming from the source.

Transportation and travel – 12% increase
Increase of ₱10 million due to the surge in various foreign travels this year related to the Parent Company's ongoing arbitration case as well as driven by the business development of the MWAP Group.

Printing and communication – 33% increase
Increase of ₱18 million was on account of higher communication expenses of the Group arising from additional headcount, as well as improvements in mobile subsidy, aligned with business expansion during the year.

Advertising – 15% decrease
Decrease of ₱6 million arising from lower advertising costs of MWTS for its Healthy Family brand due to more extensive marketing efforts in 2017.

Donations – 39% increase
Increase of ₱12 million due to the donations made to the Ayala Foundation and Manila Water Foundation.

Other Income (Expenses)

Revenue from and cost of rehabilitation works – 17% decrease
Decrease of ₱2,010 million was primarily due to lower capital expenditures spent by the Group on rehabilitation works.

Interest expense – 27% increase
Increase of ₱381 million was on account of the incremental expense arising from additional loan drawdowns made by the Group to finance its capital expenditures and business expansion.

Equity share in net income of associates – 53% increase
Increase of ₱242 million mainly pertaining to the additional equity share from the Group's new investments in East Water and PT STU.

Interest income – 19% increase
Increase of ₱66 million was mainly attributable to the higher interest income recognized from the Group's cash and cash equivalents. This was partly offset by the decline in finance income recognized on the Group's concession financial receivables and contract assets.

Net foreign currency differentials and foreign exchange losses – 2036% increase
Increase of ₱32 million was due to the effect of the weakening PHP against the USD resulting to higher recognized gains on the Group's foreign currency-denominated cash and cash equivalents.

Gain on disposal of property and equipment – 17% increase
Net movement of ₱3 million was attributable to the increase in disposals of property and equipment by the Group during the year.

Amortization of deferred credits – 13% increase
Increase of ₱1 million was attributed to the additional customer guaranty deposits coming from new billed service connections.

Net other income – 109% increase
Net increase of ₱60 million was mainly due to Cebu Water's income from a refund from its utility provider. This was partly offset by the impairment loss recognized on property, plant and equipment from the closure of Healthy Family plants and the investment in Saigon Water, as well as lower gain on bargain purchase in 2018 from business acquisitions compared to 2017.

Consolidated Statements of Financial Position (End 2018 vs. End 2017)

Cash and cash equivalents – 4% increase
Increase of ₱370 million resulting from higher cash resulting from increased operating income, partly offset by higher cash flows used in investing activities arising from the acquisitions of East Water and PT STU and decline in cash flows provided by financing activities due to higher principal and interest payments during the year.

Current portion of contract assets – 100% increase
Increase of ₱398 million arising from the adoption of PFRS 15, *Revenue from Contracts with Customers*, which resulted in the recognition of contract assets from supervision fees, NRWSA with ZCWD, and Bulk Water Sales and Purchase Agreement with TWD.

Property, plant and equipment - net – 28% increase
Increase of ₱773 million was mainly on account of the Group's additional leasehold improvements, plant and technical equipment, and construction in progress. These were offset by increased disposals and depreciation amortization expenses, and impairment losses.

Service concession assets - net – 11% increase
Increase of ₱8,379 million was attributable to the increase in the Group's capital expenditures, consisting of rehabilitation works and additional concession fees of the Parent Company and Obando Water, which was partly offset by amortization expenses for the year.

Noncurrent portion of concession financial receivables – 28% decrease
Decrease of ₱334 million was mainly due to the impact of adoption of PFRS 15 wherein ₱416 million from the Bulk Water Sales and Purchase Agreement with TWD was included as part of "contract assets – net of current portion". This is on top of the current year's impairment loss recognized on Cebu Water arising from water turbidity.

Noncurrent portion of contract assets – 100% increase
Increase of ₱493 million as a result of the adoption of PFRS 15 and coming from the NRWSA with ZCWD and Bulk Water Sales and Purchase Agreement with TWD.

Investments in associates – 135% increase
Increase of ₱9,199 million was mainly attributable to additional equity in net earnings of new investments in East Water and PT STU during the year, aligned with the Group's business expansion initiatives.

Deferred tax assets - net – 13% increase
Increase of ₱161 million was caused by the additional deferred tax benefit for the year related to the net temporary differences arising from service concession assets and obligations.

Other noncurrent assets – 5% decrease
Decrease of ₱225 million was mainly due to the decline in other receivables as a result of the adoption of PFRS 15 for the contract assets on the NRWSA with ZCWD. This was partly offset by the higher deferred FCDA on account of foreign exchange translation losses during the year from long-term debt and service concession obligations of the Parent Company and Boracay Water which are recoverable through water tariff adjustment.

Accounts and other payables – 24% increase
Increase of ₱1,427 million due to additional trade payables during the year arising from the purchases of goods services, payable to contractors for various capital expenditure projects of the Group, and additional interest payable for the new loan availments and drawdowns during the year.

Short-term debt – 100% increase
Increase of ₱8,597 million pertains to the loan obtained by MWTC to finance its 18.72% equity investment in East Water.

Current portion of long-term debt – 20% increase
Increase of ₱911 million was due to multiple drawdowns made by the Group during the year and the reclassification of the current portion of the long-term debts of the Parent Company and its domestic subsidiaries as these become due within twelve (12) months from the reporting date.

Income tax payable – 6% increase
Increase of ₱27 million was due to higher taxable base of the Group during the fourth quarter of 2018.

Noncurrent portion of long-term debt – 7% increase
Increase of ₱2,415 million was mainly due to the Group's loan availments and drawdowns during the year to finance capital expenditures and business expansion.

Noncurrent portion of service concession obligations – 7% increase
Increase of ₱472 million was mainly attributable to accretion and additional drawdowns of the Parent Company, Calasiao Water, and Obando Water countering the impact of the repayments made during the year.

Pension liabilities - net – 164% increase
Increase of ₱68 million was attributable to higher pension expense and remeasurements in other comprehensive income as a result of lower return on plan assets and higher actuarial loss from experience adjustments. This was partly by the increased contribution to the retirement fund pursuant to PAS 19R, *Employee Benefits*.

Deferred tax liabilities - net – 8% decrease
Decrease of ₱8 million due to the lower deferred tax liability on the concession financial receivables as of reporting date.

Provisions – 14% increase
Increase of ₱69 million mainly due to the Parent Company's additional provision recognized in 2018 for estimated probable losses pertains to various legal proceedings and exposures arise in the ordinary course of business.

Other noncurrent liabilities – 14% increase
Increase of ₱93 million was due to additional guaranty deposits coming from new connections of the Group during the year.

Additional paid-in capital – 7% increase
Increase of ₱288 million was a result of the new subscriptions arising from the 2018 ESOWN grant.

Subscriptions receivable – 95% increase
Increase of ₱223 million was due to new subscriptions under the 2018 ESOWN net of collections during the year.

Common stock options outstanding – 80% increase
Increase of ₱23 million was attributable to additional cost of share-based payments and amortization of the 2015 and 2018 ESOWN grants.

Appropriated retained earnings – 13% increase
Increase of ₱3,746 million pertains to the additional appropriation for the year for capital expenditures to ensure the completion of the Parent Company's large systems projects under its approved Business Plan.

Unappropriated retained earnings – 5% increase
Increase of ₱626 million was on account of higher net income generated during the year, net of cash dividends declared.

Net remeasurement loss on defined benefit plans – 1868% increase
Increase of ₱61 million pertains to net remeasurement adjustments on the valuation of pension liabilities in accordance with PAS 19R, *Employee Benefits*.

Cumulative translation adjustment – 59% increase
Increase of ₱525 million was due to movements in exchange rates where the PHP was weaker against the USD during the period.

Noncontrolling interests – 12% increase
Increase of ₱125 million arose from the share of the noncontrolling interests in the improved net income of the domestic operating subsidiaries.

Consolidated Statements of Income (Year-End 2017 vs. Year-End 2016)

Revenues

Sewer revenue – 10% increase
Increase of ₱42 million was attributable to the used water revenues of Estate Water from the expansion of its brownfield property development projects.

Other operating income – 8% increase
Increase of ₱103 million was mainly due to additional performance fees of Zamboanga Water arising from its NRW Service Agreement with the Zamboanga City Water District; supervision fees of Estate Water coming from its construction of facilities; and income from the sale of packaged water of MWTS driven by the growth in bottle sales.

Operating Costs and Expenses

Power, light and water – 22% increase
Increase of ₱213 million was on account of the higher year-on-year consumption due to new offices of subsidiaries aligned with ongoing business expansion on top of the higher consumption of new used water facilities. This was countered by lower effective year-on-year power rates in 2017.

Salaries, wages and employee benefits – 19% decrease
Decrease of ₱252 million was due to lower shared options expense year-on-year.

Contractual services – 19% decrease
Decrease of ₱72 million was attributable to the reduction of contracted services during the current period which was partly attributable to lesser marketing activities by MWTS for Healthy Family related to its introductory program started in 2016.

Management, technical and professional fees – 83% increase
Increase of ₱130 million was mainly on account of higher management fees of the Parent Company.

Regulatory costs – 10% increase
Increase of ₱17 million was attributable to the cumulative effects of CPI adjustments on the operating cost component of the annual regulatory fees of the Parent Company and to the higher concession fees paid by Boracay Water to TIEZA and by Laguna Water to PGL, both driven by the growth in their respective revenue bases.

Wastewater costs – 30% increase
Increase of ₱38 million was mainly due to higher volume of desludged wastes from customers' septic tanks during the year.

Cost of packaged water – 60% increase
Increase of ₱42 million was attributable to the increase in bottle sales and the continued expansion of Healthy Family in 2017.

Collection fees – 8% decrease
Decrease of ₱9 million was on account of lower collection costs of the Parent Company from the use of the collecting agent's payment facilities.

Water treatment chemicals – 31% increase
Increase of ₱25 million due to higher chemical usage due to additional water treatment chemical usage driven by high water turbidity as a result of the rainy season, as well as additional costs incurred by MWPVI for its facilities.

Occupancy costs – 22% decrease
Decrease of ₱12 million pertains to the lower security costs for facilities.

Other expenses – 81% increase
Increase of ₱100 million was due to higher transportation and travel expenses and construction costs of MWTS.

Operating expenses – 25% increase
Increase of ₱665 million was mainly to higher overhead and miscellaneous expenses to support the expanding operations of the Group on top of a one-time provision for uncollectible receivables of Laguna Water in line with the Group's provisioning policies.

Other Income (Expenses)

Revenue from and cost of rehabilitation works – 72% increase
Increase of ₱4,867 million was primarily due to higher capital expenditures spent on rehabilitation works on new and existing projects as the business operations of the Group continued to expand during the year.

Net foreign currency differentials and foreign exchange losses – 95% decrease
Decrease of ₱33 million in net foreign currency differential gains was mainly attributable to the depreciation of the PHP against the JPY and USD year-on-year.

Interest income – 34% increase
Increase of ₱89 million was mainly attributable to the higher finance income from the concession financial receivable of Cebu Water and Tagum Water in addition to the Group's interest income on the higher average balance of the Group's cash equivalents.
Equity share in net income of associates – 24% increase
Increase of ₱88 million was due mainly to the higher net income contribution of the investments in associates including Thu Duc Water, Kenh Dong Water, and Saigon Water.

Gain on disposal of property, plant and equipment – 636% increase
Increase of ₱14 million was attributable to higher proceeds from disposals of property, plant and equipment in 2017.

Amortization of deferred credits – 14% increase
Increase of ₱1 million was due to the increase in customer guaranty deposits balance in 2017.

Net other income – 50% increase
Increase of ₱18 million in other income was due to the recognition of a one-time gain from the acquisition of Asian Land Strategies Corporation's water business operations in Bulacan. This was offset by the decrease in indemnity income of KDWH arising from its investment in Kenh Dong Water recognized in 2016.

Consolidated Statements of Financial Position (End 2017 vs. End 2016)

Cash and cash equivalents – 122% increase
Increase of ₱4,955 million was mainly attributable to loan availments made by the Group, partly offset by loan and dividend payments, and capital expenditures during the year.

Receivables - net – 14% decrease
Decrease of ₱325 million was due to a one-time provision for additional allowance for uncollectible receivables by Laguna Water in 2017.
Inventories - net – 27% increase
Increase of ₱44 million was mainly due to additional materials purchased by the subsidiaries during the year.

Property, plant and equipment - net – 52% increase
Increase of ₱939 million was mainly on account of the Group's additional office furniture and equipment, plant and technical equipment, and construction in progress during the year due to expansion activities. These were offset by disposals and depreciation expense for the period.

Service concession assets – net – 15% increase
Increase of ₱9,498 million was attributable to the increase in the Group's capital expenditures, including capitalized concession fees of the Parent Company and Calasiao Water, partly offset by amortization expense for the year.

Noncurrent portion of concession financial receivable – 18% increase
Increase of ₱182 million was mainly due to additional capital expenditures of Cebu Water and Tagum Water combined with increases from finance and service income which were offset by Cebu Water's collections and additional impairment loss for the year.

Investment in associates – 10% increase
Increase of ₱597 million was mainly attributable to additional equity in net earnings, offset by dividend income, and foreign currency adjustments arising from converting the Group's investments in associates in Vietnam from USD to PHP.

Pension asset-net – 86% decrease
Decrease of ₱102 million pertains to the Parent Company's net pension asset attributable to contributions to the retirement fund, net of the recognition of pension expense during the year, pursuant to PAS 19, *Employee Benefits.*

Other noncurrent assets – 107% increase
Increase of ₱2,279 million was mainly due to additional deposits for land acquisition of the Parent Company.

Accounts and other payables – 26% increase
Increase of ₱1,023 million due to additional trade payables during the period arising from purchases of goods and services for rehabilitation works, including additional retention payable with contractors for various capital expenditure projects of the Group.

Current portion of long-term debt – 102% increase
Increase of ₱2,327 million was due to multiple drawdowns made by the Group during the year and the reclassification of the current portion of the long-term debts of the Parent Company and its domestic subsidiaries as these become due within twelve months from the reporting date.

Current portion of service concession obligations – 8% increase
Increase of ₱61 million attributable to the additional concession fees of Calasiao Water in 2017.

Income tax payable –13% decrease
Decrease of ₱66 million was due to lower taxable income during the fourth quarter of 2017 compared to the same period in 2016 despite the expiration of Boracay Water's income tax holiday in June 2016.

Noncurrent portion of long-term debt – 39% increase
Increase of ₱9,779 million was mainly due to the Group's loan drawdowns during the year.

Pension liabilities - net – 30% increase
Increase of ₱10 million was attributable to the subsidiaries' recognition of pension expense during the year, net of the contribution to the retirement fund pursuant to PAS 19, *Employee Benefits*.

Deferred tax liabilities - net – 7% increase
Increase of ₱7 million was attributable due to deferred taxes recognized from the shift in depreciation method from straight-line to units of production method.

Subscriptions receivable – 26% decrease
Decrease of ₱84 million was on account of collections of subscriptions from the ESOWN in 2017.

Common stock options outstanding – 13% increase
Increase of ₱3 million was attributable to additional cost of share-based payments in 2017.

Appropriated retained earnings – 36% increase
Increase of ₱7,598 million pertains to the additional appropriation for the year for capital expenditures to ensure the completion of the Parent Company's large systems projects under its approved Business Plan.

Unappropriated retained earnings – 24% decrease
Decrease of ₱3,574 million was on account of the appropriation made in 2017 which was offset by the net income generated in 2017, net of cash dividends declared.

Net remeasurement gain on defined benefit plans – 95% decrease
Decrease of ₱58 million pertains to net remeasurement adjustments on valuation of pension liabilities in accordance with PAS 19, *Employee Benefits*.

Cumulative translation adjustment – 14% increase
Increase of ₱108 million was attributable to the exchange differences arising from the conversion of the Manila Water Asia Pacific Pte., Ltd. Group's books from USD which was stronger versus PHP as of December 31, 2017.

Consolidated Statements of Income (Year-End 2016 vs. Year-End 2015)

Consolidated Revenue

Other operating income – 33% increase
Increase of ₱301 million was mainly due to the recognition of supervision fees arising from construction of facilities and the provision of water and used water services to the property development projects of Ayala Land. MWTS also registered a 264% growth in the bottle sale of Healthy Family packaged water which aims to address the drinking needs of households in and out of the East Zone.

Consolidated Operating Costs and Expenses

Depreciation and amortization – 10% increase
Increase of ₱266 million was attributable to amortization arising from completion of several projects of the Parent Company and several subsidiaries.

Salaries, allowance and employee benefits – 16% increase
Increase of ₱267 million was on account of the additional manpower driven by the growth in the business operations of the subsidiaries. There was also a restructuring of the incentives, in addition to the annual performance-based merit increases in salaries.

Power, light and water – 7% increase
Increase of ₱68 million was on account of the higher consumption year-on-year due to new offices of subsidiaries driven by business expansion. This was countered by lower effective power rates in 2016.

Management, technical and professional fees – 15% increase
Increase of ₱83 million was primarily due to consultancy costs incurred for business development ventures, systems implementation and tax-related consultancy services in 2016.

Repairs and maintenance – 9% increase
Increase of ₱38 million was the result of the leak repairs in the East Zone, in the aging network system in Biñan and in the facilities taken over by Estate Water. Maintenance activities were also performed for various sewer treatment plants during 2016.

Contractual services – 13% decrease
Decrease of ₱60 million was due mainly to a reduction in MWTS' contracted services for its pipeworks projects.

Occupancy costs – 38% decrease
Decrease of ₱123 million was on account of the one-time payment made in 2015 by the Parent Company to MWSS related to the use of a certain facility.

Cost of water service connections – 70% increase
Increase of ₱76 million was mainly on account of the increase in the number of new water service connections due to expansion compared to 2015, as well as higher cost of materials and civil works. This cost is recoverable from service connection fees paid by customers.

Regulatory costs – 38% increase
Increase of ₱48 million was attributable to the cumulative effects of consumer price index adjustments on the operating cost component of the annual regulatory fees of the Parent Company, concession fees paid to MWSS related to its payments to the National Irrigation Administration. and higher concession fees paid by Boracay Water to TIEZA driven by its growing revenue base.

Wastewater costs – 20% increase
Increase of ₱21 million was mainly due to higher volume of desludged wastes from customers' septic tanks in 2016.

Collection fees – 8% increase
Increase of ₱9 million was on account of higher collection costs of the Parent Company related to the use of the collecting agent's payment facilities.

Cost of packaged water – 89% increase
Increase of ₱33 million was attributable to the increase in bottle sales and continued expansion of Healthy Family in 2016.

Other expenses – 13% decrease
Other expenses include to taxes and licenses, insurance, transportation and travel, provision for probable losses and doubtful accounts, printing and communication, business meetings and representation, advertising, donation and other expenses. Decrease of ₱115 million was mainly attributable to lower business meetings and representation and cost of management contracts as a result of the completion of the Performance-based Leakage Reduction and Management Services Contract with SAWACO.

Other Income (Expenses)

Revenue from and cost of rehabilitation works – 30% increase
Increase of ₱1,586 million was primarily due to higher capital expenditures spent on rehabilitation works on new and existing projects as the business operations of the Group continues to expand in 2016.

Net foreign currency differentials and gains (losses) – 67% decrease
Decrease of ₱69 million in net foreign currency gains was mainly attributable to the depreciation of the Peso against the JPY and USD year-on-year.

Interest income – 19% decrease
Decrease of ₱60 million was mainly attributable to the higher interest income recognized by Cebu Water in 2015 related to its concession financial receivable. In addition, average balance of cash and cash equivalents and interest rates during the year was lower in 2016 compared to 2015.

Equity share in net income of associates – 9% decrease
Decrease of ₱35 million was due mainly to lower net income generated by Saigon Water Infrastructure Corporation in 2016.

Gain on disposal of property, plant and equipment – 91% decrease
Decrease of ₱23 million was attributable to less disposals of property, plant and equipment in 2016.

Amortization of deferred credits – 16% increase
Increase of ₱1 million pertains to recognized income as a result of the higher balance of deferred credits arising from unamortized discounts of customers' guaranty deposits in 2016.

Other income – 13% decrease
Decrease of ₱5 million in other income was mainly attributable to the income recognized related to the reversal of the contingent liability related to the share purchase transaction of Kenh Dong Water in 2015.

Consolidated Statements of Financial Position (End 2016 vs. End 2015)

Cash and cash equivalents – 41% decrease
Decrease of ₱2,784 million was mainly attributable to the payment of the Group's loan, service concession obligation and dividend, partly offset by additional loan drawdowns made during the year to finance the Group's capital expenditures.

Receivables – net – 27% increase
Increase of ₱503 million was due to the growth in water, sewer and environmental revenues of the Group. Moreover, beginning 2016, Estate Water recognized revenues related to new development contracts with Ayala Land.

Inventories – net – 6% decrease
Decrease of ₱10 million was mainly due to optimal inventory management of the Parent Company. This was partly offset by the higher maintenance materials purchases of the subsidiaries for capital expenditure requirements, as well as an increase in the finished goods of packaged water of MWTS.

Other current assets – 72% increase
Increase of ₱607 million was mainly due to advances to contractors for the new projects implemented by the Group.

Property, plant and equipment – net – 43% increase
Increase of ₱541 million was mainly on account of the Group's additional office furniture and equipment, plant and technical equipment, and construction in progress offset by disposals and depreciation and amortization expense during the year.

Service concession assets – net – 7% increase
Increase of ₱4,460 million was attributable to the increase in the Group's capital expenditures, partly offset by depreciation and amortization expense.

Investment in associates – 8% increase
Increase of ₱476 million was mainly attributable to additional equity in net earnings, and foreign currency adjustments arising from converting the Group's investments in associates in Vietnam from USD to PHP.

Pension asset-net – 100% increase
Increase of ₱118 million pertains to the Parent Company's net pension asset attributable to contributions to the retirement fund, net of the recognition of pension expense during the year, pursuant to PAS 19, *Employee Benefits.*

Deferred tax assets-net – 28% increase
Increase of ₱261 million was caused by the increase in deferred tax benefit during the year. This is in relation to the net temporary differences arising from service concession assets.

Other noncurrent assets – 48% increase
Increase of ₱690 million was mainly due to the increase in deferred FCDA on account of the foreign exchange losses of loans payable and service concession obligations in 2016, which are recoverable through water tariff adjustment.

Accounts and other payables – 11% decrease
Decrease of ₱497 million was mainly brought about by the decline in trade payable, accrued expenses and contracts payable in 2016.

Current portion of long-term debt – 63% decrease
Decrease of ₱3,972 million was mainly attributable to the Parent Company's principal payment of corporate notes in April 2016, partly offset by the Group's loan drawdowns during the year.

Current portion of service concession obligation – 41% decrease
Decrease of ₱515 million attributable to the maturity of service concession obligations in 2016.

Income tax payable –15% increase
Increase of ₱66 million was due to higher income tax payable during the fourth quarter of 2016 compared to the same period in 2015.

Long term debt - net of current portion – 27% increase
Increase of ₱5,370 million was mainly due to the Group's loan drawdowns during the year.

Pension liabilities-net – 69% decrease
Decrease of ₱71 million was attributable to the subsidiaries' recognition of pension expense during the year, net of the contribution to the retirement fund pursuant to PAS 19, *Employee Benefits*.

Deferred tax liability – 45% increase
Increase of ₱33 million was caused by the increase in deferred tax benefit during the year. This is in relation to the net temporary differences arising from service concession assets and service concession obligation.

Provisions –50% decrease
Decrease of ₱502 million was due to settlements made during the fourth quarter of 2016.

Subscriptions receivable – 8% decrease
Decrease of ₱27 million was on account of collections of subscriptions from the ESOWN in 2016.

Common stock options outstanding – 22% increase
Increase of ₱5 million was attributable to additional cost of share-based payments in 2016.

Appropriated retained earnings – 100% increase
Increase of ₱21,100 million pertains to the appropriation made for capital expenditures.

Unappropriated retained earnings – 53% decrease
Decrease of ₱17,120 million was on account of the appropriation made in 2016 which was offset by the net income generated in 2016, net of cash dividends declared.

Net remeasurement gain (loss) on defined benefit plans – 149% decrease
Decrease of ₱184 million pertains to net remeasurement adjustments on valuation of pension liabilities in accordance with PAS 19, *Employee Benefits*.

Cumulative translation adjustment – 58% increase
Increase of ₱289 million was attributable to the exchange differences arising from the conversion of Manila Water Asia Pacific Pte., Ltd.'s books from USD which was stronger versus the Peso as of December 31, 2016.

Non-controlling interest – 12% increase
Increase of ₱103 million was due to higher net income of subsidiaries with non-controlling interests namely Laguna Water, Boracay Water and MW Consortium. This was offset by the gain on dilution of non-controlling interests recognized during the year.

Factors Affecting the Group's Results of Operations

Water Tariff

Water rates are set according to the rate determination specified in the concession agreements. The Group has several signed concession agreements mostly with government entities, such as the MWSS, Clark Development Corporation, Tourism Infrastructure and Enterprise Zone Authority, Provincial Government of Laguna, Calasiao Water District, and Obando Water District.

The Group's tariff schedules apply to the four main categories of customers namely, residential, semi-business, commercial, or industrial. Customers pay service charges based on the following:

- Basic charge calculated from consumption on a tariff table;
- environmental charge (EC);
- sewer charge (SC);
- meter maintenance service charge; and/or
- foreign currency differential adjustment (FCDA).

In 2018, the Group generated 77% of its revenue from water tariff charges to customers, 14% of its revenue from environmental charges, 3% of its revenue from sewerage charges, and 6% from its other operating income.

Tariff Rate Adjustments

The Group's results of operations and financial condition are highly dependent upon its ability to receive reasonable tariff rate increases for its water and sewerage services under its concession agreements. The Group is entitled to one or more of the following tariff rate adjustments on top of the basic water charge under its concession agreements, whenever applicable.

- annual standard rates adjustment to compensate for increases in the Philippine Consumer Price Index (CPI), subject to the rate adjustment limit;
- extraordinary price adjustment (EPA) to account for the financial consequences of certain unforeseen events, subject to the grounds stipulated in the applicable concession agreement; and/or
- FCDA to recover or account for foreign exchange losses and gains arising from loans and any concessionaire loans used for its service expansion and improvement.

In addition to the tariff adjustments described above, under the concession agreements, tariff rates of the Group are evaluated under a regular process called rate rebasing through which the rates for water and sewerage services are reset to allow the Group to recover over the remaining concession period the following items:

- its operating, capital maintenance and investment expenditures (efficiently and prudently incurred);
- Philippine business taxes; and
- payments corresponding to debt service on grantor and concessionaire loans.

Philippine Economic Conditions

With most of the Group's operations based in the Philippines, the Group's results of operations and financial condition are affected by general economic conditions in the country, particularly by inflation rates, interest rates, and currency exchange rate movements. For example, the general performance of the Philippine economy affects demand for water and sewer services, and inflation affects the Group's costs and its margins. While the Group is allowed to recover certain costs associated with changes in inflation and currency exchange rates, these adjustments are implemented after varying periods of time. Moreover, approved tariff rate adjustments may not cover all increased costs to the Group associated with changes in economic conditions. The Philippine economic environment has historically been characterized by significant variations in economic growth rates.

Inflation. Each year, the Group may propose tariff rate adjustments to account for inflation, as measured by the CPI published regularly by the Philippine Statistics Authority, subject to the rates adjustment limit set forth in the Concession Agreements and guidelines of tariff regulation bodies. Although the Group has generally been granted its proposed CPI related tariff rate adjustments in the past, a significant increase in inflation could increase the Group's costs beyond what it may be able to recover through the CPI tariff rate adjustment. In 2018, inflation rate expanded to a high of 6.6% in October which was outside the Bangko Sentral ng Pilipinas inflation guidance of 3% to 4%.

Interest Rates. The Group raises significant amounts of borrowings to finance the acquisition, development, improvement and construction of fixed assets for projects needed to meet service obligations. The Group maintains a mix of loans with floating and fixed interest rates. Interest rates are dependent on market conditions where significant increases in rates will increase the Group's borrowing costs. In 2018, benchmark interest rate increased by 175 basis points.

Currency Exchange Rates. The Group is also allowed to request a quarterly tariff rate adjustment for foreign currency differentials in order to recover or compensate for present and future foreign exchange losses or gains on MWSS and TIEZA loans, and Group loans used for capital expenditures and payments of concession fees. Similar to the CPI adjustment, there can be no assurance that the Group will be able to obtain adjustments on its tariff rates for full reimbursement of these losses, particularly tariff rates where there is a significant depreciation of the peso. Movements in the Peso and other foreign denominated currencies are driven by global market uncertainty, political risk, and recently, by the trade tensions between China and the United States.

Water Supply

The Group's water supply is dependent on infrastructure to draw water from ground and surface sources. For the Manila Concession, supply is heavily dependent on the allocation from the Angat Dam. Due to increasing demand over time, the Company is continuously implementing projects to develop new water sources to meet customer demand.

The Philippines also cyclically experiences the El Niño phenomenon which is characterized by prolonged and severe drought. During such periods, sources of water available to the Company from MWSS is diminished dramatically which may affect the Company's ability to supply adequate treated water to its customers.

Liquidity and Capital Resources

The Group believes that its current level of cash and cash equivalents will be sufficient to meet its anticipated cash needs, including cash requirements for operations, funding needs for capital expenditures, concession fee payments, debt servicing and dividend payments for 2019.

Capital Sources

The Group's cash and cash equivalents as of December 31, 2018 ended at ₱9.39 billion. The principal source of cash inflows were cash flows from operating and financing activities. Cash outflows were primarily for capital expenditures, investments in associates, concession fee payments, dividends, and debt repayments. The Group is financially capable of implementing improvement and expansion projects from internally generated funds augmented by available credit lines and loan facilities from reputable local and international financing institutions.

Cash Provided by Operating Activities. Net cash provided by operations in 2018 amounted to ₱ 3.30 billion, after funding service improvement activities and capital expenditures for expansion of water and used water networks required under the respective concession agreements of the Group amounting to ₱7.13 billion.

Cash Used in Investing Activities. Net cash used in investments for the year ended at ₱8.86 billion. Cash was used mainly for purchases of additional property, plant and equipment amounting to ₱1.35 billion and additional investments in associates and for business combination totaling ₱9.32 billion, which was partly offset by the ₱413.82 million proceeds from dividends from associates and the ₱275.90 million from interest received during the year.

Cash Provided by Financing Activities. Net cash provided by financing activities amounted to ₱ 5.93 billion in 2018 coming from availments of short-term and long-term debts totaling ₱15.70 billion. On the other hand, cash was used mainly for the payments of long-term debt amounting to ₱5.21 billion, service concession obligations amounting to ₱955.12 million, interest payments amounting to ₱1.64 billion, and cash dividends to common and preferred shareholders for a total of ₱2.15 billion for the year, representing 35% of prior year's net income.

Financial Obligations/Relationship with Unconsolidated Entities (Contractual Obligations and Commercial Commitments)

The Group's significant contractual obligations and commercial commitments that affect the Group's liquidity as of December 31, 2018 are disclosed in Notes 26 and 27 of the Audited Consolidated Financial Statements.

There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation, other than the Parent Company's guarantee of Manila Water (Thailand) Co., Ltd.'s short-term debt as disclosed in Note 14 of the Audited Consolidated Financial Statements.

Similarly, the Group's capital expenditure commitments are disclosed in Note 27 of the Audited Consolidated Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

There are no known trends, events or uncertainties that may have a material effect on liquidity and sales of the Group.

There are no significant elements of income or loss that did not arise from continuing operations of the Company.

Item 7. Financial Statements

Please see attached Exhibit I.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

SGV and Co. has been the external auditor of the Company since 1997 and continues to perform the same services for the Company up to the present date. Pursuant to SRC Rule 68, As Amended (2011), the signing partner of SGV & Co. is rotated every five (5) years.

There are no disagreements with SGV and Co. on accounting and financial disclosures.

External Audit Fees	**Audit and Audit-Related Fees of the Company**	
	2018	**2017**
Audit of Financial Statements	₱2,100,000.00	₱2,100,000.00
All Other Fees*	261,970.00	170,000.00
Total	**₱2,361,970.00**	**₱2,270,000.00**

** Includes Proxy Validation, Validation of ASM Votes, Loan Compliance Report*

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

The Board of Directors

The Board of Directors (the "Board") is primarily responsible for the governance of the Company. It controls and holds all corporate powers, all businesses conducted by and all properties of the Company. The Board is structured in a way that it provides an independent check on management.

The Board has eleven (11) members elected by the Company's stockholders entitled to vote at the annual meeting. The directors hold office for one (1) year and until their successors are elected and qualified in accordance with the Company's By-Laws. Of the eleven (11) members of the Board, four (4) are independent directors namely, Mssrs. Oscar S. Reyes, Jose L. Cuisia Jr., and Jaime C. Laya and Ms. Sherisa P. Nuesa.

The following are the members of the Board as of December 31, 2018:

Name	**Age**	**Position**	**Years as Director**
Fernando Zobel de Ayala	58	Chairman of the Board	21
Jaime Augusto Zobel de Ayala	59	Vice Chairman	21
Ferdinand M. dela Cruz	52	President, Chief Executive Officer, and Chief Sustainability Officer	1
Gerardo C. Ablaza Jr.	65	Director	9
Antonino T. Aquino	71	Director	20
Delfin L. Lazaro	72	Director	16
John Eric T. Francia	47	Director	8
Sherisa P. Nuesa	63	Independent Director	5
Oscar S. Reyes	72	Lead Independent Director	13
Jose L. Cuisia, Jr.	74	Independent Director	8
Jaime C. Laya	79	Independent Director	4

Profiles of the Members of the Board of Directors
as of December 31, 2018:

FERNANDO ZOBEL DE AYALA
Filipino, 58 years old
Chairman of the Board
Chairman of the Executive Committee
Member of the Remuneration Committee
Director of Manila Water since May 15, 1997

Education and Trainings:
- Liberal Arts degree, Harvard College;
- Certificate in International Management, INSEAD, France.

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ayala Corporation (Ayala Group)
- Ayala Land, Inc. (Ayala Group)
- Bank of the Philippine Islands (Ayala Group)
- Globe Telecom, Inc. (Ayala Group)
- Integrated Micro-Electronics, Inc. (Ayala Group)
- Pilipinas Shell Philippines Corporation

Membership in the Board of Non-Listed Companies:
- AC Education, Inc. (Ayala Group)
- AC Energy Inc. – formerly AC Energy Holdings, Inc. (Ayala Group)
- AC Industrial Technology Holdings, Inc. (Ayala Group)
- AC Infrastructure Holdings Corporation (Ayala Group)
- AC International Finance Ltd. (Ayala Group)
- AC Venture Holding Corp. (Ayala Group)
- Accendo Commercial Corporation (Ayala Group)
- AG Holdings Ltd. (Ayala Group)
- Alabang Commercial Corporation (Ayala Group)
- ALI ETON Property Development Corporation (Ayala Group)
- Asiacom Philippines, Inc. (Ayala Group)
- Aurora Properties, Inc. (Ayala Group)
- Automobile Central Enterprises, Inc. (Ayala Group)
- Ayala Foundation Inc. (Ayala Group)
- Ayala Group Club, Inc. (Ayala Group)
- Ayala Healthcare Holdings, Inc. (Ayala Group)
- Ayala International Holdings Limited (Ayala Group)
- Ayala International Pte. Ltd. (Ayala Group)
- Ayala Retirement Fund Holdings, Inc. (Ayala Group)
- Berkshires Holdings, Inc.
- Bonifacio Art Foundation, Inc. (Ayala Group)
- Bonifacio Land Corporation (Ayala Group)
- BPI Foundation (Ayala Group)
- Ceci Realty, Inc. (Ayala Group)
- Columbus Holdings, Inc. (Ayala Group)

- Emerging City Holdings, Inc. (Ayala Group)
- Fort Bonifacio Development Corporation (Ayala Group)
- Georgetown University
- Honda Cars Philippines
- Liontide Holdings, Inc. (Ayala Group)
- INSEAD Business School
- Isuzu Philippines
- LiveIt Investments, Ltd. (Ayala Group)
- Mermac, Inc.
- Sonoma Services, Inc.
- Tikehau Capital
- Vesta Property Holdings, Inc. (Ayala Group)

Positions and Memberships in Other Organizations and Corporations:
- President and Chief Operating Officer of Ayala Corporation;
- Chairman of the Board of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., ALI Eton Property Development Corporation, Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.;
- Co-chairman of the Board of Trustees of Ayala Foundation, Inc. and Ayala Group Club, Inc.;
- Vice-Chairman of AC Industrial Technology Holdings, Inc., Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc., AKL Properties Inc., AC Ventures Holding Corp. and Bonifacio Art Foundation, Inc.;
- Director of LiveIt Investments Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., AC Education, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula, INSEAD and Georgetown University;
- Member of the Tikehau Capital International Advisory Board, Philippine-Singapore Business Council, World Presidents' and Chief Executives Organization; Organization;
- Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee;
- Member of the Board of Trustees, Caritas Manila, Pilipinas Shell Foundation and the National Museum; and
- Member of the Tate Museum Asia-Pacific Acquisitions Committee, Asia Philanthropy Circle and The Metropolitan Museum International Council

JAIME AUGUSTO ZOBEL DE AYALA
Filipino, 59 years old
Vice Chairman of the Board
Director of Manila Water since May 15, 1997

Education and Trainings:
- B.A. in Economics (Cum Laude) from Harvard College
- MBA from Harvard Graduate School of Business

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ayala Corporation (Ayala Group)
- Globe Telecom, Inc. (Ayala Group)
- Bank of the Philippine Islands (Ayala Group)
- Integrated Micro-Electronics, Inc. (Ayala Group)
- Ayala Land, Inc. (Ayala Group)

Membership in the Board of Non-Listed Companies:
- AC Energy, Inc. (Ayala Group)
- Ayala Foundation, Inc. (Ayala Group)
- AC Education, Inc. (Ayala Group)
- Ayala Retirement Fund Holdings, Inc. (Ayala Group)
- Asiacom Philippines, Inc. (Ayala Group)
- Ayala Group Club, Inc. (Ayala Group)
- Alabang Commercial Corporation (Ayala Group)
- Ayala International Pte. Ltd. (Ayala Group)
- AG Holdings Limited (Ayala Group)
- Ayala Healthcare Holdings, Inc. (Ayala Group)
- AC Industrial Technology Holdings, Inc. (Ayala Group)
- AC Ventures Holdings Corp. (Ayala Group)
- AC Infrastructure Holdings Corporation (Ayala Group)
- Light Rail Manila Holdings, Inc.
- Asia Business Council
- Singapore Management University
- Eisenhower Fellowships

Positions and Memberships in Other Organizations and Corporations:
- Chairman of the Board and Chief Executive Officer of Ayala Corporation since April 1996;
- Chairman of the Board of Globe Telecom, Inc., Bank of the Philippine Islands, Integrated Micro-Electronics, Inc., AC Education, Inc., Ayala Retirement Fund Holdings, Inc., Asiacom Philippines, AC Industrial Technology Holdings, Inc., AC Ventures Holdings Corp., AC Infrastructure Holdings Corporation, and Endeavor Philippines;
- Chairman Emeritus of the Asia Business Council;
- Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.;
- Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc.;
- Co-Vice Chairman of Makati Business Club; and
- Member, various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, Mitsubishi Corporation International Advisory Council, JP Morgan International Council, JP Morgan Asia Pacific Council, Council on Foreign Relations, Singapore Management University, and University of Tokyo Global Advisory Board.

He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business.

FERDINAND M. DELA CRUZ
Filipino, 52 years old
President and Chief Executive Officer of Manila Water since April 17, 2017
Member of the Board
Member of the Executive Committee
Director of Manila Water since April 17, 2017

Education and Training:
- Harvard Business School Advance Management Program
- B.S. Mechanical Engineering, *Cum Laude,* University of the Philippines
- Ranked 10th in the 1987 Mechanical Engineering Board Licensure Examinations

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)

Membership in the Board of Non-Listed Companies:
- Manila Water Philippine Ventures, Inc.
- Manila Water International Solutions, Inc.
- Manila Water Total Solutions Corp.
- Clark Water Corporation
- Boracay Island Water Company, Inc.
- Laguna AAAWater Corporation
- Manila Water Foundation, Inc.
- Manila Water Asia Pacific Pte. Ltd.
- Manila Water South Asia Holdings Pte. Ltd.
- Thu Duc Water Holdings Pte. Ltd.
- Kenh Dong Water Holdings Pte. Ltd.
- Manila South East Asia Water Holdings Pte. Ltd.
- Manila Water Indonesia Holdings Pte. Ltd.
- UP Engineering Research and Development Foundation, Inc.

Positions in Other Organizations and Corporations:
- Chairman of Manila Water Philippine Ventures, Inc., Manila Water International Solutions, Inc., Manila Water Total Solutions Corp., Clark Water Corporation, Boracay Island Water Company, Inc. and Manila Water Foundation, Inc.;
- Vice Chairman of Laguna AAAWater Corporation;
- Managing Director of Ayala Corporation; and
- Member of the Board of Trustees of UP Engineering Research and Development Foundation, Inc.

Prior to Mr. dela Cruz' recent appointment, he was Chief Operating Officer for Manila Water Operations (Manila Concession), President of Manila Water Total Solutions Corporation and President of the Manila Water Foundation. He joined Manila Water in July 2011 as the East Zone Business Operations Group Director and was concurrently Group Director for Corporate Strategic Affairs starting December 2011.

Before joining Manila Water, Mr. dela Cruz was the head of Consumer Sales Group and the Consumer Sales and After Sales Group of Globe Telecom for two years, and was head of its Wireless Business Group for nearly seven years from October 2002 to June 2009. Prior to that, he was the President and General Manager of Kraft Foods (Philippines) Inc. for more than a year and the same company's Country General Manager for its various operating companies in Indonesia for two years.

Mr. dela Cruz also held senior leadership roles in Ayala Land, San Miguel Brewing Philippines, Inbisco Philippines and Unilever Philippines. He started his working career as a Junior Engineer in DCCD's Mechanical Engineering Division in 1986.

GERARDO C. ABLAZA JR.
Filipino, 65 years old
Member of the Board
Vice Chairman of the Executive Committee
Member of the Audit Committee
Member of the Board Risk Oversight Committee
Director of Manila Water since November 26, 2009

Education and Training:
Liberal Arts Degree, Major in Mathematics (Honors Program), *summa cum laude*, De La Salle University in 1974As one of the most accomplished graduates of his alma mater, he sits as a member of the Board of Trustees in various De La Salle Schools in the country.

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Bank of the Philippine Islands (Ayala Group)
- Bank of the Philippine Islands Savings Bank (Ayala Group)
- BPI Capital (Ayala Group)

Membership in the Board of Non-Listed Companies:
- AC Holdings, Inc. (formerly AC Energy Holdings, Inc.) (Ayala Group)
- Purefoods International Ltd. (Ayala Group)
- Asiacom Philippines, Inc. (Ayala Group)
- LiveIT Investment Limited (Ayala Group)
- Ayala Foundation, Inc. (Ayala Group)
- A.C.S.T. Business Holdings, Inc. (Ayala Group)
- AC Infrastructure Holdings Corporation (Ayala Group)
- Ayala Retirement Fund Holdings, Inc. (Ayala Group)
- Ayala Healthcare Holdings, Inc. (Ayala Group)

Positions in Other Organizations and Corporations:
- President of Ayala Retirement Fund Holdings, Inc.;
- Advanced Info Services, PLC (Thailand); and
- De La Salle University

In 1997, Mr. Ablaza was the Chief Operating Officer of Globe Telecom, Inc. and became President and CEO from 1998 to April 2009. He was also the Chairman of the Board of Directors of Manila Water Philippine Ventures, Inc., Boracay Island Water Company, Inc., Clark Water Corporation, Manila Water Total Solutions Corp., Manila Water Asia Pacific Pte. Ltd, Manila Water South Asia Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., and Manila Water International Solutions, Inc., and Innove Communications, Inc., a wholly owned subsidiary of Globe Telecom Inc. from October 2003 to April 2009. Mr. Ablaza was also the President of Manila Water Consortium, Inc. and Manila Water International Solutions, Inc., Vice-Chairman of Laguna AAAWater Corporation, and Chairman of the Board of Trustees of Manila Water Foundation, Inc. In April 2009, he was tasked to handle AC Capital as Deputy CEO and became CEO the following year. Before joining Ayala Group, he held several positions in Citibank: Vice-President and Country Business Manager for the Philippines and Guam of Citibank, N.A. for its Global Consumer Banking Business (1994-1997), Vice-President for Consumer Banking of Citibank, N.A. Singapore (1994 – 1995), Vice President for Consumer Account Management Group-Citibank Manila in 1986 and thereafter became the bank's representative to the board of directors of City Trust Banking Corporation and its various subsidiaries from 1987 to 1994.

In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. In the same year, he was awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. Mr. Ablaza was the first and only Filipino to be awarded with such an honor.

ANTONINO T. AQUINO
Filipino, 71 years old
Member of the Board
Member of the Executive Committee
Director of Manila Water since April 24, 1998

Education and Training:
- Bachelor of Science, major in Management degree, Ateneo de Manila University
- Completed academic units for Masteral Degree in Business Management, Ateneo Graduate School of Business

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ayala Land, Inc. (Ayala Group)

Membership in the Board of Non-Listed Companies:
- The Philippine American Life & General Insurance Company
- Nuevocentro, Inc.
- Anvaya Beach & Nature Club
- Mano Amiga Academy Inc.

Mr. Aquino first joined Manila Water as Group Director for Corporate Affairs and was later appointed President and CEO in January 1999. He left Manila Water to take on the position of President of Ayala Land, Inc. from April 2009 to April 2014, but remained a Director of the Company.

He was named "Co-Management Man of the Year 2009" by the Management Association of the Philippines for his leadership role in a very successful waterworks privatization and public-private sector partnership.

Mr. Aquino Has been with the Ayala Group in various capacities for the past thirty-eight (38) years and has held the position of Senior Managing Director in Ayala Corporation. He was President of the Ayala Property Management Corporation from 1989 to 1999 and Senior Vice President of Ayala Land, Inc. from 1989 to 1998. He was also a Business Unit Manager at IBM Philippines, Inc. from 1968 to 1980.

He is also a member of the Multi Sectoral Advisory Board of the Philippine Army and the Multi Sector Governance Council of the Armed Forces of the Philippines and the Department of National Defense.

In 2015, he was elected as Director of The Philippine American Life and General Insurance Company.

DELFIN L. LAZARO
Filipino, 72 years old
Member of the Board of Directors
Director of Manila Water since May 6, 2002

Education and Training:
- B.S. in Metallurgical Engineering degree, University of the Philippines
- MBA (with Distinction), Harvard Graduate School of Business

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ayala Land, Inc. (Ayala Group)
- Integrated Micro-Electronics, Inc. (Ayala Group)
- Ayala Corporation (Ayala Group)
- Globe Telecom, Inc. (Ayala Group)

Membership in the Board of Non-Listed Companies:
- Asiacom Philippines, Inc.
- Bell Bridge Resources Corporation
- Beyond Borders Medical Solutions
- DLLazaro, Inc.
- DLL Maunong Holdings Corporation
- DLL Shaw Holdings Corporation
- DLL Woodstown Holdings Corporation
- Lazaro Agricultural Corporation
- Quezon Avenue Holdings, Corporation
- Atlas Fertilizer Corporation
- AC International Finance
- AYC Holdings, Inc.
- Purefoods International, Ltd.
- ACST Business Holdings, Inc.
- AC Industrial Technology Holdings, Inc.
- Lazaro, Bernardo, Tiu

Positions in Other Organizations and Corporations:
- Chairman and President of Bell Bridge Resources Corporation, Beyond Borders Medical Solutions, DLLazaro, Inc., DLL Maunong Holdings Corporation, DLL Shaw Holdings Corporation, DLL Woodstown Holdings Corporation and Lazaro Agricultural Corporation;
- Chairman of Atlas Fertilizer Corporation; and
- Vice Chairman and President of Asiacom Philippines, Inc.

Mr. Lazaro was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successive high growth levels up to the Asian crisis in 1997.

JOHN ERIC T. FRANCIA
Filipino, 47 years old
Member of the Board of Directors
Member of the Executive Committee
Director of Manila Water since April 12, 2010

Education and Training:
- Undergraduate degree in Humanities and Political Economy, magna cum laude, University of Asia & the Pacific
- Masters Degree in Management Studies, with First Class Honors, University of Cambridge, United Kingdom

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ho Chi Minh City Infrastructure Investment Joint Stock Company (Ho Chi Minh Stock Exchange)

Membership in the Board of Non-Listed Companies:
- AC Energy, Inc. (Ayala Group)
- AC Infrastructure Holdings Corporation (Ayala Group)
- Ayala Education, Inc. (Ayala Group)
- Ayala Healthcare Holdings, Inc. (Ayala Group)
- Ayala Hotels, Inc. (Ayala Group)
- Light Rail Manila Holdings, Inc. (Ayala Group)
- LiveIt Investments (Ayala Group)
- AC Energy Development Inc.
- Northwind Power Development Corporation
- North Luzon Renewables Energy Corporation
- South Luzon Thermal Energy Corporation
- Kauswagan Power GP Corporation
- AC Energy GP Corporation
- Dinginin Power GP Corporation
- Arlington Mariveles GP Corporation
- ACE Mariveles GP Corporation
- AA Thermal, Inc.
- Monte Solar Energy, Inc.
- MCX Tollway, Inc.
- LINC Institute, Inc.
- Zapfam, Inc.

Positions in Other Organizations and Corporations:
- President and Chief Executive Officer of AC Energy, Inc.;
- Managing Director of Ayala Corporation;
- Member of the Management Committee of Ayala Corporation; and
- Member of the Board of Trustees, University of Asia and the Pacific Foundation, Inc.

Prior to joining Ayala, Mr. Francia was involved in the fields of management consulting, academe and media.

SHERISA P. NUESA
Filipino, 63 years old
Independent Director
Chairman of the Corporate Governance Committee
Chairman of the Related Party Transactions Committee
Member of the Remuneration Committee
Independent Director of the Company since April 15, 2013

Education and Training:
- Certified Public Accountant
- Advanced Management Program, Harvard Business School
- Master in Business Administration degree, Ateneo-Regis Graduate School of Business
- Financial Management Program, Stanford University
- Audit Committee Seminar for Directors, Harvard Business School
- BS in Commerce degree (summa cum Laude), Far Eastern University

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Far Eastern University
- Integrated Micro Electronics Inc (Ayala Group)

Membership in the Board of Non-Listed Companies:
- Generika Group (Actimed, Erikagen, Pharmagen, Novelis)
- ALFM Mutual Funds Group
- East Asia Computer Center Inc.
- Judicial Reform Initiative (JRI)
- Financial Executives Institute of the Philippines
- Institute of Corporate Directors
- FERN Realty Corp.

Positions in Other Organizations and Corporations:
- President of ALFM Mutual Funds Group;
- Senior Board Adviser of Metro Retail Stores Group (MRSG);
- Board Adviser/Consultant of VICSAL Development Corporation; and
- Chairman of the Judicial Reform Initiative

Ms. Nuesa was a Managing Director of Ayala Corporation where she served in various senior management positions until December 2011 which includes the following:
- Chief Finance Officer and Chief Administrative Officer, Integrated Micro-Electronics, Inc. (January 2009 to July 2010)

- Chief Finance Officer, Manila Water Company, Inc. (January 2000 to December 2008)
- Group Controller and later Vice President for Commercial Centers, Ayala Land, Inc. (January 1989 to March 1999);
- Member of the boards of various subsidiaries of ALI and IMI and member of the board of trustees of Manila Water Foundation, Inc.

Ms. Nuesa was awarded the ING-FINEX Chief Finance Officer of the year for 2008.

OSCAR S. REYES
Filipino, 72 years old
Lead Independent Director
Chairman of the Audit Committee
Member of the Remuneration Committee
Member of the Nomination Committee
Member of the Board Risk Oversight Committee
Director of Manila Water since February 3, 2005

Education and Trainings:
- Commercial Management Study Program, Lensbury Centre, Shell International Petroleum Co., U.K.
- Program for Management Development, Harvard Business School, Boston, U.S.A.
- MBA (academic units completed), Ateneo de Manila Graduate School of Business
- International Management Development Leading to (1) Diploma in Business Administration (2) Certificate in Export Promotion, Waterloo Lutheran University, Canada
- Business Management Consultants and Trainers' Program, Japan Productivity Center/Asian Productivity Organization, Japan and Hong Kong
- AB Economics, Ateneo de Manila University

Membership in the Board of Listed Companies:
- Manila Water Company, Inc.
- Basic Energy Corporation
- Cosco Capital Inc.
- Manila Electric Company (President and Chief Executive Officer)
- Pepsi Cola Products Phils. Inc.

Member of the Board of Directors of Non-Listed Companies:
- PLDT Communications and Energy Ventures Inc.
- Sun Life Financial Phils, Inc.

Positions and Memberships in Other Organizations and Corporations:
- Chairman of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Meralco Energy, Inc., Redondo Peninsula Energy, Inc., PacificLight Pte. Ltd., MRail, Inc., Spectrum Inc., and Atimonan One Energy Inc.
- Co-chairman of Meralco PowerGen Corporation
- Member of the Board of Trustees of Pilipinas Shell Foundation Inc., One Meralco Foundation, Inc., SGV Foundation, Inc., and El Nido Foundation, Inc.
- Member of the Advisory Board of the Philippine Long Distance Telephone Company (PLDT), and Council of Advisors of the Bank of the Philippine Islands

JOSE L. CUISIA JR.
Filipino, 74 years old
Independent Director
Chairman of the Nomination Committee
Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Corporate Governance Committee
Member of the Related Party Transactions Committee
Member of the Board Risk Oversight Committee
Independent Director of the Company since April 12, 2010

Education and Training:
- AB-BSC degrees, Magna Cum Laude, De La Salle University
- MBA degree, The Wharton School Graduate School of Business, University of Pennsylvania (University Scholar)

Membership in the Board of Directors of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- SM Prime Holdings
- PHINMA Corporation
- Century Properties Group, Inc.

Membership in the Board of Other Organizations and Corporations:
- Chairman of the Board of Starr International Companies – Philippine Branch, FWD Insurance; Ramon Magsaysay Awards Foundation; Advisory Board of the Rizalino Navarro Center for Competitiveness at AIM; Board of Five J's Diversified, Adlemi Properties, JVC Holdings Corp., and The Covenant Car Company;
- Co-Chair of the Advisory Board of the Ramon V. Del Rosario Center for Corporate Responsibility at AIM;
- Vice Chairman and Lead Independent Director of SM Prime Holdings
- Vice Chairman of the Board of Trustees of the University of Asia & the Pacific and CRC Foundation;
- Board of PHINMA, Inc., and Asian Breast Center, Inc.

Mr. Cuisia was Philippine Ambassador Extraordinary and Plenipotentiary to the United States of America and non-resident Ambassador to Trinidad & Tobago, the US Virgin Islands, Grenada, Puerto Rico, the Commonwealth of Jamaica and the Republic of Haiti, Antigua & Barbuda, Barbados, the Commonwealth of Dominica, The Federation of St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines from 2010-2016.

Before becoming Philam Life's President and CEO for sixteen (16) years, Mr. Cuisia served the Philippine Government as Governor of the Central Bank of the Philippines and Chairman of its Monetary Board from 1990-1993. He was also appointed Commissioner, representative of the Employer's Group, for the Social Security System (SSS) in September 2010. Mr. Cuisia was also Governor for the Philippines to the International Monetary Fund and Alternate Governor to the World Bank. Prior to service in the Central Bank, he was also the Administrator of the Social Security System from 1986- 1990.

JAIME C. LAYA
Filipino, 79 years old
Independent Director
Chairman of the Board Risk Oversight Committee
Member of the Corporate Governance Committee
Member of the Audit Committee
Member of the Related Party Transaction Committee
Member of the Nomination Committee
Independent Director of the Company since April 4, 2014

Education and Training:
- Certified Public Accountant
- BSBA, Magna cum Laude, University of the Philippines
- M.S. in Industrial Management, Georgia Institute of Technology
- Ph.D. in Financial Management, Stanford University in 1966

Membership in the Board of Listed Companies:
- Manila Water Company, Inc. (Ayala Group)
- Ayala Land, Inc. (Ayala Group)
- Philippine Trust Company (Philtrust Bank)
- GMA Network, Inc.
- GMA Holdings, Inc.

Membership in the Board of Non-Listed Companies:
- Philippine AXA Life Insurance Co., Inc.
- Cultural Center of the Philippines
- St. Paul's University – Quezon City
- Ayala Foundation, Inc.
- Yuchengco Museum
- Escuela Taller de Filipinas Foundation, Inc.
- Don Norberto Ty Foundation, Inc.
- Charter Ping an Insurance Corporation
- Metropolitan Museum of Manila

Positions in Other Organizations and Corporations:
- Chairman and President of Philippine Trust Company (Philtrust Bank);
- Chairman of Escuela Taller de Filipinas Foundation, Inc., Don Norberto Ty Foundation, Inc.;
- Independent Director of Philippine AXA Life Insurance Co., Inc., GMA Network, Inc., GMA Holdings, Inc., Ayala Land, Inc., Manila Water Company, Inc., Charter Ping An Insurance Corporation;
- Trustee of Cultural Center of the Philippines, St. Paul University -- Quezon City, Metropolitan Museum of Manila, Yuchengco Museum, Ayala Foundation, Inc., and others; and Director of various family corporations

Mr. Laya has served as Minister of the Budget; Minister of Education, Culture and Sports; Governor of the Central Bank of the Philippines; Chairman of the National Commission for Culture and the Arts; and Professor and Dean of Business Administration of the University of the Philippines.

The Executive Officers

The following are the Company's key executive officers as of December 31, 2018:

Name	Age	Position
Ferdinand M. dela Cruz	52	President, Chief Executive Officer, and Chief Sustainability Officer
Solomon M. Hermosura	56	Corporate Secretary
Virgilio C. Rivera Jr.	57	Chief Operating Officer for New Business Operations
Ma. Cecilia T. Cruzabra	53	Chief Finance Officer, Treasurer, Compliance Officer, and Group Director for Corporate Finance and Strategy
Geodino V. Carpio	58	Chief Operating Officer for Manila Water Operations
Thomas T. Mattison	53	Group Director for Corporate Operations
Abelardo P. Basilio	58	Group Director for Strategic Asset Management, and Data Protection Officer
Janine T. Carreon	47	Group Director for Corporate Human Resources
Esmeralda R. Quines	55	Group Director for East Zone Business Operations
Liwayway T. Sevalla	53	Chief Information Officer, and Group Director for Business and Technology Services
Maidy Lynne B. Quinto	42	Group Director for Corporate Project Management

Profiles of the Executive Officers
as of December 31, 2018:

FERDINAND M. DELA CRUZ
Please see profile of Mr. dela Cruz under the section "Profiles of the Members of the Board of Directors as of December 31, 2018."

MA. CECILIA T. CRUZABRA
Filipino, 53 years old
Chief Finance Officer, Treasurer, Compliance Officer, and
Group Director for Corporate Finance and Strategy

Ms. Cruzabra joined Manila Water Company in November 1, 2018. She provides operational and strategic support to the organization through his supervision of the Corporate Finance and Strategy Group.

She is part of the Senior Leadership Team of Manila Water. She is a member of the Board of Directors of Manila Water Philippine Ventures, Inc., Boracay Island Water Company, Inc., Manila Water Consortium, Inc., Laguna AAAWater Corporation, Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte. Ltd., Manila South East Asia Water Holdings Pte. Ltd., Manila Water Thailand Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., and Kenh Dong Water Holdings Pte. Ltd. She is also a director, and the Chief Finance Officer and Treasurer of Clark Water Corporation.

Ms. Cruzabra graduated with a Bachelor of Arts in Economics (Honor Program) degree from the Ateneo de Manila University in 1986. She also completed her Masters in Business Administration degree from the Asian Institute of Management (AIM) in 1990.

Ms. Cruzabra's work experience spans 32 years. She started her career in 1986 as in Investment Analyst as Sun Hung Kai Securities, Philippines, while concurrently teaching Economics at the Ateneo de Manila University. In 1990, she started deepening her career in Finance when she moved to Metro Pacific Corporation ("Metro Pacific") as a Management Trainee in Finance. There she was given on-the-job training in Treasury, Capital Budgeting, Budget, Cost Accounting System. After two years with Metro Pacific, Ms. Cruzabra took on bigger responsibility at Steniel Manufacturing Corporation where she held the position of Treasurer, Financial Planning and Investor Relations (IR) Head of the company. For six years, she led the IR and Treasury functions of the company where she had very good exposure in treasury operations, fund raising, deals structuring, investor relations and strategy development.

In 1997 to 2006, Ms. Cruzabra moved to Globe Telecom where she became Head of Treasury and Enterprise-Wide Risk Management. It is where Ms. Cruzabra raised funding expansion programs of the company and its subsidiaries. She also assisted the CFO in the review of the company's capital structure and in equity issuance and exercise (PDRs, Warrants, buy-backs, etc.). She also handled liability management and set-up of foreign exchange and interest rate risk management in the company, tax planning, compliance and advocacy.

From 2007 to 2013, Ms. Cruzabra went back to teaching as Finance professor at the De La Salle Graduate School and assumed corporate roles as Consultant and President, Chairman of the Board at Altimax Broadcasting Co., Inc. and Board of Directors at Bethlehem Holdings. Within these years, she started teaching at AIM as Adjunct Faculty, a role she holds up to present. Her last role prior to going back to Ayala Corporation was as Head of Finance at ALC Explo and General Services, Inc. from 2012 to 2013.
In January 2014, Ms. Cruzabra re-joined Ayala Group as Treasurer of the Ayala Corporation, a role she handled with the same excellence up to 2018.

VIRGILIO C. RIVERA JR.
Filipino, 57 years old
Chief Operating Officer
New Business Operations

Mr. Rivera has been with the Ayala Group for thirty years (30) years and has held various appointments with Ayala Corporation, one of the Philippines' oldest and largest conglomerates. He holds the rank of a Managing Director seconded to Manila Water Company, Inc. as Chief Operating Officer for New Business Operations. In this role, he acquired extensive experience in Public – Private Partnerships (PPPs) in the water industry and successfully managed price reviews during the past 20 years for Manila Water.

Mr. Rivera concurrently serves as the President and Chief Executive Officer of Manila Water Philippine Ventures (MWPV), and Manila Water Asia Pacific Pte. Ltd. (MWAP) which house at least fifteen (15) subsidiaries. MWPV and MWAP have a combined USD600M asset base with a workforce of more than 650 employees.

Moreover, he serves as an Independent Director of the Toilet Board Coalition, the world's first multi-discipline coalition of leading companies, government agencies, sanitation experts and non-profit organizations aiming to develop commercially sustainable and scalable solutions to the sanitation crisis.

He was also a Founding Member of The Academy of Regulatory Professionals, a community of recognized experts dedicated to the understanding of regulatory issues and practices, the development of new knowledge and the promotion of mutual professional growth organized by the Public Utility Research Center at the University of Florida. He is also an Adjunct Professor at the Global Change Institute (GCI) at the University of Queensland, Australia. GCI is an independent source of innovative research, ideas, policy and advice for addressing the challenges of a rapidly changing world.

In September 2018, Mr. Rivera was appointed as the first Filipino board member of the International Water Association). Prior to his board appointment, Mr. Rivera achieved the distinction as the first Filipino IWA Fellow in 2016.

Mr. Rivera continues to be a resource person in various conferences on infrastructure and regulation and PPP initiatives sponsored by the World Bank/International Finance Centre, Asian Development Bank, Japan International Cooperation Agency, International Water Association, Singapore Public Utilities Board, by Academic Research Institutions such as The Energy and Resources Institute, Stanford University, and University of Tokyo, and by Government Agencies in Emerging Countries.

He earned his university degrees in Economics and Behavioral Science at the University of Santo Tomas, and completed his graduate-level coursework in M.S. Economics at De La Salle University. In 2011, he completed the Advanced Management Program of Harvard Business School.

His book, Tap Secrets: The Manila Water Story - An Exercise in Successful Utility Reform in Urban Water Sector, was published by the Asian Development Bank in 2014.

GEODINO V. CARPIO
Filipino, 58 years old
Chief Operating Officer, Manila Water Operations

Mr. Carpio is the Chief Operating Officer for Manila Water Company, Inc. He also holds the position of President, Manila Water Foundation, and President of Manila Water Total Solutions.

Mr. Carpio joined Manila Water Company, Inc. in 1997 as Chief Information Officer. His responsibility as such included the implementation, operation and maintenance of Information Technology Infrastructure and applications for the Company's head office, 8 business areas, and various operations facilities.

In 2004, he became Group Director for the Project Delivery Group (PDG) responsible for the formulation of strategy, planning and management of capital works for the Company. Since 2010, he has lead the Operations Group, ensuring the efficient and reliable operation of all treatment and primary conveyance facilities for water sources, drinking water and used water.

Mr. Carpio is also a member of the Board of Directors of Manila Water Philippine Ventures, Inc., Laguna AAAWater Corporation, Manila Water International Solutions, Inc., Manila Water Total Solutions Corporation, Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., and Kenh Dong Water Supply and Joint Stock Company. He is also a member of the Board of Trustees Manila Water Foundation, Inc.

Before joining Manila Water, Mr. Carpio was the Vice President for Information Technology for the Marsman Group of Companies (1995 to 1997). In that role, Mr. Carpio was responsible for the IT planning and management for the four Marsman companies across thirty-two (32) branches nationwide.

He holds a B.S. in Physics Teaching degree (Cum Laude) from the Philippine Normal College in consortium with De La Salle University under the National Science Development Board Scholarship Grant and attended a Software Engineering Course under the Scholarship Grant from the Center for International Cooperation for Computerization in Tokyo, Japan in 1986.

ABELARDO P. BASILIO
Filipino, 58 years old
Group Director, Strategic Asset Management
Data Protection Officer

Mr. Basilio has been with Manila Water for twenty-one (21) years and has held several appointments under various capacities within the company including Director of Technical Services Group, Group Director of East Zone Business Operations and a short stint as OIC Head of Corporate Regulatory Affairs Group Mr. Basilio joined Metropolitan Waterworks and Sewerage Systems (MWSS) as a young cadet in 1984 and gained experience in utility operations which include hydraulic engineering, water treatment, distribution and network management. He later joined Manila Water in 1997.

Currently, Mr. Basilio holds three positions in the Enterprise, as Group Director for Strategic Asset Management, Group Director for Subsidiary Operations – Philippine Ventures and as Data Protection Officer.

As Strategic Asset Management Group Director, Mr. Basilio provides comprehensive, holistic and integrated strategic plans that sets up the platform for capital investment, operation and maintenance of existing and new assets and the rationalization and disposal of assets of the company. Simultaneously, Mr. Basilio is also task to lead the Manila Water Philippine Ventures (MWPV), as its Subsidiary Operations Group Director, in establishing framework to standardize key performance metrics and management reporting and improve the subsidiaries' operating performance by institutionalizing enterprise policies, programs, standards and developing core technical skills for the Business Units under MWPV. Mr. Basilio also ensures the compliance of the whole enterprise in the Data Privacy Act of 2012 by functioning as Data Protection Officer.

He holds a degree in Civil Engineering from the University of the Philippine under the university scholarship program. He completed a Management Development Program in Asian Institute of Management, Water Network Design and Modelling in Manchester, United Kingdom and SCADA/Telemetry Training in Singapore.

THOMAS T. MATTISON
British, 53 years old
Group Director, Corporate Operations

Mr. Mattison has worked in the Utility industry for thirty-five (35) years, thirty-three (33) of which being in the Water Sector and two (2) of which being in the Electricity Sector. He was first seconded to Manila Water in 1997 as Technical Manager for Maintenance Services and was seconded again to Manila Water in 2007 as Reliability and Efficiency Consultant. In 2011, he became the Operations Support Services Director under the Operations Group. By this time, he was already a full employee of Manila Water.

In September 2013, Mr. Mattison was designated to lead the Corporate Project Management Group of the Company and transformed the function into a full engineering services provider. He was responsible for the management of the engineering and project delivery function within the Company. He was confirmed into the role of Group Director effective March 1, 2015.

In August 1, 2017, Mr. Mattison was assigned the role of Group Director for the Corporate Operations Group. He is responsible for providing Water and Used Water services, managing the source, treatment, and network, to the Manila Concession. He also provides support and guidance to the other Manila Water businesses with regard to Technical Operations matters, in his role on the Enterprise Leadership Team.

Mr. Mattison graduated from Manchester Metropolitan University, UK with a bachelor's degree in Engineering (BEng Engineering).

JANINE T. CARREON
Filipino, 47 years old
Group Director, Corporate Human Resources

Ms. Carreon joined Manila Water in 2009 as a Learning and Development Manager tasked to implement a comprehensive Leadership Development Program to support the growth trajectory of the company. After six months, her role was eventually expanded to cover recruitment, talent management and manpower planning and university management. Her key contribution to the company are the strengthening of the leadership development program, implementation of comprehensive competency framework down to job level competency maps, an on-line learning management system with capability to measure Human Capital proficiency of the company to support talent development and deployment, and the development and implementation of a Human Capital Masterplan to support our growth initiatives. She was also at the helm of implementing robust talent and succession management systems to support the CEO of the company. Through her leadership, talent management systems in the company were methodically placed and talent evaluation became science.

Ms. Carreon brings with her twenty-four (24) years of work experience in various line and Human Resources functions. She started her career in HR as a recruitment specialist in a manufacturing company and eventually moved on to Training and OD specialist role with Mercury Group of Companies. She moved to Avon Cosmetics in 1994 where she spent 15 years with the company, handling various roles of increasing responsibilities.

Ms. Carreon graduated from the University of the Philippines, Diliman with a Bachelor of Arts Degree in Psychology in 1992. She also took her Master's Degree in Industrial Relations – major in Human Resource Management in the same university in 2000. Recently, she just earned a Certificate Program in Strategic Human Leadership thru eCornell of Cornell University in New York, USA and Advanced Organization Design in Ashridge Executive Education at Hult, Berkhamsted, Hertfordshire, UK.

ESMERALDA R. QUINES
Filipino, 55 years old
Group Director, East Zone Business Operations

Ms. Quines joined Manila Water Company in 1997 as Major Accounts Unit Manager and headed the 28-employee Key Accounts unit of the company. Since then, she held various leadership roles in the East Zone Operations: Customers Service Support Manager for Pasig and Cubao, Area Business Manager, overseeing Taguig-Pateros and Rizal Operations and Business Operations Head, overseeing all Business Areas.

Ms. Quines graduated from the University of Sto. Tomas with a Bachelor of Science Degree in Industrial Engineering in 1984. She also completed Post-Graduate studies as part of the Management Development Program in AIM as well as the Emerging Ayala Group Leaders (EAGLE) Program for Ayala Executives.

LIWAYWAY T. SEVALLA
Filipino, 53 years old
Chief Information Officer
Group Director, Business and Technology Services

Ms. Sevalla has been in the IT industry for over 30 years. She joined Manila Water as Deputy IT Head in October 2016, overseeing all functions of Information Technology. Prior to this appointment, Ms. Sevalla was with Macquarie Investment Bank as Associate Director from 2011 to 2016, where she was responsible for the Delivery of offshore IT functions for the Macquarie Asset Management (MAM) and Corporate Asset Financing (CAF) business units, out of the Manila Offshore Services.

Ms. Sevalla also spent 16 years in the Telecommunications industry, having worked in various companies such as Globe Telecommunications, where she last held the position of Head of Delivery and Integration, and Bayan Telecommunications as Assistant Vice President (AVP)/ Head of IT Business Applications.

Ms. Sevalla graduated *cum laude* from the University of the Philippines in Tacloban with a degree in Bachelor of Science in Business Administration. Ms. Sevalla completed Computer Programming/Systems Design at the National Computer Institute, and Management Development Program at Asian Institute of Management. Ms. Sevalla is a certified Project Management Professional.

MAIDY LYNNE B. QUINTO
Filipino, 42 years old
Group Director, Corporate Project Management

Ms. Quinto has been with the Manila Water Company, Inc. for nineteen (19) years, and has held various appointments. Concurrently serves as the Group Director of Corporate Project Management of Manila Water in head office, with the following departments she holds: Project Management Office, Construction Management Department, Project Stakeholder Engagement Department, Project Management Department, Engineering Department, Quality Assurance Department, and Safety Solution Department.

In 1999, she joined Manila Water as part of the 1st batch Cadetship Training Program. Her first role was Territory Manager in San Juan, Mandaluyong Business Area and become a Senior Territory Manager in year 2001. She also acts as a Project Manager in year 2005 and was a Strategic Asset Planning Department Head in year 2008. After a series of various assignments in the corporate office, in 2015 Ms. Quinto assumed the role of General Manager for Clark Water to broaden her management experience and give her opportunity to lead in a new business environment. Prior to this, after her stint as Marikina and North Cluster Head under East Zone Business Operations she is also good to note that Ms. Quinto was awarded the Grand Huwarang Manggagawa in 2001. She eventually assumed various roles of increasing responsibilities across the company and consistently shown excellent performance and dedication in her craft. Among her key contribution upon the role include leading the development and implementation of the framework agreements among engineering consortia, Ms. Quinto also part of her leadership of the Enterprise Functional Council, which provide oversight on projects management across the Enterprise.

Ms. Quinto holds two university degrees in Mapua Institute of Technology, Manila. Completed graduate-level course Bachelor of Science in Civil Engineering in year 1998. And in 2004, she completed the Bachelor of Science in Environmental and Sanitary Engineering.

SOLOMON M. HERMOSURA
Filipino, 56 years old
Corporate Secretary

Mr. Hermosura assumed his role as Corporate Secretary of the Company on April 3, 2006. Mr. Hermosura has served as Managing Director of Ayala since 1999 and a member of the Management Committee of Ayala (Holding Company) since 2009 and the Group Management Committee since 2010.

He also holds the following positions:

- Group Head of Corporate Governance of Ayala Corporation
- Chief Legal Officer, Compliance Officer, Data Protection Officer and the Corporate Secretary of Ayala Corporation
- CEO of Ayala Group Legal
- Group General Counsel and Corporate Secretary of Ayala Land, Inc.
- Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc., and Ayala Foundation, Inc.;
- Member of the Board of Directors of a number of companies in the Ayala group.

He is currently a member of the faculty of the College of Law of San Beda University. Mr. Hermosura graduated valedictorian with Bachelor of Laws degree from San Beda College of Law in 1986 and placed third in the 1986 Bar Examinations.

Significant Employees

The Company attributes its continued success to the collective efforts of its employees, all of whom contribute significantly to the business in various ways.

Family Relationships

The Company's Chairman, Fernando Zobel de Ayala, and Vice Chairman, Jaime Augusto Zobel de Ayala, are brothers.

Involvement in Certain Legal Proceedings

In the past five (5) years, up to date hereof, there has been no bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or any relevant law involving any director, any nominee for election as director or executive officer of the Company that occurred that is material to an evaluation of the ability or integrity of such director, nominee for election as director or executive officer of the Company.

Item 10. Executive Compensation

The aggregate compensation paid or accrued during the last two (2) fiscal years and the ensuing fiscal year to the Company's Chief Executive Officer and the most highly compensated officers and all other officers as a group is as follows:

		Annual Compensation in Million Pesos		
Year	**Officer**	**Salary**	**Bonus**	**Other Annual Compensation**
2017	Ferdinand M. dela Cruz	67.05	41.88	9.68
	Virgilio C. Rivera, Jr.			
	Luis Juan B. Oreta			
	Geodino V. Carpio			
	Abelardo P. Basilio			
2018	Ferdinand M. dela Cruz	70.95	13.16	32.46
	Virgilio C. Rivera, Jr.			
	Luis Juan B. Oreta			
	Ms. Cecilia T. Cruzabra			
	Geodino V. Carpio			
	Abelardo P. Basilio			
est. 2019	Ferdinand M. dela Cruz	71.17	13.30	29.19
	Virgilio C. Rivera, Jr.			
	Ms. Cecilia T. Cruzabra			
	Geodino V. Carpio			
	Abelardo P. Basilio			
Above-named officers as a group	2017	67.05	41.88	9.68
	2018	70.95	13.16	32.46
	est 2019	71.17	13.30	29.19
All other officers as a group unnamed	2017	13.56	3.39	6.95
	2018	25.61	6.40	9.93
	est 2019	27.29	6.82	9.83

The Company has no standard arrangement or any other compensation plan or arrangement with regard to the remuneration of its existing officers aside from the compensation herein stated.

Directors' Compensation[1]

In a special meeting held on April 11, 2011, the Board recommended for stockholders' approval the following compensation structure of the members of the Board and the Board Committees:

- For each Board Director – a fixed retainer fee of ₱500,000.00 per year of service;
- For each Board Director – ₱200,000.00 per board meeting and annual stockholders' meeting actually attended;
- For each Board Committee Member – ₱50,000.00 per Committee meeting actually attended.

The aforesaid compensation structure of the members of the Board was approved by the stockholders in the annual stockholders' meeting held on April 11, 2011. This compensation scheme has not changed since then. This compensation structure is subject to the provisions of Article III, Section 10 of the By-Laws which provides that: "By resolution of the Board, each director shall receive a reasonable per diem for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than 1% of the net income before income tax of the Company during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper. The Board shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors."

The table below summarizes the compensation/remuneration received or to be received by the directors for 2018 as members of the Board of Directors of the Company:

Name of Directors	Fixed Retainer for 2018	Remuneration for ASM and Board Meetings Attended in 2018	Remuneration for Committee Meetings Attended in 2018	Total**
Fernando Zobel de Ayala	P500,000	P1,600,000	P250,000	P2,350,000
Jaime Augusto Zobel de Ayala	500,000	1,400,000	-	1,900,000
Ferdinand M. Dela Cruz*	500,000	1,400,000	200,000	2,100,000
Gerardo C. Ablaza, Jr.	500,000	1,600,000	550,000	2,650,000
Delfin L. Lazaro	500,000	1,600,000	-	2,100,000
Antonino T. Aquino	500,000	1,600,000	200,000	2,300,000
John Eric T. Francia	500,000	1,600,000	150,000	2,250,000
Sherisa P. Nuesa	500,000	1,600,000	350,000	2,450,000
Oscar S. Reyes	500,000	1,600,000	550,000	2,650,000
Jose L. Cuisia, Jr.	500,000	1,600,000	850,000	2,950,000
Jaime C. Laya	500,000	1,600,000	800,000	2,900,000

** Mr. dela Cruz is not required to attend the meeting of the Non-Executive Directors as he is an Executive Director.*

*** Tax inclusive. All retainers and remunerations of Messrs. Fernando Zobel de Ayala, Jaime Augusto Zobel de Ayala, Ferdinand M. dela Cruz, John Eric T. Francia and Delfin L. Lazaro were paid directly to Ayala Corporation.*

[1] The Remuneration Committee is composed of the following: Jose L. Cuisia, Jr. (Chairman / Independent Director), Oscar S. Reyes (Lead Independent Director), Sherisa P. Nuesa (Independent Director), and Fernando Zobel de Ayala (Chairman of the Board)

Warrants and Options Outstanding

As of December 31, 2018, 33,771,722 subscriptions are outstanding under the Company's Employee Stock Ownership Plan (ESOWN) which was approved by the Securities and Exchange Commission (SEC) on January 31, 2006. The subscriptions include those for shares covered by options that were granted in 2005 under the Company's Executive Stock Option Plan (ExSOP) and converted to subscriptions under the ESOWN. As a result of the conversion of options under the ExSOP to subscriptions under the ESOWN, the Company will no longer grant options under the ExSOP. There were disclosures on grants to senior officers under the ESOWN for the years 2005, 2006, 2007, 2008, 2009, 2011, 2012, 2013, 2014, and 2018.

The number of employees and officers of the Company who are eligible to participate in the ESOWN is approximately 351.

As of December 31, 2018, the following are the outstanding grants under the ESOWN to the directors and senior executive officers of the Company:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Ferdinand M. dela Cruz		Various	Various	Various
Gerardo C. Ablaza, Jr.		Various	Various	Various
Virgilio C. Rivera, Jr.		Various	Various	Various
Above-named officers as a group	10,046,821 common shares	Various	Various	Various
All other officers and directors as a group unnamed	5,971,846 common shares	Various	Various	Various

The Exercise Price is the Subscription Price. For the most recent ESOWN grant in 2018, the Subscription Price is based on the average closing price at the PSE for twenty (20) consecutive trading days with a discount to be determined by the Remuneration Committee at the date of grant.

Item 11. Security Ownership of Certain Record and Beneficial Owners

As of January 31, 2019, the following shareholders are the only owners of more than 5% of the Company's voting capital stock, whether directly or indirectly, as record owner or beneficial owner:

Title of class	Name and address of record owner (and relationship with issuer)	Name of beneficial owner (and relationship with record owner)	Citizenship	No. of shares held	Percent of class
Common	Ayala Corporation 34F Tower One and Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City *(Principal shareholder)*	Ayala Corporation* (The same as the record owner)	Filipino	866,946,196** Common Shares	41.99%
Preferred	Philwater Holdings Company, Inc. MWSS Admin. Bldg., 489 Katipunan Rd., 1105 Balara, QC *(Principal owner)*	Philwater Holdings Company, Inc.* (The same as the record owner)	Filipino	3,999,999,999 Participating Preferred Shares	100%

* *The Boards of Directors of Ayala Corporation and Philwater Holdings Company, Inc. have the power to decide how their respective shares in the Company are to be voted.*

** *Inclusive of shares held through PCD, and Michigan Holdings, Inc., a wholly owned subsidiary of Ayala Corporation.*

There are no voting trust agreements or any other similar agreement that may result in a change in control of the Company of which the Company has any knowledge. The following persons shall have the right to vote on behalf of the following shareholders:

Shareholder	**Proxy**
Ayala Corporation	Fernando Zobel de Ayala
Philwater Holdings Company, Inc.	Gerardo C. Ablaza, Jr.

Security Ownership of Directors and Management

The following table sets forth, as of January 31, 2019, the beneficial ownership of each director and executive officer of the Company:

Title of Class	Name of Beneficial Owner	Citizenship	Amount of Beneficial Ownership	Nature of Beneficial Ownership	Percent of Class*
Common	Fernando Zobel de Ayala	Filipino	1	Direct	0.00000005%
Common	Jaime Augusto Zobel de Ayala	Filipino	1	Direct	0.00000005%
Common	Ferdinand M. dela Cruz	Filipino	2,965,686	Direct and Indirect	0.14362791%
Common	Gerardo C. Ablaza, Jr.	Filipino	4,126,078	Direct and Indirect	0.19982559%
Common	Delfin L. Lazaro	Filipino	1	Direct	0.00000005%
Common	Antonino T. Aquino	Filipino	12,749,543	Direct and Indirect	0.61745924%
Preferred	John Eric T. Francia	Filipino	1	Direct	0.00000003%
Common	Jaime C. Laya	Filipino	19,800	Indirect	0.00095891%
Common	Jose L. Cuisia, Jr.	Filipino	1	Direct	0.00000005%
Common	Oscar S. Reyes	Filipino	330,001	Direct	0.01598192%

Title of Class	Name of Beneficial Owner	Citizenship	Amount of Beneficial Ownership	Nature of Beneficial Ownership	Percent of Class*
Common	Sherisa P. Nuesa	Filipino	5,093,607	Direct and Indirect	0.24668294%
Common	Solomon M. Hermosura	Filipino	50,100	Direct	0.00242634%
Common	Geodino V. Carpio	Filipino	1,961,100	Indirect	0.09497590%
Common	Ma. Cecilia T. Cruzabra	Filipino	-	-	-
Common	Virgilio C. Rivera, Jr.	Filipino	3,265,058	Indirect	0.15812647%
Common	Abelardo P. Basilio	Filipino	1,069,200	Indirect	0.05178126%
Common	Thomas T. Mattison	British	474,100	Direct and Indirect	0.02296062%
Common	Esmeralda R. Quines	Filipino	837,590	Direct and Indirect	0.04056441%
Common	Janine T. Carreon	Filipino	514,800	Direct and Indirect	0.02493172%
Common	Liwayway T. Sevalla	Filipino	63,000	Indirect	0.00305108%
Common	Maidy Lynne B. Quinto	Filipino	140,000	Indirect	0.00678019%
All Directors and Officers as a Group			33,659,668		1.63013470%**

** Based on the class of shares (Common or Preferred).*
*** Excludes the percentage of one (1) preferred share in the name of Director Francia.*

None of the members of the Company's Board of Directors (the "Board") and management owns 2.0% or more of the outstanding capital stock of the Company.

Changes in Legal and Beneficial Ownership of the Board, the Key Officers and the Major Shareholders (December 31, 2017 vs. December 31, 2018)

NAME	DECEMBER 31, 2017	CLASS OF SHARES	DECEMBER 31, 2018	CLASS OF SHARES
Directors				
Fernando Zobel de Ayala	1	Common	1	Common
Jaime Augusto Zobel de Ayala	1	Common	1	Common
Ferdinand M. Dela Cruz	1,248,264	Common	2,965,686	Common
Gerardo C. Ablaza, Jr.	4,126,078	Common	4,126,078	Common
Antonino T. Aquino	12,749,543	Common	12,749,543	Common
Delfin L. Lazaro	1	Common	1	Common
John Eric T. Francia	1	Preferred	1	Preferred
Jaime C. Laya (ID)	19,800	Common	19,800	Common
Jose L. Cuisia, Jr. (ID)	1	Common	1	Common
Oscar S. Reyes (ID)	330,001	Common	330,001	Common
Sherisa P. Nuesa (ID)	5,093,607	Common	5,093,607	Common
Officers				
Luis Juan B. Oreta*	1,572,727	Common	N.A.	N.A.
Virgilio C. Rivera, Jr.	2,242,795	Common	3,265,058	Common
Ma. Cecilia T. Cruzabra*	N.A.	N.A.	N.A.	N.A.
Geodino V. Carpio	817,600	Common	1,961,100	Common
Abelardo P. Basilio	775,200	Common	1,069,200	Common
Thomas T. Mattison	274,100	Common	474,100	Common
Janine T. Carreon	228,300	Common	514,800	Common
Esmeralda R. Quines	735,390	Common	837,590	Common
Liwayway T. Sevalla**	N.A.	N.A.	63,000	Common
Maidy Lynne B. Quinto***	N.A.	N.A.	140,000	Common
Solomon M. Hermosura	50,100	Common	50,100	Common

Major Shareholders				
Ayala Corporation	866,946,196****	Common	866,946,196****	Common
Philwater Holdings Corporation	3,999,999,998	Preferred	3,999,999,999	Preferred

** Due to the Retirement of Mr. Luis Juan B. Oreta, the Board, in its meeting dated October 2, 2018, approved the appointment Ms. Ma.Cecilia T. Cruzabra as the Chief Finance Officer, Treasurer, Compliance Officer, and Group Director for Corporate Finance and Strategy effective November 1, 2018*
*** During the Organizational Meeting of the Board held on April 16, 2018, it was resolved to approve the appointment of Ms. Liwayway T. Sevilla as the Chief Information Officer, and Group Director for Business and Technology Services effective immediately*
**** During the Regular meeting of the Board held on August 9, 2018, it was resolved to approve the appointment of Ms. Maidy Lynne B. Quinto as Group Director for Corporate Project Management effective immediately*

Item 12. Certain Relationships and Related Transactions

Parties are considered to be related to the Group if it has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

In the normal course of business, the Group has transactions with related parties. The sales and investments to related parties and service agreements are based on rates agreed upon by the parties. Outstanding balances at year-end are unsecured and interest-free. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and 2017, the Group has not recognized any expected credit losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates. Material significant related party transactions are reviewed and approved by the Related Party Transactions Committee of the Board.

For more information on related party transactions, refer to Note 21 of the Audited Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Board of Directors

The Company prides itself with its Board of Directors (the "Board"), composed of highly competent individuals who are well-recognized in their respective fields and in the business community. The Board provides a clear vision towards the formulation of sound corporate strategies, and oversees the systemization, improvement and upholding of transparency in governance. The Board provides guidance in achieving fairness and accountability in all major dealings of the Company, with the objective of protecting the interests of its stakeholders.

In this connection, the Board fulfils certain key functions, including: reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing/approving major capital expenditures, acquisitions and divestitures, monitoring the effectiveness of our governance practices and making changes as needed, selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning, aligning key executive and board remuneration with the longer term interests of the Company and its stakeholders, ensuring a formal and transparent board nomination and election process, and monitoring and managing potential conflicts of interest of management, board members, shareholders and stakeholders, including misuse of corporate assets and abuse in related party transactions.

Board Composition

The Board has eleven (11) members who are elected by the stockholders during the annual stockholders' meeting (ASM). All nominations to the Board are undertaken in accordance with the Manual of Corporate Governance (the "Manual"), By-laws, the Charter of the Board, and the existing rules and regulations. Upon receipt of all nominations, the Nomination Committee convenes to evaluate the qualifications of nominees for election to the Board. In evaluating the nominations, the Nomination Committee adheres to the criteria for selection and the qualifications and disqualifications of directors set forth in the Manual, the Charter of the Board, the Charter of the Board Committees, the Securities Regulations Code (SRC), and those under existing laws, rules, and regulations. After deliberation, the Nomination Committee and the Board issue a resolution endorsing the election of the qualified nominees at the ASM. The members of the Board so elected at the ASM hold office for one year, and until their successors have been elected and qualified in accordance with the By-laws. The elected members of the Board are mandated to oversee the management of the Company, and, in the performance of their duties, must exercise their best and unbiased judgment to protect and promote the interest of the Company and its stakeholders.

Principles and Procedures for Nomination and Endorsement for Election of Candidates to the Board of Directors

Manila Water encourages the selection of a mix of competent directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.

We value the inputs and opinions of each Director, ensuring that a Director shall not be discriminated upon by reason of gender, age, ethnicity, political, religious or cultural beliefs. Towards this end, the Board has adopted a policy of diversity in gender, age and ethnicity, as well as religious, political or cultural background. Through this policy, the Board encourages our shareholders to nominate and select individuals who will promote diversity in the membership of the Board.

Moreover, the Board ensures a formal and transparent board nomination and election process. Towards this end, the following procedure and principles are observed in the nomination of candidates for election to the Board:

a. Every stockholder, including the minority and non-controlling, has a right to submit nominations for election to the Board.

   All nominations to the Board, whether for first time nominees or repeat nominees, or for independent directors, shall be submitted to the Nomination Committee, through the Office of the Corporate Secretary, at least thirty (30) working days before the date of the ASM. The stockholders, in making their nominations, or the Company, may make use of professional search firms or external sources of candidates when searching for candidates to the Board.

b. Process of Endorsing Nominations

   (i) The Nomination Committee shall hold a meeting for the specific purpose of determining whether the nominees to the Board have all the qualifications and none of the disqualifications specified in the Corporation Code of the Philippines[2], the Manual, the Charter of the Board, the SRC Rules, and the applicable laws, rules and regulations.

   (ii) The Nomination Committee shall evaluate each and every nomination and for this purpose, may even make an inquiry with their professional networks and outside references.

   The Nomination Committee undertakes the process of identifying the quality of directors aligned with our strategic directions. Towards this end, the Nomination Committee shall confirm that all nominees for election have all the qualifications and none of the disqualifications to become directors, and that they have the competence and professional background that will enable them to perform their duties as directors of a highly regulated business as that of Manila Water.

   If the ground for disqualification of a nominated director becomes known prior to the scheduled ASM, the nominated director shall not be endorsed for election at the stockholders' meeting except when such disqualification is temporary and the same is cured or remedied prior to the scheduled stockholders' meeting.

   A director with temporary disqualification may still be endorsed by the Nomination Committee for election at the ASM subject to the sixty (60) day curing period, if the ground for temporary disqualification is capable of being cured. However, if the disqualification becomes permanent after endorsement by the Nomination Committee and before the ASM, the nominee shall be given the discretion to refuse his nomination. If the nominee is thereafter elected, or the disqualification becomes permanent during his term of office, the aforesaid director may be removed subject to the provisions of and procedures under Section 2.4.2 of the Charter of the Board.

   (iii) After evaluation of the qualifications/disqualifications of the nominees, the Nomination Committee shall issue a resolution whether endorsing or not the nominees for election to the Board.

[2] This includes the provisions under the Revised Corporation Code.

(iv) If a nominee is not endorsed for election by reason of a disqualification, the resolution of the Nomination Committee should clearly specify the grounds relied upon for disqualification.

(v) The Chairman of the Board shall provide input to the Nomination Committee on its recommendation for approval of candidates for nomination or appointment to the Board as well as for the members and chairs of Board Committees.

c. Election of Directors

At each election for directors, every stockholder shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates.

Qualifications and Disqualifications of Directors

General Qualifications of Directors

A nominee to the Board must have the following General Qualifications:

a. Ownership of at least one (1) share of the capital stock of the Company;
b. At least twenty-one (21) years of age;
c. A college degree or its equivalent or adequate competence and understanding of the fundamentals of doing business or sufficient experience and competence in managing a business to substitute for such formal education;
d. Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions;
e. Other relevant qualifications, such as membership in good standing in business, professional organizations or relevant industry;
f. Non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

Specific Qualifications of Directors

In addition to the General Qualifications, the following specific qualifications shall be required, if applicable:

a. At least one of the independent directors must have accounting expertise (accounting qualification or experience)
b. At least one non-executive director must have prior working experience in the sector that Manila Water is operating in;
c. Independent directors must have all requisite qualifications for independence under Securities and Exchange Commission (SEC) Memorandum Circular No. 16, Series of 2002;
d. Officers, executives and employees of the Company may be elected as directors but cannot and shall not be characterized as independent directors;

e. If a director elected or appointed as an independent director becomes an officer, employee or consultant of the Company, the Company shall forthwith cease to consider him as an independent director;
f. If the beneficial ownership of an independent director in the Company or its related corporations shall exceed two percent (2%) of the subscribed capital stock of such corporation, the Company shall forthwith cease to consider him as an independent director, except when the independent director takes the appropriate action to remedy or correct the disqualification within sixty (60) days from the occurrence of the ground, in which case, he may still be considered an independent director.

Permanent Disqualifications

A nominee to the Board with the following disqualifications shall never be nominated, or if nominated and elected, shall be removed from office:

a. Any person who has been finally convicted by a competent judicial or administrative body of the following: (i) any crime involving the purchase or sale of securities as defined in the SRC, e.g. proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan; (ii) any crime arising out of the person's conduct as an underwriter, broker, dealer, investment corporation, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or, (iii) any crime arising out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
b. Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the SEC or any court or other administrative body of competent jurisdiction from: (i) acting as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or a floor broker; (ii) acting as a director or officer of a bank, quasi-bank, trust company, investment house, investment company or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the SEC or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code of the Philippines, SRC, or any other law administered by the SEC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation promulgated by the SEC or BSP, or otherwise restrained to engage in any activity involving securities and banking. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from association with a member or participant of the organization;
c. Any person finally convicted judicially or administratively of an offense involving moral turpitude or fraudulent acts or transgressions such as, but not limited to, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation or perjury;
d. Any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the SRC, the Corporation Code of the Philippines, or any other law administered by the SEC, or any rule, regulation or order of the SEC or the BSP;
e. Any person judicially declared to be insolvent;

f. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct listed in the foregoing paragraphs;
g. Any person convicted by final and executory judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code of the Philippines, committed within five (5) years prior to the date of his election or appointment; and,
h. No person shall qualify or be eligible for nomination or election to the Board if he is engaged in any business which competes with or is antagonistic to that of the Company. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged – (i) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of ten percent (10%) or more of any outstanding class of shares of, any corporation (other than one in which the Company owns at least thirty percent [30%] of the capital stock) engaged in a business which the Board, by at least three-fourths (3/4) vote, determines to be competitive or antagonistic to that of the Company, or (ii) If he is an officer, manager or controlling person, or the owner (either of record or beneficially) of ten percent (10%) or more of any outstanding class of shares of any other corporation or entity engaged in any line of business of the Company, or when in the judgment of the Board, by at least three-fourths (3/4) vote, deems that the laws against combinations in restraint of trade shall be violated by such person's membership in the Board; or (iii) If the Board, in the exercise of its judgment in good faith, determines by at least three-fourths (3/4) vote that he is the nominee of any person set forth in (h.i.) or (h.ii.). In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relations.

Temporary Disqualifications

The following shall constitute grounds for temporary disqualifications of directors:

a) Refusal to fully disclose the extent of his business interest as well as refusal to comply with all other disclosure requirements under the SRC and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.
b) Absence or non-participation in more than Fifty Percent (50%) of all meetings, both regular and special, of the Board during his incumbency, or any twelve (12) month period during said incumbency unless such absence was due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election.
c) Dismissal/termination from directorship in another listed Company for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity.
d) Being under preventive suspension by the Company for any reason.
e) Conviction that has not yet become final referred to in the grounds for disqualification of directors.

Roles and Responsibilities of the Board

In order to strengthen the participation of the Board and its Committees in the enhancement of corporate governance practices of the Company, the Board is guided by its own charter. Specifically, the Charter of the Board, among others:

- sets out the specific functions of the Chairman of the Board and the President, emphasizing their separate roles and responsibilities;
- imposes limitations on directorships in publicly-listed companies and institutionalizes the performance evaluation of the Board, its Committees, and the President;
- institutionalizes the annual performance evaluation of the Board, and the President and CEO;
- provides for a quorum of two-thirds (2/3) of the number of directors fixed in the Articles of Incorporation; and
- requires the Board to conduct an annual review of the mission and vision of the Company.

Independent Directors

In compliance with the requirements of the law, the Company's Manual, and the rules and regulations of the SEC, the Company has four (4) independent directors as members of the Board. Under the Charter of the Board, Independence is defined as, with respect to any person, the absence of any restrictions or limitations or freedom from any interests or relationships that would interfere with the exercise of impartial and objective judgment in carrying out the responsibilities of that person. Under the Manual, a director is considered independent if he holds no interests or relationships with the Company that may hinder his independence from the Company or its management which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. More importantly, the Company also subscribes to the requirements of independence under existing laws, rules and regulations, in particular, the SEC Memorandum Circular No. 16, Series of 2002. Hence, the Company ensures that its independent directors have all the qualifications and none of the disqualifications specified in the said SEC Memorandum Circular.

Board Committees

The Board is supported by several committees, namely: Executive Committee, Audit Committee, Related Party Transactions Committee, Nomination Committee, Remuneration Committee, Board Risk Oversight Committee, Corporate Governance Committee, and the Committee of Inspectors of Ballots and Proxies. These Board Committees are required to report to the Board a summary of the actions taken on matters submitted to them for consideration at the next meeting of the Board. Each of the Board Committees has its own charter that provides guidance on the manner by which its members and the committees should exercise their functions and mandates.

The Executive Committee

- Composed of five (5) directors as members
- Acts by majority vote of all its members and is authorized to act and shall act on matters within the competence of the Board, except those with respect to:
  1. Approval of any action for which shareholders' approval is also required
  2. Filling of vacancies in the Board
  3. Amendment or repeal of the By-laws or the adoption of new By-laws

4. Amendment or repeal of any resolution of the Board, which by its express terms is not so amendable or repealable
5. Distribution of dividends to shareholders

- Meets as needed and performs such other functions as may be properly delegated to it by the Board
- Held eight (8) meetings in 2018

The Corporate Governance Committee

- Composed of three (3) independent directors including the Chairman
- Tasked with ensuring compliance with and proper observance of corporate governance principles and practices
- Has the following duties and functions, among other functions as may be delegated by the Board from time to time:
  1. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Company's size, complexity and business strategy, as well as its business and regulatory environments;
  2. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
  3. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
  4. Recommends continuing education/training programs for directors, and assignment of tasks/projects to Board committees;
  5. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance; and
  6. Proposes and plans relevant trainings for the members of the Board.
- Additional duties and responsibilities of the Committee shall be set forth in its charter.
- The Compliance Officer, in coordination with the Corporate Secretary, shall support the Committee in the performance of its functions.
- Held four (4) meetings in 2018

The Audit Committee

- Composed of four (4) directors (three of whom are independent) and is required to be chaired by an independent director
- Provides the check and balance mechanism and is expected to bring positive results in supervising and supporting the management of the Company
- Responsible for ensuring the development of, compliance with, and periodic review of corporate governance and financial reporting policies and practices of the Company
- Recommends and/or concurs to the appointment, replacement, re-assignment and removal or dismissal of the Company's external auditors and the Chief Audit Executive to ensure that the external and internal auditors will function and operate independently of the management as required of their function
- Meets at least every quarter and before the quarterly Board meetings and when needed
- Held six (6) meetings in 2018

All members of the Audit Committee are required to possess adequate understanding of accounting and auditing principles in general and of the Company's financial management systems and environment, in particular.

Mr. Jaime C. Laya, an independent director and a member of the Audit Committee, is a Certified Public Accountant.

The Related Party Transactions Committee

- Considered by the Board as a subset of the Audit Committee, and is composed of all the three (3) independent directors, and chaired by an independent director
- Primarily tasked with the duty of enforcing and implementing the Related Party Transactions (RPT) Policy of the Company, with respect to material RPT
- Ensures that: material RPT shall have terms and conditions that are fair and equitable to the Company; the approval, award, processing and payment of RPT shall follow the same procedures as the other transactions and contracts of the Company, and therefore, no unusual privilege or special treatment shall be afforded a Related Party; and in case of doubt on the nature of a transaction subject of investigation or review pursuant to the RPT Policy, the Office of the Compliance Officer, in consultation with the RPT Committee, shall determine whether the transaction or relationship constitutes a RPT, and whether the same shall be pursued taking into consideration the cost and benefit to the Company.
- Held two (2) meetings in 2018

The Nomination Committee

- Composed of three (3) directors, all independent directors, and under its Charter is required to be chaired by an independent director
- Tasked to install and maintain an evaluation process to ensure that all directors to be nominated to the Board during the annual stockholders' meeting have all the qualifications and none of the disqualifications stated in the Manual, the Charter of the Board and the Committees, and under existing laws and regulations
- Undertakes the process of identifying the quality of directors consistent with the Company's strategic directions, and to ensure that the directors have the competence and professional background that will enable them to perform their duties as directors of Manila Water, and for this reason, the Committee shall not endorse a nominee for appointment by the Board unless it has determined that all nominees have all the qualifications and none of the disqualifications for the position
- Tasked to evaluate the qualifications of all officers nominated to positions in the Company which are appointed by, or required to be appointed by the Board and provides guidance and advice as necessary for the appointment of persons nominated to other positions;
- Review and revise if necessary, the succession plans for members of the Board and officers with ranks from Group Directors to the President/CEO;
- Provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members and in appointing officers or advisors and develop, update as necessary and recommend to the Board policies for considering nominees for directors, officers or advisors;
- Held four (4) meetings in 2018

The Remuneration Committee

- Composed of four (4) members, three (3) of whom are independent directors, and under its Charter is required to be chaired by an independent director
- Tasked with the duty: to determine and approve all matters and policies relating to the remuneration and benefits of the Company's directors and key officers; to establish a formal and transparent procedure for developing a policy on remuneration of directors

and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates; to determine and approve all matters relating to the remuneration and benefits of the Board and the Company's officers; to evaluate and recommend for Board approval the pertinent guidelines on executive compensation, including non-monetary remuneration; to periodically review and evaluate the policy on remuneration in order that it be in a sufficient level to attract and retain directors and officers of the Company;

- Continuously evaluates and recommends for Board approval, pertinent guidelines and policies on executive and employee compensation, including non-monetary remuneration
- Held three (3) meeting in 2018

The Board Risk Oversight Committee

- Composed of four (4) members, majority of whom are independent directors, and is required to be chaired by an independent director
- Tasked to provide assistance in fulfilling the Board's oversight responsibilities in relation to risk governance in Manila Water, which includes ensuring that the Management maintains a sound and responsive risk management system across the organization; promote an open discussion regarding risks faced by the Company, as well as risks faced by its subsidiaries that may have potential impact on the Company's operations, and ensure that risk awareness culture is pervasive throughout the organization; ensure that an overall set of risk management policies and procedures exist for the Company; review the Company's risk governance structure and the adequacy of the Company's risk management framework/process; Review and endorse to the Board changes or amendments to the Enterprise Risk Management (ERM) Policy; perform oversight functions specifically in the areas of managing strategic, financial, compliance, regulatory, operational and other risks of the Company, and crisis management; in coordination with the Audit Committee, ensure that the Company's internal audit work plan is aligned with risk management activities and that the internal control system considers all risks identified in the risk assessment process
- Established separately from the Audit Committee in order to further enhance governance on risk matters and align with the best practices in risk management and supported by the Enterprise Risk and Insurance Management Department in the performance of its functions
- Held two (2) meetings in 2018

The Committee of Inspectors of Ballots and Proxies

- Membership consists of the Chief Audit Executive as Chairman, and the Chief Legal Officer and a representative of the external auditor of the Company as members
- Carries the mandate to validate proxies issued by the stockholders and to determine if the same are in accordance with existing laws, rules, and regulations prior to the annual stockholders' meeting
- Default inspector of ballots and tabulator of votes during the annual stockholders' meeting, and as such, is required to coordinate closely with the Office of the Corporate Secretary and the independent validator of votes appointed for the purpose
- Held two (2) meetings in 2018

Corporate Orientation and Corporate Governance Trainings for Directors

The members of the Board are required to regularly attend seminars and conferences to continuously update themselves on the developments in policy, regulations and standards on good corporate governance. Under the Company's Manual, the members of the Board are also provided with such resources, trainings and continuing education to enable each member to actively, independently and judiciously participate in Board and Committee meetings.

Newly-elected members of the Board undergo orientation programs for them to have a working knowledge of the statutory and regulatory requirements affecting the Company. They are also required to keep abreast with industry developments and business trends in order that they may promote the Company's competitiveness and sustainability. Attendance in a corporate governance seminar conducted by a duly-recognized private or governmental institution is also a mandatory requirement prior to their assumption of office and during their term of office.

The Company also provides general access to training courses to its directors as a matter of continuous professional education as well as to enhance their skills as directors, and keep them updated in their knowledge and understanding of the Company's business. The Board and Board Committees are also allowed to hire independent legal counsel, accountants or other consultants to advise them when necessary.

At every board meeting, directors are provided with a management update on the operational and financial status of, and other relevant matters, about the Company to ensure that the directors are continuously informed of new developments and the performance of the Company.

Upon assumption of office, a director appointed for the first time undergoes a corporate orientation program conducted by the Office of the Corporate Secretary. The corporate orientation program includes modules on the operations of the Company, as well as relevant contracts of the Company. The orientation also covers existing policies, rules and regulations of the Company. The curriculum of the orientation program may be revised as often as necessary to include other relevant subjects and matters relating to the Company. In addition to the corporate orientation program for new directors, the Office of the Corporate Secretary informs the Board of any updates on the matters covered by the orientation program. The corporate orientation program and updates are usually given during the regular meetings of the Board.
These programs notwithstanding, Manila Water encourages its directors to attend external trainings, courses or continuing professional education programs on corporate governance. The Directors are required to inform the Office of the Corporate Secretary of the trainings or courses attended for record and disclosure purposes.

Corporate Governance Programs Attended by the Board of Directors in 2018

Director	Program	Training Provider	Date of Training
Fernando Zobel de Ayala	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Jaime Augusto Zobel de Ayala	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Ferdinand M. Dela Cruz	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Gerardo C. Ablaza, Jr.	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Antonino T. Aquino	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Delfin L. Lazaro	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
John Eric T. Francia	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Jaime C. Laya	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018

Director	Program	Training Provider	Date of Training
Oscar S. Reyes	Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risk and Governance Issues	Matthew Bell and Paul Brody	November 16, 2018
Sherisa P. Nuesa	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
	SEC-PSE Corporate Governance Forum	Securities and Exchange Commission/Philippine Stock Exchange, Inc	October 23, 2018
Jose L. Cuisia, Jr.	Ayala Corporate Governance and Risk Management Summit – Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018

On September 21, 2018, members of the Board also attended the Ayala Group Integrated Risk Management and Sustainability Summit themed key environmental issues, risk management and sustainability.

Board Meetings

Under the Charter of the Board, the Board institutionalized a policy of holding at least six (6) meetings in a year. These include the organizational meeting of the Board which is held immediately after the annual stockholders' meeting. Under the By-laws, special meetings may be called by the Chairman, Vice Chairman, President or at the instance of a majority of the members of the Board.

To promote transparency, the Board has a policy of requiring the presence of at least one independent director in all its meetings. In the past years, the Board has not conducted a meeting without the presence of at least one independent director.

Under the Manual, a director's absence or non-participation, for whatever reason in more than fifty percent (50%) of all Board meetings, both regular and special, in a year is a ground for temporary disqualification in the succeeding election.

Board Attendance in Meetings

In 2018, all the members of the Board attended all meetings held during the year. A total of seven (7) meetings were held by the Board in 2018 (exclusive of the Annual Stockholders' Meeting), as follows:

- a regular meeting on March 1, 2018;
- an organizational meeting on April 16, 2018;
- regular meetings on June 4, 2018, August 9, 2018, October 2, 2018 and November 20, 2018; and
- a meeting of the Non-Executive Directors on November 20, 2018.

As the only Executive Director, Mr. Ferdinand M. dela Cruz was not a party to the meeting of the Non-Executive Directors.

During the 2018 Annual Stockholders' Meeting held on April 16, 2018 at Ballroom 2, Fairmont Makati in Makati City, the Chairman of the Board of Directors, President and CEO of the Company, and the Chairman of the Audit Committee along with the other directors and executive officers of the Company, were in attendance. Their attendance was duly recorded in the minutes of the said meeting.

Quorum in Board Meetings

Under the Charter of the Board, at least two-thirds (2/3) of the members of Board (as fixed in the Articles of Incorporation) shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except when a higher quorum is required in contracts binding on the Company.

In the absence of a quorum, a majority of the directors present may adjourn any meeting from time to time until a quorum is obtained.

Board Remuneration

The Board determines a level of remuneration for directors that shall be sufficient to attract and retain directors, and compensate them for attendance at meetings of the Board and Board Committees and their performance of numerous responsibilities of a Board member. The Remuneration Committee is responsible for recommending to the Board the fees and other compensation for directors. In fulfilling this duty, the Remuneration Committee is guided by the objective of ensuring that the proposed fees should fairly compensate the directors for the work required consistent with the Company's size and industry.

In a special meeting held on April 11, 2011, the Board approved an increase in the Board remuneration. The approved remuneration for each member of the Board consists of ₱500,000.00 as a fixed annual retainer fee, ₱200,000.00 for each meeting of the Board actually attended, and ₱50,000.00 for each Committee meeting actually attended. This Board remuneration structure was approved by the stockholders in its annual stockholders' meeting of even date, and has not been modified since then. In the same annual meeting held on April 11, 2011, the stockholders approved the amendment of the By-laws, giving the Board of Directors the authority to determine the amount, form, and structure of the fees and other compensation of the directors.

The table below summarizes the total compensation remuneration received by and/or to be paid to the directors for their attendance in meetings held in 2018:

NAME	ATTENDANCE		2018 Remuneration (Retainer, Board, Committee and Annual Stockholders' Meetings Fees)****
	Meetings Attended/ Held*	Percentage	
Fernando Zobel de Ayala**	7/7	100%	2,350,000.00
Jaime Augusto Zobel de Ayala**	6/7	86%	1,900,000.00
Ferdinand M. dela Cruz**	6/6***	100%	2,100,000.00
Gerardo C. Ablaza, Jr.	7/7	100%	2,650,000.00
Antonino T. Aquino	7/7	100%	2,300,000.00
Delfin L. Lazaro**	7/7	100%	2,100,000.00
John Eric T. Francia**	7/7	100%	2,250,000.00
Jaime C. Laya	7/7	100%	2,900,000.00
Jose L. Cuisia, Jr.	7/7	100%	2,950,000.00
Oscar S. Reyes	7/7	100%	2,650,000.00
Sherisa P. Nuesa	7/7	100%	2,450,000.00

** Exclusive of the Annual Stockholders' Meeting held on April 16, 2018.*
***Remuneration of Messrs. Fernando Zobel de Ayala, Jaime Augusto Zobel de Ayala, Ferdinand M. dela Cruz, Delfin L. Lazaro and John Eric T. Francia were paid directly to Ayala Corporation.*
**** Mr. dela Cruz is not required to attend the meeting of the Non-Executive Directors as he is an Executive Director.*
***** Amounts (in Pesos) are tax-inclusive*

2018 Board of Directors' Participation in Committee Meetings

Board Committees and Members	Meetings Attended/Held
Executive Committee	
Fernando Zobel de Ayala (Chairman)	8/8
Gerardo C. Ablaza, Jr. (Vice Chairman)	8/8
Ferdinand M. dela Cruz	8/8
Antonino T. Aquino	8/8
John Eric T. Francia	7/8
Corporate Governance Committee	
Sherisa P. Nuesa (Chairman/Independent Director)	4/4
Jaime C. Laya (Independent Director)	4/4
Jose L. Cuisia, Jr. (Independent Director)	4/4
Audit Committee	
Oscar S. Reyes (Chairman/Lead Independent Director)	6/6
Jose L. Cuisia, Jr. (Independent Director)	6/6
Jaime C. Laya (Independent Director)	6/6
Gerardo C. Ablaza, Jr.	6/6
Related Party Transactions Committee	
Sherisa P. Nuesa (Chair/Independent Director)	2/2
Jose L. Cuisia, Jr. (Independent Director)	2/2
Jaime C. Laya (Independent Director)	2/2

Board Risk Oversight Committee	
Jaime C. Laya (Chairman/Independent Director)	2/2
Jose L. Cuisia, Jr. (Independent Director)	2/2
Oscar S. Reyes (Lead Independent Director)	2/2
Gerardo C. Ablaza, Jr.	2/2
Nomination Committee	
Jose L. Cuisia, Jr. (Chairman/Independent Director)	4/4
Oscar S. Reyes (Lead Independent Director)	4/4
Jaime C. Laya (Independent Director)	4/4
Remuneration Committee	
Jose L. Cuisia, Jr. (Chairman/Independent Director)	3/3
Oscar S. Reyes (Lead Independent Director)	3/3
Sherisa P. Nuesa (Independent Director)	3/3
Fernando Zobel de Ayala	3/3
Committee of Inspectors of Ballots and Proxies	
Xerxes Noel O. Ordanez (Head, Internal Audit/Chairman)	2/2
Gerardo M. Lobo II (Head, Legal)	2/2
External Auditor Representative	2/2

Vision, Mission and Corporate Objectives

To ensure good governance of the Company, the Board is mandated under the Manual to formulate strategic objectives, key policies and procedures for the management of the Company. Furthermore, the Board has established the mechanism for monitoring and evaluating the performance of the Management, especially that of the President and CEO. Under its Charter, the Board is enjoined to periodically review the vision, mission, corporate strategic objectives and key policies of the Company to sustain the Company's market competitiveness and enhance shareholder value. Accordingly, in its regular meeting held on November 20, 2018, the Board has confirmed the following mission and vision of the Company, as representative of its strategic and corporate objectives:

Mission

"Our mission is to create an exceptional customer experience in the provision of sustainable solutions vital to health and life."

Vision

"Our vision is to become a leader in the provision of water, used water and environmental services which will empower people, protect the environment, and enhance sustainable development."

Annual Board Evaluation

The Board has an annual evaluation process that is required to be accomplished by the directors, which enables an informed and objective assessment of the following:

1. Board and Board Committee processes and meetings;
2. compliance with the responsibilities and functions of the Board and Board Committees;
3. Board-Management relationship;
4. Board Member self-evaluation; and
5. Evaluation of the performance of the President and CEO.

This evaluation enables the Board and the Management to determine areas that need improvement on the very scope and criteria of the evaluation process. It also allows the Board to explain their respective ratings and to provide their own comments on the matters discussed in the evaluation. The scope and criteria for the Board Evaluation Process is contained in the Charter of the Board of Directors. The Charter of the Board is available for download at the Company's website.

FORM FOR BOARD EVALUATION

SCOPE	CRITERIA	**Point System** Rate of 1 to 5, 1 being the lowest
Board Processes and Meetings	Adequacy, frequency, duration and scheduling of Board meetings per year	
	Attendance to the Board meetings	
	Adequacy of materials for meetings of the Board	
	Content and quality of materials for meetings of the Board	
	Quality of presentations to the Board	
	Quality and adequacy of discussions and deliberations during Board meetings	
	Preparedness of the directors for the Board meetings	
Compliance with the Responsibilities and Functions of the Board	Involvement of the Board in the determination of the Company's strategic initiatives and direction	
	Effectiveness of the Board in monitoring of management's implementation of corporate strategy	

	Effectiveness of the Board in monitoring the operational and financial performance of the Company	
	Effectiveness of the Board in handling crisis situation	
	Commitment of the Board to good corporate governance practices	
	Consideration by the Board of the interest of the minority shareholders	
Board- Management Relationship	Existence of open lines of communication and constructive interaction between directors and the management of the Company	
	Clear understanding of the delineation between the roles of the Board and the key officers/management	
	Support of the Board to the management	
Board Member Self-Evaluation	Exercise of independent judgment in that a Director views each problem/situation objectively and supports plans and ideas which such Director believes are beneficial to the Company	
	Avoidance of any situation where a Director may be placed in a conflict of interest	
	Inclination to disclose any conflict of interest	
	Prompt and complete attendance in Board meetings	
	Preparedness on the topics to be discussed on Board meetings	
	Active and objective participation in the Board discussions	
	Working knowledge on the statutory and regulatory requirements affecting the Company	
	Promotion and support on good corporate governance practices and policies	

FORM OF BOARD COMMITTEE EVALUATION

SCOPE	CRITERIA	**Point System** Rate of 1 to 5, 1 being the lowest
Committee Processes and Meetings	Adequacy, frequency, duration and scheduling of Committee meetings per year	
	Attendance to the Committee meetings	
	Adequacy of materials for meetings of the Committees	
	Content and quality of materials for meetings of the Committees	
	Quality of presentations to the Committees	
	Quality and adequacy of discussions and deliberations during Board Committee meetings	
	Preparedness of the directors for the Board Committee meetings	
	Appropriateness of delegation of business to the Committees	
	Adequate information to the Board of Committee acts and approvals	
Compliance with the Responsibilities and Functions of the Committees	Involvement of the Committee in the determination of the Company's strategic initiatives and direction	
	Effectiveness of the Committee in monitoring of management's implementation of corporate strategy	
	Effectiveness of the Committee in monitoring the operational and financial performance of the Company	
	Effectiveness of the Committee in handling crisis situation	
	Commitment of the Committee to good corporate governance practices	

	Consideration by the Committee of the interest of the minority shareholders	
Committee Member Self Evaluation	Conscientiousness in the discharge of functions and responsibilities as member of Board Committee	
	Prompt and complete attendance in Committee meetings	
	Preparedness on the topics to be discussed on Committee meetings	
	Active and objective participation in Committee discussions	

FORM OF EVALUATION OF THE CHAIRMAN OF THE BOARD

SCOPE	CRITERIA	**Point System** Rate of 1 to 5, 1 being the lowest
Evaluation of Chairman of the Board	Possession by the Chairman of the competence and qualifications to effectively discharge the functions of the office	
	Performance by the Chairman of his functions under the laws, By-Laws, the Charter of the Board, the Manual of Corporate Governance, or under the resolutions adopted by the Board.	
	Ability of the Chairman to lead and motivate the Board	

FORM OF EVALUATION OF PRESIDENT/CEO

SCOPE	CRITERIA	**Point System** Rate of 1 to 5, 1 being the lowest
Evaluation of President/CEO	Possession by the CEO/President of the competence and qualifications to effectively discharge the functions of the office	
	Ability of the CEO/President to achieve Key	

	Result Areas and Performance of the CEO against clear, measurable and documented objectives	
	Ability of the CEO/President to lead and motivate the Management	

In addition to the annual Board evaluation process, the Audit Committee adopted SEC Memorandum Circular No. 4 Series of 2012 on the Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Philippine Stock Exchange which took effect on June 30, 2012. Pursuant to this, an annual evaluation is also being conducted to assess the performance of the Audit Committee.

These annual evaluation processes are facilitated by the Office of the Corporate Secretary in coordination with the Corporate Governance Committee.

Office of the Corporate Secretary

The Corporate Secretary ensures that the Board and the Management follow internal and external rules and regulations, and facilitates clear communications between the Board and Management. More importantly, the Company recognizes the mandate of the Office in championing the compliance of the Board and the Company with good corporate governance practices and policies. For this purpose, the Office of the Corporate Secretary, under its Charter, is mandated to coordinate with the Office of the Compliance Officer with regard to the formulation and implementation of the corporate governance practices of the Company, especially those relevant to and affecting the Board. This is to ensure that sound corporate governance practices are embedded across the entire organization.

The Management

The Management is primarily responsible for the operations of the Company. As part of its accountability, the Management is required to provide the Board with adequate, regular and timely information on the operations and affairs of the Company.

The roles of the Chairman, and the President and CEO were made separate to ensure an appropriate balance of authority, increased accountability and greater capacity of the Board for independent decision-making.

The Manual requires the Company to disclose the relationship between the Chairman, and the President and CEO, if any, in its annual report to the SEC. The Chairman of the Board, Fernando Zobel de Ayala, and the President and CEO of the Company, Ferdinand M. dela Cruz, are not related to each other.

Succession Planning

The Board, with the assistance of the Remuneration Committee, the Nomination Committee and the Company's Corporate Human Resources Group, has adopted a professional development program for employees, officers and senior management. Through competency management, the Company has put in place a process to determine the skills necessary for particular positions in the Company, and identifies key talents for purposes of succession. The Company's Corporate Human Resources Group has developed a Talent Master Plan to determine the optimal organizational structuring, recruitment strategies, performance evaluation methodologies, total rewards management and career development. These are all geared to attract, retain and engage the company's employees, officers and senior management, and to cultivate them to become the Company's future business leaders.

The development of a leadership talent pool is crucial to the success of Manila Water in the future. Hence, it is one of the top strategic priorities of the Company. For the succession of the top key management positions, the Company has formed an Acceleration Pool composed of selected high potential key talents within the organization.

Talents identified to be part of the Acceleration Pool undergo the following:

1. assessment that gauges a talent's business driver readiness and leadership competencies;
2. creation of an Individual Development Plan that outlines possible developmental areas and stretched assignments; and
3. coaching and mentoring sessions with the Management Committee.

The Management Committee is composed of the top key executives of the Company from the President/CEO to those occupying positions equivalent to Vice Presidents.

The Compliance Officer

In accordance with the Manual, and in order to ensure adherence to the principles and best practices in corporate governance, the Board appoints a Compliance Officer whose primary role is to operationalize the Manual, and monitor overall compliance with its provisions and requirements. Moreover, the Compliance Officer is tasked with the duty to communicate with the SEC on matters relating to the Company's compliance with the Manual and the clarification of matters required by the said Commission. Together with his primary function, the Compliance Officer is also tasked to oversee the implementation of the Company's Code of Business Conduct and Ethics and the Related Party Transactions Policy.

The Corporate Governance Office

The Legal and Corporate Governance Department (the "Department") is the unit tasked to formulate and implement the initiatives and policies on good corporate governance. The Department, on matters of corporate governance, reports directly to the Compliance Officer under the supervision of the Corporate Governance Committee. The Department has been active in the continuous conduct of orientation to all Manila Water employees and business partners on the Company's governance policies, particularly on matters contained in the Manual and the Code of Business Conduct and Ethics, such as transparency, whistle blower policy, honesty and fair dealing, and prompt and adequate disclosure of material information, among other policies.

Among the mandates of the Department is the continuous identification of gaps and challenges on corporate governance practices across the organization. This allows the Department to propose improvements on the Company's policies based on international corporate governance standards. Finally, the Department, in coordination with the Office of the Corporate Secretary, also provides timely updates to the Board and the Management on the current and best practices on corporate governance in the industry and globally.

The Internal Audit

The Internal Audit (IA) team conducts an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The IA reports to and supports the Audit Committee in the effective discharge of the Committee's oversight roles and responsibilities. The IA consists of talents and professionals who are either a Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified in Risk and Information Systems Control, Certified Internal Control Auditor, Civil Engineer, Electrical Engineer, or a mix thereof.

Annually, a risk-based internal audit plan is prepared and approved by the Audit Committee. The IA conducts its activities guided by the Institute of Internal Auditors' (IIA) Professional Practices Framework consisting of the International Standards for the Professional Practice of Internal Auditing (Standards), the Definition of Internal Auditing and the Code of Ethics. In December 2017, the external auditing firm Punongbayan & Araullo conducted an independent validation of the internal audit function's Quality Assessment Review (QAR) and concurred that the internal audit activity "Generally Conforms" to the International Professional Practice Framework (IPPF) and its mandatory elements namely: (1) Core Principles for the Professional Practice of Internal Auditing; (2) Definition of Internal Auditing; (3) Code of Ethics; and, (4) International Standards for the Professional Practice of Internal Auditing (Standards). The rating is considered the highest possible rating per Institute of Internal Auditors (IIA) methodology. The Standards require that the external assessment be conducted at least once every five (5) years.

The Chief Risk Officer

The Chief Risk Officer (CRO) oversees the entire risk management function and leads the development, implementation, maintenance and continuous improvement of Enterprise Risk Management (ERM) program, processes and tools. The CRO is the Vice Chairman of the Risk Management Executive Committee (RMEC) and leads the Enterprise Risk Management (ERM) Department in facilitating the ERM process throughout the Manila Water Enterprise and in collecting and analyzing key business risk information for reporting to the RMEC and to the Board Risk Oversight Committee (BROC).

Enterprise Risk Management Department

The Enterprise Risk Management (ERM) Department is responsible for the sustained implementation of the Enterprise Risk Management Program across the Manila Water Enterprise and ensures that key risks are identified and managed by the respective risk owners.

ERM Department is also responsible for managing the insurance program of the Company and provides oversight on the insurance program of the subsidiaries, with the objective of making the program optimal, cost-effective, risk-based and responsive to the Enterprise's needs.

Investor Relations Team

The Investor Relations Team (IR) is tasked to regularly keep the Company's investors and stakeholders informed of the developments in the Company's business. For this purpose, the IR conducts quarterly analysts' briefings and regular meetings with shareholders, fund managers, and analysts to keep them updated on the financial and operating performance of the Company as well as other relevant material information and details on transactions of the Company. A press briefing is also held each year immediately after the annual stockholders' meeting to engage other stakeholders, specifically the media.

The IR is easily reached through the contact details provided herein or in the Company website for any stockholder, stakeholder, or investor concerns.

The Chief Sustainability Officer

The Chief Sustainability Officer (CSO) ensures that environmental, social and governance issues and challenges of the Company are discussed at the Board and are well communicated to all stakeholders. In 2018, there were no significant fines and sanctions above ₱50,000 noted for non-compliance with relevant socio-economic and environmental laws and/or regulations.

The CSO also leads new initiatives and cross-functional teams, and understands how to translate external factors into internal opportunities. It also ensures that business growth and strategies take into account the environmental and social impacts.

On November 20, 2018, during its Regular meeting, it was approved by the Board to appoint the Company's President and CEO to be the CSO, as reviewed, evaluated, and endorsed by the Nomination Committee.

The Corporate Governance Manual

Manila Water is dedicated to observing the highest standards of corporate governance in order to serve the best interests of it is stakeholders, including the investing public. The Board, the Management, the employees, and shareholders of the Company believe that sound and effective leadership is fundamental to its continued success and stability. These principles and practices enable the company to create and sustain increased value for all the shareholders.

The corporate governance policy of Manila Water is primarily contained in its Manual of Corporate Governance (the "Manual"). The Company's corporate governance framework is based on the principles of accountability, fairness and transparency, and sustainability. The Manual is available for download at the Company's website.

The Manual contains the governance principles that the Company applies in all its undertakings and supplements Manila Water's Articles of Incorporation and By-laws, Code of Business Conduct and Ethics and other related Company policies. The Manual instituted the policies on:

- the Board of Directors', the Board Committees' and management's roles, functions and responsibilities in relation to good governance;
- the institution of training for the Board of Directors, executive directors and employees;
- evaluation of the Board and Management's performance;
- the enhanced roles of the Corporate Secretary and Audit Committee in corporate governance;
- general guidelines on related party transactions; and
- conflict of interest and prompt and adequate disclosures.

Manila Water is in full compliance with the code of corporate governance and all disclosure rules of the Philippines Stock Exchange and the Securities and Exchange Commission.

As a key policy, the members of the Board and key executives of the Company are required to disclose to the Board any material interest, whether direct or indirect, that they may have in any transaction or matter that directly affects the Company. The Company commits, at all times, to adequately and timely disclose all material information that could potentially affect Manila Water's share price and such other information that are required to be disclosed pursuant to the Securities Regulations Code (SRC) and its and its Implementing Rules and Regulations (IRR) and other relevant laws. This information includes, but is not limited to, results of earnings, acquisition or disposal of significant assets, off-balance sheet transactions, changes in Board membership, as well as, changes in shareholdings of majority shareholders, directors and officers, and related party transactions. The Company also discloses its corporate governance practices, corporate events calendar and other material information on its website in a timely manner.

The directors are required to comply with all disclosure requirements of the Manual and the SRC and its IRR, and to voluntarily disclose any conflict of interest, whether actual or potential, upon its occurrence. The disclosure of any conflict of interest, including related party transactions, is required to be made fully and immediately. In cases where related party transactions exist, it is the Company's policy that complete information on such transaction be immediately disclosed, and, if a director or officer is involved, the director or officer concerned shall not be allowed to participate in the decision-making process. The policy also mandates that a director who has a continuing conflict of interest of a material nature shall be required to resign, or if the Board deems appropriate, be removed as a member of the Board.

The Company's Manual is continuously being revised in accordance with the directives and issuances of the SEC and to comply with the highest standards of corporate governance. The latest revisions to the Manual was approved and ratified by the Board in June 8, 2017.

Related Party Transactions

To further instill the Company's policies on related party transactions, the Board adopted the Policy on Related Party Transactions (the "RPT Policy"). The RPT Policy confirms that the Company and its subsidiaries shall enter into any related party transactions solely in the ordinary course of business, on ordinary commercial terms, and on the basis of arm's length arrangements, which shall be subject to appropriate corporate approvals and actions of the Company or the related parties, as the case may be.

Any related party transactions entered into by the Company or its affiliates shall be in accordance with applicable law, rules and regulations, and the RPT Policy. Related party transactions entered into by the Company with one or more of its directors or officers are voidable at the option of the Company, unless the transaction is deemed fair and reasonable under the circumstances and at arm's length, and the procedure for the procurement and approval for similar transactions was strictly complied with.

The RPT Policy provides for the process of approving related party transactions, as well as the implications for violations. In addition, the RPT Policy prohibits related party transactions involving loans and/or financial assistance to a director and loans and/ or financial assistance to members of the Management, except when allowed pursuant to an established Company benefit or plan. Under the RPT Policy, the approval of the Related Party Transactions Committee is required for material related party transactions.

The Code of Business Conduct and Ethics

The Company's commitment to the highest standards of ethics, good governance, competence and integrity was institutionalized through the Code of Business Conduct and Ethics (the "Code"). The Code sets forth the standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the Company. The Code should be properly disseminated to the Board, senior management and employees, and should also be disclosed and made available to the public through the company website.

The Code addresses the issues and relationships between and among the Company's directors, officers and employees, and its customers, suppliers, business partners, government offices and other stakeholders. The Code includes policies on: Honesty and Fair Dealing; Conflict of Interest; Corporate Entertainment and Gifts; Insider Trading; Disclosure; Creditor Rights; Anti-Corruption; and Anti-Sexual Harassment.

Honesty and Fair Dealing

- The core principle of the Company is to conduct business honestly and fairly with its investors, suppliers, contractors, service providers, customers and employees and other third parties.
- Directors, Officers and employees shall act honestly, ethically and in comply with all applicable laws, rules and regulations and protect the name and reputation of the Company.
- Directors, Officers and employees shall not engage in any unfair dealing practices, such as taking advantage of anyone through abuse of confidential information, manipulation, concealment, or misrepresentation or other similar acts.
- Officers and employees involved in the procurement process for services, materials, supplies, and equipment shall strictly comply with the Company's Procurement Policy. The Procurement Policy is an integral part of this Code.
- Directors, Officers and employees are required to immediately report all suspected or actual fraudulent or dishonest acts to the Board, in case of directors, and to the immediate supervisor or to the Office of the Compliance Officer in case of officers and employees. The Company shall promptly identify and investigate any suspected fraudulent or dishonest acts. Without prejudice to applicable administrative sanctions, the Company may pursue civil and/or criminal actions against directors, officers and employees as may be warranted.

The Implementing Guidelines on the Reporting of Fraudulent or Dishonest Acts are contained in the Whistle Blower Policy of the Company.

Reporting of Fraudulent or Dishonest Acts (Whistle Blower Policy)

- Provides for procedures to be followed to encourage all covered persons to report fraudulent or dishonest acts in order to protect the good name and reputation of the Company, and in the process, discourage the commitment of such acts.
- Directors, officers, employees and third parties are required to immediately report all suspected or actual fraudulent or dishonest acts to the Board in case of directors, and to the immediate supervisor or to the Office of the Compliance Officer in case of officers, employees and third parties.
- The Company shall promptly identify and investigate any suspected fraudulent or dishonest acts.
- Without prejudice to applicable administrative sanctions, the Company may pursue civil and/or criminal actions against directors, officers, employees and third parties as may be warranted.
- To ensure protection of the reporter from any form of retaliation or discrimination, the identity of the person making the report and the contents of the report shall be kept confidential to the extent legally permissible.

Conflict of Interest

- Prohibits conflict of interest situations involving all directors, officers, employees and their relatives up to the fourth degree of consanguinity and/or affinity, including common law relationships.
- Under the policy, a conflict of interest arises when a director, an officer or employee appears to have a direct or indirect personal or financial interest in any transaction, which may deter or influence him from acting in the best interest of the Company. It is not required that there be an actual conflict; it is only required that there could be perceived conflict by an impartial observer.
- All contracts/arrangements by directors, officers and employees, and their relatives that violates this policy on conflict of interest shall be terminated immediately and correspondingly reported to the Office of the Compliance Officer, for appropriate action under the Code.

Corporate Entertainment and/or Gifts

- Prohibits all officers and employees from accepting corporate entertainment/gifts from suppliers, contractors and other business partners, which can be viewed as influencing the manner by which an officer or employee may discharge his duties.

Insider Trading

- Prohibits directors, officers and confidential employees from trading in Manila Water shares: Ten (10) days before and three (3) days after the release of the financial statements; and Three (3) days before and three (3) days after the release of other material information.
- In addition, directors and officers who may be covered by the reporting requirements of the SEC and the Philippine Stock Exchange (PSE) in respect of their shareholding in the Company or any changes thereof, are required to report their dealings in Company shares within three (3) business days after the transaction.

Disclosure

- Encourages prompt and adequate disclosure of all material facts or changes in the affairs of the Company, including any information likely to affect the market price of the Company's shares.

Creditor Rights

- Institutionalizes the Company's adherence to its loan covenants and agreements for the protection of the rights of the creditors of the Company.
- No distribution or disposal of assets of the Company shall be made except: when allowed by the law; or by decrease of capital stock; or upon lawful dissolution and after payment of all its debts and liabilities; when allowed by the material agreements of the Company, but without prejudice to vested rights.

Anti-Corruption

- Strictly prohibits giving and facilitating of payments to any private or government officials or employees, their agents or intermediaries, in order to expedite or secure performance of any governmental action, or to gain any perceived or actual favor or advantage from any private or government entities. The Company must ensure that it and its directors, officers and employees fully comply with the laws governing bribes, unlawful payments and other corrupt practices.

Anti-Sexual Harassment

- Recognizes the Company's protection of the dignity of its human resources, stakeholders, and customers
- All forms of sexual harassment shall be dealt with appropriately and in accordance with the applicable and all relevant laws, rules and regulations

Diversity in Board Membership

Promotes equality among the members of the Board regardless of gender, age, ethnicity, or political, religious or cultural beliefs.

Procurement Policies

The objectives of the Procurement Policies are to promote transparency in the procurement process, and to afford vendors equal access to business opportunity with Manila Water, with the end view of enhancing vendor participation and protecting the interest of Manila Water. Officers and employees of the Company involved in the procurement process for services, materials, supplies and equipment for Manila Water are required to strictly comply with its Procurement Policies.

The Procurement Policies of the Company are downloadable at the Company website.

The Vendors' Code of Conduct

The Vendors' Code of Conduct sets out the rules that will guide Manila Water's vendors in the performance of their obligations and/or transacting business with Manila Water, thus avoiding acts contrary to standards, policies, laws and morals. As business partners of Manila Water, its vendors are expected to act with utmost integrity, efficiency, and competence in performing awarded contracts and/or delivering ordered products. Moreover, they should demonstrate a strong sense of responsibility for public safety and interest that will ultimately promote and protect the good name of Manila Water. The Vendors' Code of Conduct is deemed incorporated in the contracts of Manila Water with its suppliers, vendors and contractors.

A copy of the Vendor's Code of Conduct is downloadable at the Company website.

The Enterprise Risk Management Policy

Manila Water has established an Enterprise Risk Management (ERM) Program which aims to use a globally accepted approach in managing imminent and emerging risks in its internal and external operating environments. Under the ERM Program, Manila Water shall appropriately respond to risks and manage them in order to increase shareholder value and enhance its competitive advantage.

In order to bolster the risk oversight and management functions relating to strategic, financial, operational, compliance, legal and other risks of the Company, the Board, on August 11, 2015, approved the establishment of a separate Board Risk Oversight Committee (BROC). Subsequently, on November 26, 2015, the Board approved the Charter of the BROC, which transferred the risk oversight and management functions to the BROC from the Audit and Governance Committee.

Safety, Health and Welfare Policy

Manila Water is committed to achieving customer satisfaction, upholding environmental sustainability, and ensuring safety, preservation of life and health of its employees and all stakeholders. To achieve these objectives, it is the policy of Manila Water to:

- Continuously assess, implement and improve its processes and business conduct by adopting best practices and keeping abreast with the latest innovations to ensure reliability and efficiency of its operations;
- Ensure full compliance with relevant laws and standards in pollution prevention and environmental sustainability, safety and health protection, as well as applicable regulatory standards and customer requirements related to the quality of its products and services;
- Build a strong culture committed to customer satisfaction, environmental protection, health and safety through education, training and awareness at all levels of the organization that will empower its employees, contractors, suppliers and stakeholders;
- Actively promote the conservation and optimal use of precious resources by constantly creating and improving existing programs aimed at pollution prevention, waste minimization, resource conservation and environmental sustainability;
- Systematically manage and control its health and safety risks through effective risk assessment processes; and
- Regularly revisit, improve, develop and maintain its Quality, Environment, Health and Safety management system to ensure its effectiveness and relevance to the changing needs of the company to drive continuous improvement in operations, quality, environmental, health and safety performances.

Stockholder Rights

It is the duty of the directors to promote shareholders rights, remove impediments to the exercise of shareholders rights and provide effective redress for violation of their rights.

Right to Notice of Meetings and Right to Attend Meetings
To promote transparency and goodwill, it is a Company policy to encourage the attendance of all its stockholders, including minority and non-controlling, and institutional investors, at the stockholders' meeting of the Company. The Board should encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) days before the scheduled meeting.

Unless otherwise provided by law or the By-laws, stockholders as of Record Date constituting at least a majority of the outstanding voting capital stock of the Company is necessary to constitute a quorum. The stockholders may be present in person or represented by proxy.

Right to Propose the Holding of and to Attend Meetings
The Manual provides that the minority shareholders shall have the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items proposed are for legitimate business purposes.

Right to Make Nominations to the Board of Directors
Every stockholder, including non-controlling, has a right to submit a nomination for election to the Board. The stockholders, in making their nominations, or the Company, are encouraged to make use of professional search firms or external sources of candidates when searching for candidates to the Board.

Voting Right and Right to Participate at Stockholders Meetings
(i) In all items for approval, each share of stock entitles its registered owner as of the record date to one vote. The Company has two classes of shares, common and participating preferred shares. Both classes of shares have equal voting rights.
(ii) Voting shall be by poll and the Company shall provide the mechanism to implement the same at every stockholders' meeting.
(iii) Under the Company's By-laws, the affirmative vote of stockholders as of the record date constituting at least a majority of the outstanding voting capital stock of the Company is necessary to approve matters requiring stockholders' action, unless otherwise provided for under existing laws, with the exception of the following corporate acts and measures which must be ratified and/or approved by the stockholders representing or constituting at least two thirds (2/3) of the outstanding capital stock of the Company:
- Amendment of the Articles of Incorporation;
- Adoption and/or amendment of the By-laws (unless the power to amend By-laws have been delegated to the Board by the stockholders);
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
- Incurring, creating or increasing bonded indebtedness; Increase or decrease of capital stock;
- Merger or consolidation of the Company with another company; Investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which it was organized; and
- Dissolution of the Company, among others.

(iv) For the election for directors, every stockholder shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates.
(v) The stockholders shall also have an opportunity during the stockholders' meeting to ask questions and raise their issues relevant to the agenda items. The minutes of the meeting record the shareholder questions and corresponding answers given by the directors and officers of the Company.
(vi) The Board should encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting should be available on the Company website within five (5) business days from the end of the meeting.

Dividend Rights
The Company continues its practice of offering its shareholders an equitable share of the Company's profits. In 2013, the Board of Directors confirmed its dividend payout policy which entitles holders of common shares and participating preferred shares to annual cash dividends equivalent to 35 percent of the prior year's net income payable at least semiannually, on such dates as may be determined by the Board of Directors, subject to applicable rules and regulations on record dates and payment dates. The participating preferred shares participate in the earnings at a rate of 1/10 of the dividends paid to a common share. As a matter of policy, payment dates of dividends declared are fixed within thirty (30) days from date of declaration. In 2018, the Company paid a total of ₱2.111 billion as dividends.

Pre-Emptive Right
All stockholders have pre-emptive rights or the right to subscribe to new shares of the Company, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Company. The Articles of Incorporation may provide the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

Right to Information and Inspection
In addition to regular posting and disclosures of material information at the Company website, a shareholder shall be provided with periodic reports regarding the performance of the Company upon written request for a legitimate purpose. Shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be provided an annual report, including financial statements, without cost or restrictions.

Quorum and Voting Procedures at the Stockholders Meetings

Unless otherwise provided by law or the By-laws, stockholders as of Record Date constituting at least a majority of the outstanding voting capital stock of the Company is necessary to constitute a quorum. The stockholders may be present in person or represented by proxy. The affirmative vote of stockholders constituting at least a majority of the outstanding voting capital stock of the Company is necessary to approve matters requiring stockholders' action. However, the following corporate acts and measures must be ratified and/or approved by the stockholders representing or constituting at least two thirds (2/3) of the outstanding capital stock of the Company:

- Amendment of the Articles of Incorporation
- Adoption and/or amendment of the By-laws
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property
- Incurring, creating or increasing bonded indebtedness
- Increase or decrease of capital stock
- Merger or consolidation of the Company with another company
- Investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which it was organized
- Dissolution of the Company

In all items for approval, each share of stock entitles its registered owner as of the record date to one vote. At each election for directors, every stockholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or to distribute such votes on the same principle among as many candidates as he shall see fit.

Voting will be by poll. Stockholders may opt for manual or electronic voting either in person or by proxy. For manual voting, each stockholder will be given a ballot upon registration to enable the stockholder to vote in writing per item in the agenda. For electronic voting, there will be computer stations placed outside the Ballroom where stockholders may cast their votes electronically. Both the paper ballot and computer platform for electronic voting will contain the proposed resolutions for consideration by the stockholders and each proposed resolution will be shown on screens in front of stockholders as the same is taken up at the meeting. Stockholders may cast their vote anytime during the meeting.

In addition, a stockholder may vote electronically *in absentia* using the online web address provided by the Company subject to validation purposes. A stockholder voting electronically *in absentia* shall be deemed present for purposes of quorum.

All votes will be counted and tabulated by the Office of the Corporate Secretary and the Committee of Inspectors of Ballots and Proxies. The results of voting will be validated by SGV & Co., the independent party appointed for the purpose.

For the election of the eleven (11) members of the Board of Directors, the eleven (11) nominees receiving the highest number of votes will be declared elected as directors of the Company. However, if there are only eleven (11) nominees, all nominees shall be declared elected upon approval of motion.

Public Ownership

The Company is compliant with the requirement of the PSE on minimum public ownership with 55.52% of its shares subscribed and owned by the public as of December 31, 2018. In compliance with the requirements of the PSE, the Company regularly and timely discloses its public ownership report and immediately makes a public disclosure of any change thereon.

Summary of Legal and Beneficial Ownership of the Board, Key Officers and Major Shareholders

NAME	DECEMBER 31, 2017	CLASS OF SHARES	DECEMBER 31, 2018	CLASS OF SHARES
Directors				
Fernando Zobel de Ayala	1	Common	1	Common
Jaime Augusto Zobel de Ayala	1	Common	1	Common
Ferdinand M. Dela Cruz	1,248,264	Common	2,965,686	Common
Gerardo C. Ablaza, Jr.	4,126,078	Common	4,126,078	Common
Antonino T. Aquino	12,749,543	Common	12,749,543	Common
Delfin L. Lazaro	1	Common	1	Common
John Eric T. Francia	1	Preferred	1	Preferred
Jaime C. Laya (ID)	19,800	Common	19,800	Common
Jose L. Cuisia, Jr. (ID)	1	Common	1	Common
Oscar S. Reyes (ID)	330,001	Common	330,001	Common
Sherisa P. Nuesa (ID)	5,093,607	Common	5,093,607	Common
Officers				
Luis Juan B. Oreta*	1,572,727	Common	N.A.	N.A.
Virgilio C. Rivera, Jr.	2,242,795	Common	3,264,058	Common
Ma. Cecilia T. Cruzabra*	N.A.	N.A.	N.A.	N.A.
Geodino V. Carpio	817,600	Common	1,961,100	Common
Abelardo P. Basilio	775,200	Common	1,069,200	Common
Thomas T. Mattison	274,100	Common	474,100	Common
Janine T. Carreon	228,300	Common	514,800	Common
Esmeralda R. Quines	735,390	Common	837,590	Common
Liwayway T. Sevalla**	N.A.	N.A.	63,000	Common
Maidy Lynne B. Quinto***	N.A.	N.A.	140,000	Common
Solomon M. Hermosura	50,100	Common	50,100	Common
Major Shareholders				
Ayala Corporation	866,946,196****	Common	866,946,196****	Common
Philwater Holdings Corporation	3,999,999,998	Preferred	3,999,999,999	Preferred

** Due to the Retirement of Mr. Luis Juan B. Oreta, the Board, in its meeting dated October 2, 2018, approved the appointment Ms. Ma.Cecilia T. Cruzabra as the Chief Finance Officer, Treasurer, Compliance Officer, and Group Director for Corporate Finance and Strategy effective November 1, 2018*
*** During the Organizational Meeting of the Board held on April 16, 2018, it was resolved to approve the appointment of Ms. Liwayway T. Sevilla as the Chief Information Officer, and Group Director for Business and Technology Services effective immediately*
**** During the Regular meeting of the Board held on August 9, 2018, it was resolved to approve the appointment of Ms. Maidy Lynne B. Quinto as Group Director for Corporate Project Management effective immediately*
***** Inclusive of shares held through PCD Nominee Corporation*

Company Website

In the pursuit of the Company's thrust to continuously improve awareness of best practices in the conduct of its business and operations especially in corporate governance across the organization, including dealings with its business partners and customers, Manila Water constantly updates its website, www.manilawater.com, with a section dedicated to corporate governance and investor relations. The Corporate Governance section of the website contains all disclosures made by the Company to the PSE and SEC, as well as its Manual, the Code, the Charters of the Board and its Committees, the various corporate governance policies and other matters and information of relevance to the stockholders and all stakeholders. The Company discloses its corporate governance practices, corporate events calendar, and other material information on its website in a timely manner.

The Investor Relations section houses all information that may be required by the investors, shareholders and stakeholders. The site has been enhanced to be user-friendly and is accessible to the public at all times.

Corporate Governance Recognition and Awards

The Company's commitment to uphold the highest standards of good corporate governance has again been confirmed and recognized through the prestigious awards it has received in 2018. In particular, the ASEAN's Top 50 Publicly-Listed Companies on Corporate Governance at the 2018 ASEAN Corporate Governance Awards, Top 10 Philippine Publicly-Listed Companies, and Top 5 Industry Sector by the Institute of Corporate Directors, and Platinum Awardee for Excellence in Environmental, Social and Governance Practices by the Asset.

PART V - LIST OF EXHIBITS/SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibit 1 - See accompanying Index to Financial Statements and Supplementary Schedules

b. Exhibit 2 - Reports on SEC Form 17-C

<u>Exhibit 1- FINANCIAL STATEMENTS</u>

a. Statement of Management's Responsibility for Financial Statements

b. Report of Independent Auditors

c. Balance Sheets as of December 31, 2018 and 2017

d. Statements of Income for the years ended December 31, 2018, 2017 and 2016

e. Statement of Changes in Stockholders Equity for the years ended December 31, 2018, 2017 and 2016

f. Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

g. Notes to Financial Statements

SUPPLEMENTARY SCHEDULES

Report of Independent Auditors on Supplementary Schedules - Exhibit 1.A

Schedule A	Financial Assets
Schedule B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
Schedule C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of the Financial Statements
Schedule D	Intangible Assets - Other Assets
Schedule E	Long-Term Debt
Schedule F	Indebtedness to Related Parties (Long-Term Loans from Related Companies)
Schedule G	Guarantees of Securities of Other Issuers
Schedule H	Capital Stock
Schedule I	Retained Earnings Available for Dividend Declaration as of December 31, 2018 – same as the Supplementary Schedule to FS
Schedule J	Map Showing the Relationships between and among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries
Schedule K	Financial Ratios
Schedule L	Beneficial Ownership of Shares

OTHERS

a. General Form for Financial Statements - Exhibit 1.B

b. Certification from the Treasurer that the General Form for Financial Statements Diskette has the Basic and Material Data in the Audited Financial Statements - Exhibit 1.C

c. List of Top 20 Stockholders of Record of Manila Water Company, Inc. as of December 31, 2018 - Exhibit 1.D.

Reports on SEC Form 17-C – Exhibit 2

Aside from compliance with periodic reporting requirements, the Company promptly discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

In 2018 the Company filed the following reports using SEC Form 17-C:

Date	**Template Name**	**Subject/Description**
January 3, 2018	Update on Annual Corporate Governance Report	Attendance of the Board of Directors in Board Meetings
January 5, 2018	Foreign Ownership Report	Foreign Ownership Report as of December 31, 2017
January 5, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of December 31, 2017
January 8, 2018	List of Top 100 Stockholders	List of Top 100 Stockholders as of December 31, 2017
January 9, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Geodino V. Carpio
January 10, 2018	Public Ownership Report	Public Ownership Report as of December 31, 2017
January 22, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment/Election	Resignation of Officer
January 26, 2018	Material Information/Transactions	Notice of Award for the City of Ilagan Water District
February 5, 2018	Foreign Ownership Report	Foreign Ownership Report as of January 31, 2018
February 6, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of January 31, 2018
February 14, 2018	[Amended-1] Notice of Annual or Special Stockholders' Meeting	Detailed Notice and Agenda of the Annual Stockholders' Meeting
February 14, 2018	Update on Annual Corporate Governance Report	Detailed Notice and Agenda of the Annual Stockholders' Meeting
February 19, 2018	Material Information/Transactions	Manila Water Signs Agreement to Acquire Shares in East Water in Thailand
February 20, 2018	Notice of Analysts'/Investors' Briefing	Notice of Analysts' Briefing
February 27, 2018	Material Information/Transactions	Unaudited Full Year 2017 Performance Results
March 1, 2018	Material Information/Transactions	Results of Regular Meeting of the Board of Directors held on March 1, 2018

Date	Template Name	Subject/Description
March 1, 2018	Material Information/Transactions	2017 Audited Consolidated Financial Statements
March 1, 2018	[Amended-2] Notice of Annual or Special Stockholders' Meeting	Amended Notice and Agenda of the Annual Stockholders' Meeting
March 2, 2018	Declaration of Cash Dividends	Declaration of First Semester 2018 Cash Dividends
March 5, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of February 28, 2018
March 6, 2018	Material Information/Transactions	Manila Water's Indonesia Subsidiary Signs Agreement to Purchase Shares in PT. Sarana Tirta Ungaran in Indonesia
March 7, 2018	Acquisition or Disposition of Shares of Another Corporation	Manila Water's Indonesia Subsidiary Purchase of 20% Shares in PT. Sarana Tirta Ungaran
March 7, 2018	Foreign Ownership Report	Foreign Ownership Report as of February 28, 2018
March 8, 2018	List of Stockholders	List of Stockholders as of Annual Stockholders' Meeting Record Date
March 13, 2018	Material Information/Transactions	Foreign Currency Differential Adjustment
March 14, 2018	Clarification of News Report	Clarification of News Article
March 14, 2018	Substantial Acquisitions	Acquisition of 311,443,190 Ordinary Shares in Eastern Water Resources Development and Management Public Company Limited
March 19, 2018	Information Statement	2018 Definitive Information Statement
April 4, 2018	Foreign Ownership Report	Foreign Ownership Report as of March 31, 2018
April 6, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of March 31, 2018
April 11, 2018	List of Top 100 Stockholders	List of Top 100 Stockholders as of March 31, 2018
April 13, 2018	Public Ownership Report	Public Ownership Report as of March 31, 2018
April 13, 2018	Annual Report	SEC Form 17-A for the year ended December 31, 2017
April 16, 2018	Results of Annual or Special Stockholders' Meeting	Results of the 2018 Annual Stockholders' Meeting
April 16, 2018	Results of Organizational Meeting of the Board of Directors	Results of Organizational Meeting of the Board of Directors

Date	Template Name	Subject/Description
April 16, 2018	Amendments to Articles of Incorporation	Amendment of the Seventh Article of the Articles of Incorporation
April 16, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)	Appointment of Officers
April 16, 2018	Initial Statement of Beneficial Ownership of Securities	SEC Form 23-A of Atty. Gerardo M. Lobo II
April 16, 2018	Initial Statement of Beneficial Ownership of Securities	SEC Form 23-A of Ms. Liwayway T. Sevalla
April 25, 2018	Material Information/Transactions	Notice of Award from the Balagtas Water District
April 30, 2018	Material Information/Transactions	Notice of Award from the Bulacan Water District
May 4, 2018	Notice of Analysts'/Investors' Briefing	Notice of Analysts' Briefing
May 8, 2018	Foreign Ownership Report	Foreign Ownership Report as of April 30, 2018
May 8, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of April 30, 2018
May 9, 2018	Material Information/Transactions	Unaudited First Quarter 2018 Performance Results
May 11, 2018	Quarterly Report	Quarterly Report for the Period ended March 31, 2018
May 11, 2018	Material Information/Transactions	Term-loan Facility for Manila Water Company, Inc.
May 16, 2018	Other SEC Forms, Reports and Requirements	2018 General Information Sheet
May 16, 2018	Material Information/Transactions	Employee Stock Ownership Grant
May 21, 2018	Change in the Number of Issued and/or Outstanding Shares	Number of Issued and Outstanding Common Shares as of May 16, 2018
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Atty. Gerardo M. Lobo II
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Ms. Ma. Victoria P. Sugapong
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Geodino V. Carpio
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Luis Juan B. Oreta
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Ferdinand M. dela Cruz
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Virgilio C. Rivera, Jr.

Date	**Template Name**	**Subject/Description**
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Abelardo P. Basilio
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Ms. Janine T. Carreon
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Ms. Esmeralda R. Quines
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Thomas T. Mattison
May 22, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Xerxes Noel O. Ordanez
May 30, 2018	Integrated Annual Corporate Governance Report	Integrated Annual Corporate Governance Report for the Period ended December 31, 2017
June 6, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of May 30, 2018
June 6, 2018	Foreign Ownership Report	Foreign Ownership Report as of May 30, 2018
June 13, 2018	Other SEC Forms, Reports and Requirements	Attendance of Director and Reportable Officers in Corporate Governance Training
June 14, 2018	Material Information/Transactions	Franchise to Provide Water Supply and Sanitation Services in Sta. Barbara, Pangasinan
June 14, 2018	Material Information/Transactions	Foreign Currency Differential Adjustment
June 27, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Ms. Esmeralda R. Quines
July 5, 2018	Foreign Ownership Report	Foreign Ownership Report as of June 30, 2018
July 5, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of June 30, 2018
July 10, 2018	List of Top 100 Stockholders	List of Top 100 Stockholders as of June 30, 2018
July 12, 2018	Material Information/Transactions	Notice of Award from the Pagsanjan Water District
July 16, 2018	Public Ownership Report	Public Ownership Report as of June 30, 2018
August 1, 2018	Material Information/Transactions	Tariff Adjustment of Boracay Island Water Company, Inc.
August 3, 2018	Notice of Analysts'/Investors' Briefing	Notice of Analysts' Briefing
August 7, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of July 30, 2018
August 7, 2018	Foreign Ownership Report	Foreign Ownership Report as of July 30, 2018

Date	**Template Name**	**Subject/Description**
August 8, 2018	Material Information/Transactions	Unaudited First Half 2018 Performance Results
August 9, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)	Appointment of Officer
August 9, 2018	Initial Statement of Beneficial Ownership of Securities	SEC Form 23-A of Ms. Maidy Lynne B. Quinto
August 14, 2018	Quarterly Report	Quarterly Report for the Period ended June 30, 2018
August 16, 2018	Material Information/Transactions	Joint Venture Agreement between Obando Water Consortium Holdings Corp. and the Bulacan Water District
August 16, 2018	[Amended-1] Other SEC Forms, Reports and Requirements	Amended 2018 General Information Sheet
September 7, 2018	Foreign Ownership Report	Foreign Ownership Report as of August 31, 2018
September 7, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of August 31, 2018
September 13, 2018	Other SEC Forms, Reports and Requirements	Attendance of Directors in Corporate Governance Training
September 14, 2018	Clarification of News Report	Clarification of News Article
September 14, 2018	Material Information/Transactions	Foreign Currency Differential Adjustment
September 20, 2018	Other SEC Forms, Reports and Requirements	Attendance of Reportable Officers in Corporate Governance Training
September 28, 2018	Material Information/Transactions	MWSS Rate Rebasing Determination
October 2, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)	Results of Regular Meeting of the Board of Directors held on October 2, 2018
October 2, 2018	Declaration of Cash Dividends	Declaration of Second Semester 2018 Cash Dividends
October 2, 2018	Material Information/Transactions	Results of Regular Meeting of the Board of Directors held on October 2, 2018
October 4, 2018	Initial Statement of Beneficial Ownership of Securities	SEC Form 23-A of Ms. Ma. Cecilia T. Cruzabra
October 4, 2018	Foreign Ownership Report	Foreign Ownership Report as of September 30, 2018

Date	**Template Name**	**Subject/Description**
October 4, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of September 30, 2018
October 12, 2018	Material Information/Transactions	Notice of Award from the Tanauan Water District
October 15, 2018	Public Ownership Report	Public Ownership Report as of September 30, 2018
October 15, 2018	List of Top 100 Stockholders	List of Top 100 Stockholders as of September 30, 2018
October 15, 2018	Material Information/Transactions	Franchise to provide water supply and sanitation services in San Fabian, Pangasinan
October 30, 2018	Notice of Analysts'/Investors' Briefing	Notice of Analysts' Briefing
October 30, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)	New Assignment of Ms. Ma. Victoria P. Sugapong
November 7, 2018	Material Information/Transactions	Unaudited Year-to-Date September 2018 Performance Results
November 7, 2018	[Amended-1] Material Information/Transactions	Unaudited Year-to-Date September 2018 Performance Results
November 7, 2018	Foreign Ownership Report	Foreign Ownership Report as of October 30, 2018
November 7, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of October 30, 2018
November 8, 2018	[Amended-2] Other SEC Forms, Reports and Requirements	Amended 2018 General Information Sheet
November 14, 2018	Quarterly Report	Quarterly Report for the Period ended September 30, 2018
November 16, 2018	Material Information/Transactions	Joint Venture Agreement between Filipinas Water Holdings, Corp. and the City of Ilagan Water District
November 16, 2018	Material Information/Transactions	Joint Venture Agreement between Manila Water Philippine Ventures, Inc. and Tubig Pilipinas Group, Inc.
November 20, 2018	Material Information/Transactions	Meeting of the Non-executive Directors and Regular Meeting of the Board of Directors
November 20, 2018	Notice of Annual or Special Stockholders' Meeting	Setting of the date of the 2019 Annual Stockholders' Meeting

Date	**Template Name**	**Subject/Description**
November 20, 2018	Change in Directors and/or Officers (Resignation, Removal or Appointment, Election and/or Promotion)	Appointment of Chief Sustainability Officer
November 23, 2018	Other SEC Forms, Reports and Requirements	Attendance of Director in Corporate Governance Training
November 27, 2018	[Amended-3] Other SEC Forms, Reports and Requirements	Amended 2018 General Information Sheet
November 27, 2018	Material Information/Transactions	Notice of Award from the Calinog Water District
November 27, 2018	Material Information/Transactions	Notice of Award from the Lambunao Water District
December 6, 2018	Foreign Ownership Report	Foreign Ownership Report as of November 30, 2018
December 6, 2018	Report on Number of Shareholders	Report on the Number of Shareholders as of November 30, 2018
December 14, 2018	Statement of Changes in Beneficial Ownership of Securities	SEC Form 23-B of Mr. Abelardo P. Basilio
December 14, 2018	Material Information/Transactions	2019 Standard Rates
December 14, 2018	Material Information/Transactions	Tariff Adjustment of Boracay Island Water Company, Inc.
December 21, 2018	Material Information/Transactions	Notice of Award from the San Jose Water District – Nueva Ecija
December 27, 2018	Material Information/Transactions	Notice of Award from the Calbayog City Water District

Signatures

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Quezon City on ___ April 2019.

APR 15 2019

By:

Ferdinand M. dela Cruz
President, Chief Executive Officer
and Chief Sustainability Officer

Ma. Cecilia T. Cruzabra
Chief Finance Officer, Treasurer, Compliance Officer,
and Group Director for Corporate Finance and Strategy

Virgilio C. Rivera, Jr.
Chief Operating Officer for
New Business Operations

Solomon M. Hermosura
Corporate Secretary

Subscribed and sworn to before me this APR 15 2019 day of April 2019, affiants exhibiting to me their passports with details, as follows:

Name	Passport Number	Date of Issue	Place of Issue
Ferdinand M. dela Cruz			
Ma. Cecilia T. Cruzabra			
Solomon M. Hermosura			
Virgilio C. Rivera, Jr.			

Doc. No. 64;
Page No. 13;
Book No. 9;
Series of 2019.

ATTY. JOVENCIO P. FULGUERA
Notary Public
Expires
Roll of Attorney No
IBP No.
PTR No.
MCLE Compliance No

MANILA WATER
CARE IN EVERY DROP

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Manila Water Company, Inc. (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as of and for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company, or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

FERNANDO ZOBEL DE AYALA
Chairman of the Board

FERDINAND M. DELA CRUZ
President and Chief Executive Officer

MA. CECILIA T. CRUZABRA
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 26 2019 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Fernando Zobel de Ayala		
Ferdinand M. dela Cruz		
Ma. Cecilia T. Cruzabra		

Doc. No. 92 ;
Page No. 8 ;
Book No. I ;
Series of 2019.

KATRINA MAE P. MAGALLANES NOTARY PUBLIC ROLL NO. 64109 MAKATI CITY, PHILIPPINES

KATRINA MAE P. MAGALLANES
Notary Public – Makati City
Appt. No.
Roll of Attorneys No.
IBP No.
PTR No.
MCLE Compliance No.
3rd Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

MANILA WATER COMPANY, INC.
MWSS Administration Building,
489 Katipunan Road, 1105 Balara,
Quezon City, Philippines
T: (632) 917 5900
W: www.manilawater.com

FS FOR FILING WITH SEC

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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 - 1 1 5 9 3

COMPANY NAME

MANILA WATER COMPANY, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

MWSS ADMINISTRATION BUILDING,
489 KATIPUNAN ROAD, BALARA,
QUEZON CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
corporatesecretary@manilawater.com	(632) 917-5900	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
949	04/22	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Cecilia T. Cruzabra	cecile.cruzabra@manilawater.com	(632) 981-8156	N/A

CONTACT PERSON's ADDRESS

2nd Floor, MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 - 1 1 5 9 3

COMPANY NAME

M A N I L A W A T E R C O M P A N Y , I N C .

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

M W S S A D M I N I S T R A T I O N B U I L D I N G ,
4 8 9 K A T I P U N A N R O A D , B A L A R A ,
Q U E Z O N C I T Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S	C R M D	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
corporatesecretary@manilawater.com	(632) 917-5900	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
949	04/22	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Cecilia T. Cruzabra	cecile.cruzabra@manilawater.com	(632) 981-8156	N/A

CONTACT PERSON's ADDRESS

2nd Floor, MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Water Company, Inc.
MWSS Administration Building, Katipunan Road
Balara, Quezon City

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Water Company, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
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Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of Manila Water Company, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic parent company financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Michael C. Sabado.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332607, January 3, 2019, Makati City

February 26, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
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MANILA WATER COMPANY, INC.
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31 2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 19 and 24)	₱6,749,935,407	₱6,188,372,172
Receivables (Notes 5, 19 and 24)	1,473,757,789	1,308,576,213
Inventories (Note 6)	76,369,995	35,230,305
Other current assets (Note 7)	389,474,258	613,828,549
Total Current Assets	8,689,537,449	8,146,007,239
Noncurrent Assets		
Property and equipment (Note 8)	930,297,348	953,730,791
Service concession assets - net (Notes 9 and 20)	72,431,154,346	65,530,854,341
Investments in subsidiaries (Note 10)	8,202,525,537	7,912,056,023
Deferred tax assets - net (Note 17)	1,193,984,623	1,091,803,718
Pension assets - net (Note 14)	–	16,111,500
Other noncurrent assets (Notes 11)	3,600,212,227	3,901,155,988
Total Noncurrent Assets	86,358,174,081	79,405,712,361
	₱95,047,711,530	₱87,551,719,600
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 12 and 24)	₱4,797,623,590	₱4,282,484,759
Current portion of:		
Long-term debt (Notes 13, 23 and 24)	4,971,163,962	4,126,033,722
Service concession obligations (Notes 9, 20, 23 and 24)	694,399,151	719,234,617
Income tax payable	450,744,152	332,754,847
Total Current Liabilities	10,913,930,855	9,460,507,945
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 13, 23 and 24)	28,734,678,777	27,206,412,046
Service concession obligations (Notes 9, 20, 23 and 24)	6,252,455,676	6,110,226,860
Pension liabilities - net (Note 14)	57,993,800	–
Provisions (Note 26)	569,893,356	501,099,013
Other noncurrent liabilities (Notes 15, 23 and 24)	676,035,105	636,481,861
Total Noncurrent Liabilities	36,291,056,714	34,454,219,780
Total Liabilities	47,204,987,569	43,914,727,725
Equity		
Capital stock (Note 18):		
Common stock	2,064,839,617	2,053,666,576
Preferred stock	400,000,000	400,000,000
	2,464,839,617	2,453,666,576
Additional paid-in capital	4,518,048,369	4,230,508,417
Subscriptions receivable	(458,453,326)	(235,693,873)
Total paid-up capital	6,524,434,660	6,448,481,120
Common stock options outstanding (Note 18)	51,742,998	28,700,622
Retained earnings (Note 18):		
Appropriated	32,444,000,000	28,698,000,000
Unappropriated	8,896,197,503	8,460,483,333
Remeasurement gain (loss) on defined benefit plans (Note 14)	(73,651,200)	1,326,800
Total Equity	47,842,723,961	43,636,991,875
	₱95,047,711,530	₱87,551,719,600

See accompanying Notes to Parent Company Financial Statements.

MANILA WATER COMPANY, INC.
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Water (Notes 19 and 22)	₱12,966,630,787	₱12,123,443,382
Environmental charges (Notes 19 and 22)	2,691,307,953	2,480,178,848
Sewer (Notes 19 and 22)	246,597,711	226,593,869
Other operating income (Notes 16 and 22)	447,584,881	414,461,239
	16,352,121,332	15,244,677,338
COST OF SERVICES		
Depreciation and amortization (Notes 8 and 9)	1,918,127,621	2,007,176,321
Salaries, wages and employee benefits (Notes 14, 18 and 19)	932,821,655	923,162,490
Power, light and water (Note 19)	776,719,325	711,349,773
Repairs and maintenance	281,454,834	290,949,852
Management, technical and professional fees (Note 19)	211,334,144	280,404,174
Water treatment chemicals (Note 6)	195,707,506	70,256,963
Contractual services	173,656,798	172,896,715
Wastewater costs	144,641,734	131,522,987
Regulatory costs (Note 1)	126,457,196	109,775,997
Amortization of water service connections	118,883,739	127,545,565
Collection fees	117,423,317	110,573,321
Printing and communication (Note 19)	31,673,656	27,771,491
Occupancy costs (Notes 21 and 25)	27,514,720	23,638,731
Transportation and travel	16,593,043	12,538,245
Other expenses	19,889,368	23,587,544
	5,092,898,656	5,023,150,169
GROSS PROFIT	11,259,222,676	10,221,527,169
OPERATING EXPENSES (Note 16)	2,286,054,568	1,858,568,387
INCOME BEFORE OTHER INCOME (EXPENSES)	8,973,168,108	8,362,958,782
OTHER INCOME (EXPENSES)		
Revenue from rehabilitation works (Notes 1, 2 and 9)	8,198,599,481	9,878,153,855
Cost of rehabilitation works (Notes 1, 2 and 9)	(8,198,599,481)	(9,878,153,855)
Foreign currency differentials (Note 1)	1,766,783,135	140,084,234
Foreign exchange losses	(1,731,919,818)	(138,631,016)
Interest expense (Notes 9, 13 and 16)	(1,257,030,404)	(1,147,544,582)
Interest income (Note 16)	228,650,572	158,411,509
Gain on disposal of property and equipment - net	16,314,551	1,721,579
Amortization of deferred credits (Note 15)	12,535,602	11,142,247
Other income (losses) - net (Note 16)	171,131,189	(21,082,750)
	(793,535,173)	(995,898,779)
INCOME BEFORE INCOME TAX	8,179,632,935	7,367,060,003
PROVISION FOR INCOME TAX (Note 17)	1,846,540,437	1,636,601,721
NET INCOME	6,333,092,498	5,730,458,282
OTHER COMPREHENSIVE LOSS		
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on pension liabilities (Note 14)	(74,978,000)	(50,004,400)
TOTAL COMPREHENSIVE INCOME	₱6,258,114,498	₱5,680,453,882

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 11 2019
REC

MANILA WATER COMPANY, INC.
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2018	**2017**
CAPITAL STOCK (Note 18)		
Common stock - ₱1 par value		
Authorized - 3,100,000,000 shares		
Issued and outstanding - 2,030,732,360 shares in 2018 and 2,026,067,122 shares in 2017	2,030,732,360	2,026,067,122
Subscribed common stock - 34,107,257 shares in 2018 and 27,599,454 shares in 2017		
Balance at beginning of year	27,599,454	28,732,486
Additions	10,893,733	–
Issuance of shares	(4,385,930)	(1,133,032)
Balance at end of year	34,107,257	27,599,454
	2,064,839,617	2,053,666,576
Preferred stock - ₱0.10 par value, 10% cumulative, voting participating, nonredeemable and nonconvertible		
Authorized, issued and outstanding - 4,000,000,000 shares	400,000,000	400,000,000
	2,464,839,617	2,453,666,576
ADDITIONAL PAID-IN CAPITAL (Note 18)		
Balance at beginning of year	4,230,508,417	4,221,712,962
Additions	287,539,952	8,795,455
Balance at end of year	4,518,048,369	4,230,508,417
SUBSCRIPTIONS RECEIVABLE (Note 18)		
Balance at beginning of year	(235,693,873)	(319,227,328)
Subscriptions	(297,787,156)	–
Collections	75,027,703	83,533,455
Balance at end of year	(458,453,326)	(235,693,873)
COMMON STOCK OPTIONS OUTSTANDING (Note 18)		
Balance at beginning of year	28,700,622	25,325,260
Cost of share-based payment	23,968,213	12,170,817
Exercised	(925,837)	(8,795,455)
Balance at end of year	51,742,998	28,700,622
RETAINED EARNINGS (Note 18)		
Appropriated:		
Balance at beginning of year	28,698,000,000	21,100,000,000
Appropriations	3,746,000,000	7,598,000,000
Balance at end of year	32,444,000,000	28,698,000,000
Unappropriated:		
Balance at beginning of year	8,460,483,333	12,450,934,317
Net income	6,333,092,498	5,730,458,282
Appropriations	(3,746,000,000)	(7,598,000,000)
Dividends declared	(2,151,378,328)	(2,122,909,266)
Balance at end of year	8,896,197,503	8,460,483,333
	41,340,197,503	37,158,483,333
REMEASUREMENT GAIN (LOSS) ON DEFINED BENEFIT PLANS (Note 14)		
Balance at beginning of year	1,326,800	51,331,200
Actuarial loss on pension liabilities	(74,978,000)	(50,004,400)
Balance at end of year	(73,651,200)	1,326,800
	₱47,842,723,961	₱43,636,981,875

See accompanying Notes to Parent Company Financial Statements.

MANILA WATER COMPANY, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱8,179,632,935	₱7,367,060,003
Adjustments for:		
Depreciation and amortization (Notes 8 and 9)	2,176,660,562	2,236,975,329
Interest expense (Notes 13 and 16)	1,257,030,404	1,147,544,582
Pension expense and contribution - net (Note 14)	18,882,900	57,748,800
Share-based payments (Note 18)	23,968,213	12,170,817
Interest income (Notes 4 and 16)	(228,650,572)	(158,411,509)
Gain on disposal of investment in subsidiaries, property and equipment	(26,706,065)	(2,334,281)
Amortization of deferred credits (Note 15)	(12,535,602)	(11,142,247)
Operating income before changes in operating assets and liabilities	11,388,282,775	10,649,611,494
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(145,961,470)	(243,043,281)
Inventories	(41,139,690)	36,264,965
Other current assets	99,277,077	(244,922,965)
Service concession assets	(6,167,244,675)	(9,339,019,440)
Increase in accounts and other payables	546,946,312	788,084,734
Net cash provided by operations	5,680,160,329	1,646,975,507
Income tax paid	(1,705,654,823)	(1,642,897,254)
Net cash provided by operating activities	3,974,505,506	4,078,253
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	189,674,866	145,301,079
Acquisitions of:		
Investments in subsidiaries (Note 10)	(280,078,000)	(671,342,296)
Property and equipment (Note 8)	(370,069,907)	(521,846,690)
Proceeds from sale of property and equipment	20,841,461	3,185,797
Decrease (increase) in other noncurrent assets (Note 11)	716,642,956	(1,021,129,848)
Net cash provided by (used in) investing activities	276,991,376	(2,065,831,958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of long-term debt (Note 13):	5,423,698,492	12,861,374,686
Payments of:		
Long-term debt	(4,740,342,410)	(3,340,724,713)
Service concession obligations (Note 9)	(875,350,761)	(834,801,817)
Dividends (Note 18)	(2,151,378,328)	(2,122,909,266)
Interest	(1,473,677,188)	(965,146,346)
Collection of subscription receivable (Note 18)	75,027,703	83,533,455
Increase in provisions and other noncurrent liabilities	52,088,845	8,030,311
Net cash provided by (used in) financing activities	(3,689,933,647)	5,689,356,310
NET INCREASE IN CASH AND CASH EQUIVALENTS	561,563,235	3,627,602,605
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,188,372,172	2,560,769,567
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱6,749,935,407	₱6,188,372,172

See accompanying Notes to Parent Company Financial Statements.

MANILA WATER COMPANY, INC.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Manila Water Company, Inc. (the Company) was incorporated on January 6, 1997 with remaining corporate life of twenty-nine (29) years. The Company started commercial operations on January 1, 2000. It became a publicly listed company via an initial public offering on March 18, 2005. As of December 31, 2018, the Parent Company is 41.99% owned by Ayala Corporation (Ayala). Ayala is a publicly listed company which is 47.04% owned by Mermac, Inc. and the rest by the public. The Company is incorporated to provide water, sewerage and sanitation, distribution services, pipeworks and management services.

Amendment of Articles of Incorporation
On March 1, 2018, the Board of Directors (BOD) approved the following:

a. amendment of the Company's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Company.

On April 16, 2018, the stockholders of the Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 300.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings, (i) for properties or assets needed for the business of the Company, or (ii) for cash to acquire properties or assets needed for the business of the Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The Company's principal place of business is at the MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City.

Concession Agreement with Metropolitan Waterworks and Sewerage System (MWSS)
On February 21, 1997, the Company entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of the Company throughout a twenty-five (25) year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires - the Company and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants the Company (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of twenty five (25) years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While the Company has the right to manage, operate, repair, and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by the Company during the Concession remains with the Company until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, the Company officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in the Company's project plans, operational commercial capacity has been obtained upon substantial completion of the rehabilitation work.

Under the Concession Agreement, the Company is entitled to the following rate adjustments:

a. annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. foreign currency differential adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001 (see Notes 2, 9 and 11); and

d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
   i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
   ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by the Company for water and sewerage services as follows:

a. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by the Company (subject to interim adjustments) are set out in the Concession Agreement; and
b. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit the Company to recover, over the twenty-five (25) year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and the Company's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees (BOT) passed Resolution No. 2009-072 approving the fifteen (15) year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the Office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for the Company's investment was extended by another fifteen (15) years from 2022 to 2037.

In March 2012, the Company submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS conducted a review of the proposal including the Company's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on the Company's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in five (5) equal tranches of negative 5.894% per charging year. The Company objected to the MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS BOT through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for the Company's Standard Rates including FCDA, until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, the Company received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restored ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;

c. 7.61% ADR which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
d. exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with the Company's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved the Company's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, the Company shall stagger its implementation over a five-year period. The first tranche took effect on October 16, 2018.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved the Company's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments are recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-12-CA) and shall take effect on January 1, 2019.

Arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Rules (1976)
On April 23, 2015, the Company served to the Republic of the Philippines (the "Republic"), through the DOF, its Notice of Claim demanding that the Republic indemnify the Company in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009. At present, the arbitration case remains pending.

FCDA
The MWSS BOT approves the FCDA quarterly. The FCDA has no impact on the net income of the Company, as the same is a recovery or refund mechanism of foreign exchange losses or gains. The following FCDA adjustments and their related foreign exchange basis took effect in 2017 to 2018:

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
April 5, 2017	April 22, 2017	₱0.69 per cubic meter	USD1: ₱49.74 / JPY1: ₱0.37
July 27, 2017	August 13, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.64 / JPY1: ₱0.45
December 13, 2017	January 1, 2018	₱0.63 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45
March 13, 2018	April 1, 2018	₱0.59 per cubic meter	USD1: ₱50.51 / JPY1: ₱0.46
June 14, 2018	July 1, 2018	₱1.58 per cubic meter	USD1: ₱52.10 / JPY1: ₱0.48
September 14, 2018	October 1, 2018	₱1.56 per cubic meter	USD1: ₱53.43 / JPY1: ₱0.48
December 14, 2018	January 1, 2019	₱0.75 per cubic meter	USD1: ₱53.94 / JPY1: ₱0.48

There was no FCDA adjustment for the first quarter of 2017 due to the vacancies in the MWSS BOT, resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including FCDA.

Approval for the Issuance of the Parent Company Financial Statements
The BOD approved and authorized the issuance of the parent company financial statements on February 26, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The parent company financial statements have been prepared using the historical cost basis. The Company's presentation and functional currency is the Philippine Peso (₱, Peso or PHP). Amounts are rounded off to the nearest Peso, except otherwise stated. The parent company financial statements provide comparative information in respect of the previous periods.

Statement of Compliance
The parent company financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). These are the Company's separate financial statements. The Company also prepares and issues consolidated financial statements for the same period as the separate set of financial statements prepared in compliance with PFRS. The consolidated financial statements are available at the Company's principal place of business and in the Company's website.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of the previous financial years, except for the PFRS, amended PFRS and improvements to PFRS which were adopted as of January 1, 2018. Unless otherwise stated, the new standards and amendments did not have any material impact to the Company.

a. Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

   The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

   The Company's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modification to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the parent company financial statements.

b. PFRS 9, *Financial Instruments*

   PFRS 9, *Financial Instruments*, replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment and hedge accounting.

   The Company adopted PFRS 9 prospectively, with an initial application date as of January 1, 2018. The Company has not restated comparative information for the year ended December 31, 2017, which continues to be reported under PAS 39. The adoption of PFRS 9 did not result to differences requiring adjustment to the Company's opening retained earnings.

   i. Classification and measurement

      Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through OCI (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

      The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

      The classification and measurement requirements of PFRS 9 did not have a significant impact to the Company. All financial assets held at amortized costs under PAS 39 continues to be measured at amortized costs and are classified and measured as debt instruments at amortized cost beginning January 1, 2018. Also, the adoption of PFRS 9 did not have a material impact on other comprehensive income or on the Company's operating, investing, and financing cash flows.

      In summary, upon the adoption of PFRS 9, the Company had the following required or elected reclassifications for financial assets:

	At January 1, 2018	
	PAS 39 Carrying Value	PFRS 9 At Amortized Cost
PAS 39 measurement category:		
Loans and receivables:		
Cash and cash equivalents	₱6,188,372,172	₱6,188,372,172
Receivables	1,308,576,213	1,308,576,213

      The Company has not designated any financial assets or liabilities as at FVPL. The adoption has no impact on the classification and measurement of the Company's financial liabilities.

ii. Impairment

The adoption of PFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets. The Company applied the simplified approach and recorded lifetime ECLs on all trade receivables. Adoption of ECL approach under PFRS 9 did not result to recognition of additional impairment loss to the Company's financial assets as of January 1, 2018.

iii. Hedge accounting

Under PAS 39, all gains and losses arising from the Company's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under PFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change is not applicable to the Company because it does not have cash flow hedging arrangements.

c. Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two (2) options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Company since the Company does not have activities that are predominantly connected with insurance nor does the Company issue insurance contracts.

d. PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with January 1, 2018 as the date of initial application. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018.

Before the adoption of PFRS 15, the Company has been recognizing revenue from connection fees when the customer is connected to the Company's water or sewer network. Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. Accordingly, connection fees previously recognized for all active water service connections will have to be recognized over time. Management invoked the impracticability of retrospective restatement under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and has accounted for the change in accounting for connection fees prospectively starting on the date of initial application as allowed under PAS 8 (see Note 3).

The adoption of PFRS 15 did not result to differences requiring adjustment to the Company's opening retained earnings as at January 1, 2018. The comparative information was not restated and continues to be reported under PAS 11, PAS 18, and related Interpretations. The adoption of PFRS 15 did not have a material impact on total assets, total liabilities, total comprehensive income or on the Company's operating, investing, and financing cash flows.

e. Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments are not applicable to the Company as the Company does not have any investment in an entity that is considered as a venture capital organization or other qualifying entity under the amendments.

f. Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments are not applicable to the Company as the Company does not have assets classified as investment property.

g. Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Retrospective application of this Interpretation is not required.

The interpretation did not have any significant impact on the parent company financial statements.

h. Philippine Interpretation Committee (PIC) Question and Answer (Q&A) 2018-15, PAS 1 - *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Noncurrent*

Upon the adoption of PIC Q&A 2018-15, advances to contractors and suppliers that have previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Company is based the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage or realization of the asset to which it is intended for (e.g. inventory, investment property, property and equipment).

The Company adopted PIC Q&A 2018-15 starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the decrease in other current assets and increase in other noncurrent assets by ₱787.56 million as of December 31, 2017. The adoption of the PIC Q&A also resulted to an increase in cash flows from operating activities and corresponding decrease in cash flows from investing activities amounting to ₱120.39 million for the year ended December 31, 2017.

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

a. Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

The amendments are not expected to have any significant impact on the parent company financial statements.

b. PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

c. Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

d. Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associates, the amendments will not have an impact on the parent company financial statements.

e. Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and,
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

f. Annual Improvements to PFRSs 2015- 2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its parent company financial statements upon adoption.

Effective beginning on or after January 1, 2020

a. Amendments to PFRS 3, *Definition of a Business*

   The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

   These amendments will apply on future business combinations of the Company.

b. Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

   The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

   These amendments will apply to future financial statements of the Company.

Effective beginning on or after January 1, 2021

a. PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which is largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

a. A specific adaptation for contracts with direct participation features (the variable fee approach)
b. A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The standard is not applicable to the Company since it does not have activities that are predominantly connected with insurance nor does it issue insurance contracts.

Interpretation with Deferred Effective Date

a. Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Significant Accounting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in its statement of financial position based on a current and noncurrent classification. An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve (12) months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve (12) months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
Fair value is the estimated price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability; or
b. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

a. Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
b. Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
c. Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Recognition and Measurement of Financial Instruments (Effective January 1, 2018)
Financial assets
a. *Initial recognition*
Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or at FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is referred to as the 'solely payments of principal and interest test' and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

As of December 31, 2018, the Company's financial assets comprise of financial assets at amortized cost.

b. *Subsequent measurement - Financial assets at amortized cost*
Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company classified cash in banks and cash equivalents and receivables as financial assets at amortized cost (see Notes 4, 5 and 19).

c. *Derecognition*
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired; or
- the Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

d. *Impairment*
The Company recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate (EIR). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are ninety (90) up to one hundred eighty (180) days past their due dates. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

a. *Initial recognition*
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

As of December 31, 2018, the Company's financial liabilities comprise of financial liabilities at amortized cost (loans and borrowings).

b. *Subsequent measurement*
After initial recognition, long-term debts are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized under the "Other income (expense)" account in the parent company statements of comprehensive income when the liabilities are derecognized or impaired, and through the "Interest expense" account when the gains and losses are amortized.

This accounting policy applies to the Company's accounts and other payables, long-term debt, service concession obligations, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities, income tax payable, and other statutory liabilities).

c. *Derecognition*
A financial liability is derecognized when the obligation under the liability is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statements of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the parent company statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Recognition and Measurement of Financial Instruments (Prior to Adoption of PFRS 9)
Date of recognition
The Company recognizes a financial asset or a financial liability in the parent company statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition
All financial assets are initially recognized at fair value. Except for financial assets and liabilities at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument, or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017, the Company's financial instruments primarily consist of loans and receivables, and other financial liabilities.

Day 1 profit
For transactions other than those related to customers' guaranty deposits and other deposits, where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss under "Other income" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Embedded derivatives are measured at fair value with fair value changes being reported through profit or loss and are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification in the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows from the contract.

The Company has certain closely and clearly related derivatives that are embedded in the host contract (such as long-term debt) which do not require bifurcation.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for probable losses and doubtful accounts" in profit or loss.

This accounting policy applies primarily to the Company's cash in banks and cash equivalents, receivables, and deposits under other current assets and other noncurrent assets.

Other financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issuance.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Company's long-term debt, service concession obligations, accounts and other payables except statutory liabilities, customers' guaranty deposits and other deposits under other noncurrent liabilities, payable to related parties and stockholders, and other payables that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities and income tax payable).

Derecognition of Financial Assets and Financial Liabilities (Prior to Adoption of PFRS 9)
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the right to receive cash flows from the asset has expired;
b. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
c. the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Company has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

The Company gives financial guarantees to its subsidiary. Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, the Company's liability under each financial guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement and the amount of related ECL.

Offsetting Financial Instruments (Prior to Adoption of PFRS 9)
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets (Prior to Adoption of PFRS 9)
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is

experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with default. For the Company's receivables from customers, evidence of impairment may also include non-collection of the Company's trade receivables, which remain unpaid after thirty (30) days from bill generation.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price less estimated costs to complete and to sell. The cost is determined using the moving average method for all inventories, except for raw materials and finished goods. The cost of raw materials and finished goods are determined based on the periodic weighted average method. The cost of raw materials includes all costs directly attributable to their acquisition.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically include prepayments for business taxes, insurance and employee health care expenses and other benefits.

Property and Equipment
Property and equipment, except land, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related property and equipment.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the property and equipment as follows:

Leasehold improvements	5 years or lease term, whichever is shorter
Plant and technical equipment	5 years or the term of the related management contract, whichever is shorter
Office furniture and equipment	3 to 5 years
Transportation equipment	5 years

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Construction in progress represents property, plant and equipment under construction and is stated at cost including costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

When property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations

The Company accounts for its concession arrangements with MWSS under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Concession Agreement, the Company is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall remain with MWSS at the end of the concession period.

Beginning January 1, 2018, the Company accounts for the accumulating right to be paid for rehabilitation works as "Contract assets" during the construction phase of the arrangements. Contract assets are derecognized when construction is completed, and the consideration to be received is recognized as service concession assets (SCA). Prior to January 1, 2018, the Company accounts for the cost of rehabilitation works directly as part of SCA.

The SCA also include the fair value of the service concession obligations at drawdown date and other local component costs and cost overruns paid by the Company.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight-line basis over the remaining concession period. Beginning May 1, 2017, the Company's SCA are amortized using the units of production (UOP) method over the estimated total billable volume for the remaining period of the concession agreement to better reflect the usage of the SCA, which is directly related to its estimated total billable volume and is aligned with industry practice. This change in method resulted to a ₱419.53 million reduction of amortization expense from May 1 to December 31, 2017.

Investments in Subsidiaries

The Company determined that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Company's voting rights and potential voting rights.

The Company's investments in subsidiaries are accounted for under the cost method less any accumulated impairment losses in the parent company financial statements.

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Company's property and equipment, service concession assets, investments in subsidiaries and other current and noncurrent assets. The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash generating unit's fair value less cost of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal of or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

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

Revenue Recognition (Upon the Adoption of PFRS 15)
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Revenue recognized over time using the output method

Water and sewer revenue
Water and sewer revenue is recognized over time as the customer receives and consumes the benefit from the performance of the related water and sewerage services. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by the Company as environmental charge.

The Company has determined that the output method is the appropriate method in measuring the progress of the water and sewerage services since this depicts the Company's performance in managing and providing water and sewerage services. The Company recognizes revenue from water and sewerage services and environmental charge over time using the output method. As a practical expedient under PFRS 15, the Company recognizes revenue in the amount to which the Company has a right to invoice since the Company bills a fixed amount for every cubic meter of water delivered.

Connection fees
Connection fees are amounts paid by customers in exchange for the set-up of a connection from the customer's establishment to the Company's water or sewer network. Revenue from connection fees is recognized over time using the output method based on time elapsed over the period when the related water and sewerage services are expected to be provided.

The Company has determined that the output method is the appropriate method in measuring the progress of the connection services since this depicts the Company's performance in managing and providing a service connection from the water and used water facilities to the customers.

Revenue recognized over time using the input method

Revenue from rehabilitation works and Cost of rehabilitation works
Revenue from rehabilitation works is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of contract assets included under SCA pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date.

The Company determined that the input method is the appropriate method in measuring progress of the rehabilitation works because there is a direct relationship between the Company's effort (i.e., actual cost incurred) and the transfer of service to the customer.

Revenue recognized at a point in time

Other operating income
Other customer-related fees such as reconnection and disconnection fees, income from customer late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized at a point in time when the control over these good or services have been transferred to the customer.

Interest income
Interest income is recognized as it accrues, taking into account the effective yield of the assets.

For all financial instruments measured at amortized cost, interest income is recorded using EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the parent company statements of comprehensive income.

<u>Contract Balances</u>
Receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to a customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Revenue Recognition (Prior to Adoption of PFRS 15)
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized.

Water and sewer revenue
Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by the Company as environmental charge.

Connection fees
Revenue from connection fee is recognized outright upon when the customer's establishment is connected to the Company's water or sewer network.

Revenue from rehabilitation works and Cost of rehabilitation works
Revenue from rehabilitation works is recognized and measured by the Company in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

Other operating income
Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

Interest income
Interest income is recognized as it accrues, taking into account the effective yield of the assets.

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the parent company statements of comprehensive income.

Cost of Services and Operating Expenses
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. These are recognized:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or,
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Cost of services and operating expenses are measured at the amount paid or payable.

Foreign Currency-Denominated Transactions
Foreign exchange differentials arising from foreign currency transactions are credited to or charged against operations. As approved by the MWSS BOT under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

a. restatement of foreign currency-denominated loans;
b. excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱53.16: US$1.00 based on the latest rate rebasing exercise effective January 1, 2018;
c. excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currencies are initially recorded by the Company at the respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

In view of the automatic reimbursement mechanism, the Company recognizes deferred FCDA (included as part of "Other noncurrent assets" in the parent company statements of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by the MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) that necessarily takes a substantial period of time to get ready for its intended use are recorded as property, plant and equipment or SCA, as applicable. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Company's weighted average cost of borrowings after adjusting for borrowing associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of those borrowing costs 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. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds. Premiums and/or discounts on long-term debt are included in the "Long-term debt" account in the parent company statements of financial position and are amortized using the EIR method.

Provisions
A provision is recognized when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset and only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but disclosed when an inflow of economic benefits is probable.

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost,
b. net interest on the net defined benefit liability or asset, and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statements of comprehensive income.

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability or asset) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Short-term Employee Benefits
Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve (12) months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Company during the reporting period, the

Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Employee Leave Entitlement
Employee leave entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for employee leaves expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-Based Payment
Employee share purchase plans
The Company has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes stock compensation expense over the holding period. The Company treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2, *Share-based Payment*, options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as "Common stock options outstanding" in the parent company statements of financial position.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Company. Appropriated retained earnings are set aside for future business expansions. The Company's BOD declares dividends from the unappropriated portion of its retained earnings.

Taxes
Value Added Tax (VAT)
Input VAT pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services. Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment and service concession assets for each month amounting to ₱1.0 million or more. This is amortized over five (5) years or the life of the property, plant and equipment or service concession assets, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation.

Output VAT pertains to the 12% tax due on the local sale of goods and services by the Company.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Trade payables" in the "Accounts and other payables" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under the "Other current assets" account.

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred income tax
Deferred income tax is provided, using the liability method, for all temporary differences, with certain exceptions, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary difference associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

  In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Company offsets deferred income tax assets and deferred income tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

<u>Assets Held in Trust</u>
Assets which are owned by MWSS but are operated by the Company under the Concession Agreement are not reflected in the parent company statements of financial position but are considered as Assets Held in Trust (see Note 21).

<u>Segment Reporting</u>
The Company's operating businesses are organized based on source and types of revenue. Information on business segments is presented in Note 22 to the parent company financial statements.

<u>Events after the Reporting Date</u>
Any event after the reporting date up to the date of the auditors' report that provide additional information about the Company's financial position at the reporting date (adjusting events) is reflected in the parent company financial statements. Any event after the reporting date that is not an adjusting event is disclosed in the parent company financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Management believes the following represent a summary of these significant estimates and judgments:

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the parent company financial statements.

Service concession arrangements
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Company made a judgment that its concession arrangement with MWSS qualifies under the Intangible Asset Model as it receives the right (license) to charge users of public service (see Notes 2 and 9).

Operating lease commitments - Company as lessee
The Company entered into lease agreements for its stockyard and office areas. The Company has determined, based on the evaluation of the terms and conditions of the arrangements that the significant risks and rewards for properties leased from third parties are retained by the lessors and accordingly, accounts for these contracts as operating leases (see Note 21).

Provisions and contingencies
The Company is currently involved in various legal proceedings and exposures in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsels handling the defense in these matters and is based upon an analysis of potential results.

The Company currently does not believe that these proceedings will have a material adverse effect on the Company's financial position and results of operations (see Note 26).

Use of Estimates
Key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition - rehabilitation works
The Company measures revenue from rehabilitation works at the fair value of the consideration received or receivable. The Company's revenue from rehabilitation works are recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date. Revenue from rehabilitation works recognized by the Company is equivalent to the costs of rehabilitation works incurred as these costs are recovered by the Company through its right to charge the customers. The Company's revenue from and cost of rehabilitation works amounted to ₱8,198.60 million and ₱9,878.15 million in 2018 and 2017, respectively (see Note 9).

Provision for expected credit losses of receivables
The Company uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increase in prices of basic goods and services, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

As of December 31, 2018 and 2017, the outstanding balance of allowance for ECLs amounted to ₱611.97 million and ₱568.44 million, respectively (see Note 5).

Accounting for connection fees
Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. The adoption of PFRS 15 requires that the connection fee collected for all active water service connections as at January 1, 2018 to be recognized as revenue over time. Management has made a judgment that it is impracticable to restate revenue from connection fee retrospectively given the impracticality in obtaining all the relevant information to properly and accurately estimate the cumulative impact of the change in accounting for connection fees, including among others, sources and number of active service connections, amount of connection fee paid per connection, and the related cost.

Considering impracticability of retrospective restatement, the Company adopted the change in accounting for connection fees prospectively starting on January 1, 2018, as allowed under PAS 8.

Estimating billable water volume
Starting May 1, 2017, the SCAs related to the Company's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. The Company considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements.

For the years ended December 31, 2018 and 2017, SCA amortization expense based on the UOP method amounted to ₱1,787.66 million and ₱795.03 million, respectively (see Note 9).

Deferred FCDA
Under the concession agreements entered into by the Company with MWSS, the Company is entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. The Company recognized deferred FCDA (included as part of "Other noncurrent assets" in the parent company statements of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by the Company as a result of past events and from which future economic benefits are expected to flow to the Company. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. As of December 31, 2018 and 2017, the Company's deferred FCDA amounted to ₱2,420.09 million and ₱1,200.24 million, respectively (see Note 11).

The Company's deferred FCDA arises from rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS, when necessary, of accrued foreign exchange gains and losses, arising from MWSS loans and concession loans used for capital expenditures and concession fee payments.

Pension assets and liabilities
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, incapacity rates, retirement rate, and termination rates. The amounts of defined benefit obligations are highly sensitive to changes due to the complexity of the valuation and its long-term nature.

Deferred tax assets
The Company reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgement is required to determine the amounts that could be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning.

Also, the Company does not recognize certain deferred taxes on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future (see Note 17).

Impairment of nonfinancial assets
The Company assesses the impairment of nonfinancial assets (property and equipment, SCA, investments in subsidiaries, other current assets, and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Company's overall business;
- significant negative industry or economic trends;
- significant decline in net worth or market capitalization; and
- significant decline in distributed profits or increase in losses.

As described in the accounting policy, the Company estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.
As of December 31, 2018 and 2017, there were no impairment indicators on the Company's nonfinancial assets, and as such, the Company did not recognize any impairment loss during the year (see Notes 7, 8, 9, 10 and 11).

Discount rate, salary increase rate, retirement rate, and termination rate assumptions are reviewed at each reporting date. The net pension liability and asset amounted to ₱57.99 million and ₱16.11 million as of December 31, 2018 and 2017, respectively (see Note 14).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. Retirement and termination rates are based on expected rates at which employees are assumed to retire or leave the employment of the Company.

Further details about the assumptions used are provided in Note 14.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks (Note 19)	₱341,691,719	₱375,531,122
Cash equivalents (Note 19)	6,408,243,688	5,812,841,050
	₱6,749,935,407	₱6,188,372,172

Cash in banks earn interest at the respective bank deposit rates ranging from 0.10% to 3.30% and 0.10% to 2.80% in 2018 and 2017, respectively. Cash equivalents are highly liquid investments with varying periods of up to three (3) months and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱195.14 million and ₱99.54 million in 2018 and 2017, respectively (see Note 16).

5. Receivables

This account consists of receivables from:

	2018	2017
Customers:		
Residential	₱1,131,302,339	₱1,002,869,874
Commercial	154,694,000	148,949,702
Semi-business	74,281,019	61,227,443
Industrial	19,860,211	7,337,456
Bonifacio Water Corporation (BWC) (Note 11)	388,410,670	501,014,249
Related parties (Notes 10 and 19)	483,855,609	453,860,880
Employees	24,113,763	28,070,246
Interest from banks	23,119,503	15,426,725
Others (Note 13)	107,101,233	109,582,867
	2,406,738,347	2,328,339,442
Less allowance for ECL	611,966,309	568,440,665
	1,794,772,038	1,759,898,777
Less noncurrent portion of receivable from BWC (Note 11)	321,014,249	451,322,564
	₱1,473,757,789	₱1,308,576,213

The classes of the Company's receivables arising from water and sewer services rendered to customers, collectible within thirty (30) days from billing date, follow:

a. Residential - pertains to receivables from residential households.
b. Commercial - pertains to receivables from commercial customers.
c. Semi-business - pertains to receivables from small businesses.
d. Industrial - pertains to receivables from customers for industrial and manufacturing purposes.

Receivable from BWC pertains to the assigned receivable between the Company and Veolia Water Philippines, Inc. (VWPI) covered by the Share Purchase Agreement (SPA) related to the acquisition of VWPI's interest in Clark Water Corporation (Clark Water), a subsidiary of Manila Water Philippine Ventures, Inc. (MWPV), in 2011.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by the Company on its customers falling under the corresponding classification pursuant to the Concession Agreement and all amounts received by BWC as connection fees from customers and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest bearing and the Company classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

Receivable from employees arise from car, salary and other loans which are due and demandable based on an agreed payment schedule and are collected through salary deductions.

Interest from banks are accrued interest arising from the Company's cash in banks and cash equivalents.

Other receivables represent receivables from the Land Bank of the Philippines in relation to the MWMP Loan (see Note 13), and receivables from shared facilities and collection facilities.

Movements in the Company's allowance for ECLs follows:

	2018					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-Business	Industrial	Receivables	Total
Balance at beginning of year	₱407,214,661	₱74,815,029	₱25,278,233	₱3,142,962	₱57,989,780	₱568,440,665
Provision (Note 16)	32,667,364	7,882,650	2,441,078	534,552	–	43,525,644
Balance at end of year	₱439,882,025	₱82,697,679	₱27,719,311	₱3,677,514	₱57,989,780	₱611,966,309

	2017					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-Business	Industrial	Receivables	Total
Balance at beginning of year	₱427,965,285	₱71,709,861	₱24,228,706	₱3,103,809	₱57,989,780	₱584,997,441
Provision (Note 16)	17,611,759	3,105,168	1,049,527	39,153	–	21,805,607
Reversal (Note 16)	(38,362,383)		–	–	–	(38,362,383)
Balance at end of year	₱407,214,661	₱74,815,029	₱25,278,233	₱3,142,962	₱57,989,780	₱568,440,665

6. Inventories

This account consists of water meters, connection supplies and water treatment chemicals that the Company uses in treating raw water into potable water. These materials are carried at cost. Carrying values as of December 31, 2018 and 2017 amounted to ₱76.37 million and ₱35.23 million, respectively.

Cost of inventories charged to current period amounted to ₱195.71 million and ₱70.26 million as of December 31, 2018 and 2017, respectively.

7. Other Current Assets

This account consists of:

	2018	2017
Prepaid expenses (Note 9)	₱384,962,848	₱608,966,638
Guaranty deposits	4,511,410	4,861,911
	₱389,474,258	₱613,828,549

Prepaid expenses include prepayments for transaction costs for undrawn credit facilities, loan guarantee fees, regulatory costs, business taxes, insurance, employee health care expenses and other benefits.

Guaranty deposits consist of rental deposits and other advance payments that can be refunded within one (1) year.

8. Property and Equipment

The rollforward analysis of this account follows:

	2018					
	Land	Leasehold Improvements	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱203,331,815	₱278,004,365	₱973,223,294	₱1,934,948,407	₱787,079,212	₱4,176,587,093
Additions	28,024	61,846,237	77,862,255	180,125,750	50,227,641	370,089,907
Disposals	–	–	(106,523)	(85,307,057)	(58,140,680)	(143,554,260)
Balance at end of year	203,359,839	339,850,602	1,050,979,026	2,029,767,100	779,166,173	4,403,122,740
Accumulated depreciation and amortization						
Balance at beginning of year	–	250,515,202	919,046,288	1,667,049,915	386,244,897	3,222,856,302
Depreciation and amortization (Note 16)	–	21,918,578	34,864,769	223,608,884	108,604,209	388,996,440
Disposals	–	–	(106,523)	(85,090,926)	(53,829,901)	(139,027,350)
Balance at end of year	–	272,433,780	953,804,534	1,805,567,873	441,019,205	3,472,825,392
Net book value	₱203,359,839	₱67,416,822	₱97,174,492	₱224,199,227	₱338,146,968	₱930,297,348

	2017					
	Land	Leasehold Improvements	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱202,823,157	₱267,776,316	₱958,081,877	₱1,799,396,139	₱438,177,511	₱3,666,255,000
Additions	508,658	10,228,049	15,141,417	136,168,983	359,799,583	521,846,690
Disposal	–	–	–	(616,715)	(10,897,882)	(11,514,597)
Balance at end of year	203,331,815	278,004,365	973,223,294	1,934,948,407	787,079,212	4,176,587,093
Accumulated depreciation and amortization						
Balance at beginning of year	–	236,617,045	869,659,889	1,473,867,044	322,660,895	2,902,804,873
Depreciation and amortization (Note 16)	–	13,898,157	49,386,399	193,752,843	73,677,111	330,714,510
Disposals	–	–	–	(569,972)	(10,093,109)	(10,663,081)
Balance at end of year	–	250,515,202	919,046,288	1,667,049,915	386,244,897	3,222,856,302
Net book value	₱203,331,815	₱27,489,163	₱54,177,006	₱267,898,492	₱400,834,315	₱953,730,791

As of December 31, 2018 and 2017, fully depreciated property and equipment that are still in use by the Company amounted to ₱2,940.44 million and ₱2,603.74 million, respectively. No property and equipment was pledged as security as of December 31, 2018 and 2017.

9. Service Concession Assets and Obligations

A. *Service concession assets*

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	₱88,605,639,136	₱78,711,730,551
Additions:		
Rehabilitation works	8,198,599,481	9,878,153,855
Concession fees	476,269,457	11,305,325
Local component cost	13,095,189	4,449,405
Balance at end of year	97,293,603,263	88,605,639,136
Accumulated amortization		
Balance at beginning of year	23,074,784,795	21,168,523,976
Amortization	1,787,664,122	1,906,260,819
Balance at end of year	24,862,448,917	23,074,784,795
Net book value	₱72,431,154,346	₱65,530,854,341

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs of the Company pursuant to the Concession Agreement and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the concession agreement.

Contract assets (assets under construction) arising from concession agreements consist of the cost of rehabilitation works covered by the concession agreements of the Company. As of December 31, 2018 and 2017, SCA includes assets under construction amounting to ₱21,575.54 million and ₱16,995.09 million, respectively.

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱775.19 million and ₱464.70 million in 2018 and 2017, respectively. The capitalization rates used are 7.57% in 2018 and 7.62% in 2017.

As of December 31, 2018 and 2017, non-cash acquisitions of SCA amounted to ₱72.07 million and ₱74.95 million, respectively.

B. Service concession obligations

The breakdown of service concession obligations follows:

	2018	2017
Current	₱694,399,151	₱719,234,617
Noncurrent	6,252,455,676	6,110,226,860
	₱6,946,854,827	₱6,829,461,477

MWSS Concession Fees
The aggregate concession fees of the Company pursuant to the Agreement are equal to the sum of the following:

i. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
ii. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
iii. 10% of the local component costs and cost overruns related to the UATP;
iv. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the Company for continuation;
v. 100% of the local component costs and cost overruns related to existing projects;
vi. Company's share in the repayment of MWSS loan for the financing of new projects; and
vii. One-half of MWSS annual corporate operating budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II. Total loan facility amounted to $116.60 million with maturity of twenty (20) years including five (5) years grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (MOA) with the Company and Maynilad for the Company and Maynilad to shoulder equally the repayment of the loan with such repayment to be part of the concession fees.

On May 12, 2015, MWSS entered into a MOA with the Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans.

Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2016, the Company paid MWSS ₱500.00 million as compensation for additional water allocation in the Angat reservoir.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency Denominated Loans (Translated to USD)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2019	$9,750,894	₱395,714,907	₱908,416,913
2020	9,348,648	395,714,907	887,266,819
2021	6,711,761	395,714,907	748,619,300
2022	6,419,168	395,714,907	733,234,760
2023	6,567,631	395,714,907	741,040,945
2024 onwards	51,115,013	5,540,008,695	8,227,636,079
	$89,913,115	₱7,518,583,230	₱12,246,214,816

**Peso equivalent is translated using the closing rate as of December 31, 2018 amounting to ₱52.58 to US$1.*

10. Investments in Subsidiaries

The Company's percentage of ownership in the shares of stock of its subsidiaries in 2018 and 2017 follows:

	Country of Incorporation and Place of Business	Effective Percentages of Ownership 2018	2017
Manila Water Total Solutions Corp. (MWTS)	Philippines	100.0	100.0
Calasiao Water Company, Inc. (Calasiao Water)	-do-	90.0	90.0
Manila Water Asia Pacific Pte. Ltd. (MWAP)	Singapore	100.0	100.0
Manila Water South Asia Holdings Pte. Ltd. (MWSAH)	-do-	100.0	100.0
Asia Water Network Solutions Joint Stock Company (Asia Water)[1]	Vietnam	67.9	67.9
Thu Duc Water Holdings Pte. Ltd. (TDWH)	Singapore	100.0	100.0
Kenh Dong Water Holdings Pte. Ltd. (KDWH)	-do-	100.0	100.0
Manila Water Thailand Holdings Pte. Ltd. (MWTH)[2]	-do-	100.0	100.0
Manila Water (Thailand) Co., Ltd. (MWTC)[3]	Thailand	100.0	–
Manila South East Asia Water Holdings Pte. Ltd. (MSEA)[4]	Singapore	100.0	100.0
PT Manila Water Indonesia (PTMWI)[5]	Indonesia	100.0	–
MWPV	Philippines	100.0	100.0
Laguna AAAWater Corporation (Laguna Water)	-do-	70.0	70.0
Clark Water Corporation (Clark Water)	-do-	100.0	100.0
Boracay Island Water Company, Inc. (Boracay Water)	-do-	80.0	80.0
Filipinas Water Holdings Corp. (Filipinas Water)[6]	-do-	100.0	100.0
Obando Water Company, Inc. (Obando Water)	-do-	90.0	90.0
Bulakan Water Company, Inc. (Bulakan Water)	-do-	90.0	–
Manila Water Consortium, Inc. (MW Consortium)	-do-	57.2	57.2
Cebu Manila Water Development, Inc. (Cebu Water)[7]	-do-	40.4	40.4
Davao del Norte Water Infrastructure Company, Inc. (Davao Water)	-do-	51.0	51.0
Tagum Water Company, Inc. (Tagum Water)[8]	-do-	45.9	45.9
Bulacan MWPV Development Corp. (BMDC)	-do-	100.0	100.0
Aqua Centro MWPV Corp. (Aqua Centro)	-do-	100.0	100.0
Manila Water International Solutions, Inc. (MWIS)	-do-	100.0	100.0
EcoWater MWPV Corp. (EcoWater)	-do-	100.0	–
Leyte Water Company, Inc. (Leyte Water)	-do-	100.0	–
Zamboanga Water Company, Inc. (Zamboanga Water)	-do-	70.0	70.0

[1]Asia Water is 51.00% owned by Saigon Water Infrastructure Corporation (Saigon Water) and 48.50% owned by MWSAH. MWSAH's effective ownership interest in Asia Water is 67.87% as of December 31, 2018 and 2017 by virtue of its 37.99% ownership interest in Saigon Water.
[2]Previously named Manila Water Indonesia Holdings Pte. Ltd.
[3]MWTC was incorporated on February 20, 2018 and is 100% owned by MWTH.
[4]Previously named North-West of Saigon Holdings Pte. Ltd.
[5]PTMWI is incorporated on February 1, 2018 and is 95.00% owned by MSEA and 5.00% owned by a director of PTMWI whose ownership has been pledged to MSEA.
[6]Previously named Obando Water Consortium Holdings Corp., Filipinas Water is 49.00% owned by the Parent Company and 51.00% owned by MWPV.
[7]Cebu Water is 70.58% owned by MW Consortium. MWPV's effective ownership interest in Cebu Water is 40.39% by virtue of its 57.22% ownership interest in MW Consortium.
[8]Tagum Water Company is 90.00% owned by the Davao Water. MWCI's effective interest in Tagum Water is 45.90% by virtue of its 51.00% ownership interest in Davao Water.

MWSAH Additional Subscription in Saigon Water

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water at a subscription price of VND16,900.00 per share for a total amount of ₱229.16 million (VND103.87 billion). As a result of this additional subscription, MWSAH now holds 37.99% of the outstanding capital stock of Saigon Water.

MWPV Memorandum of Agreement (MOA) with Ayala Land, Inc. (ALI)
On January 15, 2016, MWPV entered into a MOA with ALI and its subsidiaries (the ALI Group), whereby MWPV shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

Aqua Centro's MOA with the SM Group
On December 8, 2016, MWPV entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPV will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On October 5, 2017, Aqua Centro was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

On December 28, 2017, MWPV entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPV has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

Calasiao Water's Concession Agreement with Calasiao Water District (CWD)
On December 9, 2016, the Company received a Notice of Award from the CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of the CWD in Calasiao, Pangasinan.

On June 19, 2017, the Company signed a Joint Venture Agreement (JVA) with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, the Company and CWD shall cause the incorporation of a joint venture company where the Company and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017 (the Commencement Date) until December 29, 2042 (the Expiration Date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the Expiration Date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by the CWD.

The ground for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

MWPV Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) and Incorporation of BMDC
On January 4, 2017, MWPV entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPV was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, BMDC was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPV assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPV, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC.

Obando Water's Concession Agreement with the Obando Water District (OWD)
On January 24, 2017, the consortium of the Company and MWPV received the Notice of Award from the OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium Holdings Corp. (now, Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between the Company and MWPV with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Filipinas Water is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement without the necessity for another bidding and subject to mutual agreement by Obando Water and the OWD. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty-five (25) years commencing on January 1, 2018 (the Commencement Date) until January 1, 2043 (the Expiration Date) or the early termination date, as the case may be.

The initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. change in assumptions at the time of the execution of the concession agreement; or
e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

BMDC APA with Solar Resources, Inc. (Solar Resources)
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

BMDC APA with Borland Development Corporation (Borland)
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan.

Notice of Award from the Leyte Metropolitan Water District (LMWD)
On December 6, 2017, the Company received the Notice of Award from the LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

MWPV Joint Venture Agreement with Tubig Pilipinas Group, Inc. (TPGI)
On December 11, 2017, the Municipality of Malasiqui granted a franchise between MWPV and Tubig Pilipinas, Inc. for the implementation of the joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On February 20, 2018, the board of directors of MWPV approved the creation of an SPV for this project.

On November 16, 2018, MWPV has signed and executed a JVA with TPGI. Under the agreement, MWPV and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

MWPV Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPV signed a twenty-five (25) year lease agreement with PEZA. Pursuant to the agreement, MWPV will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone for the provision of water and used water services to the locators therein. MWPV shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.00 million liters per day.

Notice of Award from Ilagan City Water District (ICWD) and JVA with ICWD
On January 26, 2018, the Company and MWPV (collectively the "Consortium") received the Notice of Award ("Notice) from ICWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in the Ilagan City, Isabela (the "Ilagan Project").

On November 16, 2018, the Consortium signed and executed a JVA with the ICWD. Under the JVA, the Consortium and ICWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project.

Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with ICWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

Notice of Award from Balagtas Water District (BWD)
On April 25, 2018, the Company and MWPV (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BWD in the Municipality of Balagtas, Bulacan.

Notice of Award from Bulacan Water District (BuWD) and JVA with BuWD
On April 30, 2018, the Company and MWPV (collectively the "Consortium") received the Notice of Award from the BuWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BuWD in the Municipality of Bulacan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall be granted a concession by BuWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the BuWD in the municipality of Bulacan. On October 16, 2018, the joint venture company was incorporated and was registered with the SEC under the name of Bulakan Water Company, Inc.

Notice to Proceed from the Municipality of Sta. Barbara.
Pangasinan On June 14, 2018, MWPV received a Notice to Proceed from the municipality of Sta. Barbara, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Pagsanjan Water District (PAGWAD)
On July 12, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD's service area.

Incorporation of EcoWater
On July 27, 2018, MWPV incorporated EcoWater MWPV Corp. which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ). Out of 75.00 million subscribed shares, 25.00 million shares at ₱1.00 par value or ₱25.00 million was initially paid by the Company for the 100% equity interest.

Notice of Award from Tanauan Water District
On October 12, 2018, MWPV received the Notice of Award from Tanauan Water District for the implementation of the joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of Tanauan Water District, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in Tanauan Water District's service area.

Notice to Proceed from the Municipality of San Fabian, Pangasinan
On October 15, 2018, MWPV received a Notice to Proceed from the municipality of San Fabian, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV to establish, construct, operate, manage, repair, and maintain water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from the Lambunao Water District
On November 27, 2018, MWPV received a Notice of Award from the Lambunao Water District (LWD) for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of the LWD in the Municipality of Lambunao in the Province of Iloilo.

Upon completion of conditions precedent specified in the notice, the Company and the LWD shall enter into a JVA the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from the Calinog Water District
On November 27, 2018, the Company received a Notice of Award from the Calinog Water District (CWD) for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of the CWD in the Municipality of Calinog in the Province of Iloilo.

Upon completion of conditions precedent specified in the notice, the Company and the CWD shall enter into a JVA the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

On December 11, 2018, Laguna Water entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

Notice of Award from the Calbayog City Water District
On December 27, 2018, the Company received the Notice of Award from the Calbayog City Water District (CCWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of CCWD in the City of Calbayog, as well as other areas which may eventually form part of the service coverage of CCWD in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, Company shall enter into a joint venture agreement with the CCWD for the implementation of the Project over a twenty-five (25)-year contract period.

Notice of Award from the San Jose City Water District
On December 26, 2018, the consortium of MWPV and TPGI received a Notice of Award from the San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of the SJCWD in the San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the notice of award, the consortium partners and the water district would enter into a joint venture agreement that will grant them as contractor to perform certain functions and as agent for the exercise of its right and powers, the sole right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities in the service area, including the right to bill and collect tariff for water and sanitation services supplied in the service area of SJCWD.

The carrying amounts of the Company's investments in subsidiaries follow:

	2018	2017
MWAP	₱4,428,874,271	₱4,272,514,271
MWPV	3,049,623,266	2,938,231,752
MWTS	657,050,000	552,050,000
Filipinas Water	43,218,000	24,500,000
Calasiao Water	23,760,000	23,760,000
Davao Water	–	76,500,000
Zamboanga Water	–	24,500,000
	₱8,202,525,537	₱7,912,056,023

On October 3, 2017, the BOD approved the sale of the Company's shareholdings in MWIS to MWPV. On December 26, 2017, the Company executed a Deed of Absolute Sale of Shares and Receivables to MWPV for the transfer of 2,500,000 common shares of MWIS and receivables from MWIS.

On January 24, 2018, the Company invested ₱18.72 million in Filipinas Water for working capital requirements.

On February 19, 2018, the Company invested an additional USD3.00 million in MWAP as initial capitalization of MWTC for working capital requirements.

On May 23, 2018, the Company sold to MWPV its 765,000 common shares of Davao Water comprising approximately 51% of Davao Water's outstanding capital stock in consideration for ₱75.58 million.

On July 2, 2018, the Company sold to MWPV its 245,000 common shares of Zamboanga Water comprising approximately 70% of Zamboanga Water's outstanding capital stock in consideration for ₱35.81 million.

On November 11, 2018, the Company invested an additional ₱105.00 million in MWTS for working capital requirements.

11. Other Noncurrent Assets

This account consists of:

	2018	2017
Deferred FCDA (Note 1)	₱2,420,086,820	₱1,200,237,917
Advances to contractors	695,749,924	787,558,741
Receivable from BWC - net of current portion (Note 5)	321,014,249	451,322,564
Deposits	75,977,718	1,373,934,709
Receivable from Ayala Multi-Purpose Cooperative (AMPC)	54,040,000	53,989,674
Miscellaneous	33,343,516	34,112,383
	₱3,600,212,227	₱3,901,155,988

Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan revaluations.

Advances to contractors are being recouped against progress billings based on contract provisions and are advance payments for the construction of the Company's service concession assets.

Deposits pertain to those made for land acquisition, for leased properties, and for guaranty deposits with Manila Electric Company for electric connections and its related deferred charges. In 2018, deposit for land acquisition amounting to ₱1,299.85 million which was outstanding as of December 31, 2017 was reclassified to rehabilitation works under SCA (see Note 9).

Receivable from AMPC pertains to the term loan and credit line facility agreement.

Miscellaneous noncurrent assets include various noncurrent receivables related to capital expenditure projects.

12. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payables (Note 19)	₱3,039,289,865	₱2,660,600,718
Accrued expenses:		
Salaries, wages and employee benefits	427,619,948	367,207,520
Management and professional fees	236,183,784	176,342,854
Repairs and maintenance	234,675,339	199,456,434
Utilities	135,239,745	95,760,078
Wastewater costs	89,920,515	101,875,043
Collection fees	35,427,918	59,319,488
Occupancy costs (Note 19 and 21)	34,586,835	28,805,359
Others	96,449,525	75,477,454
Interest payable (Notes 9 and 13)	364,438,950	305,116,662
Contractors payable	72,066,729	74,952,817
Others	31,724,437	137,570,332
	₱4,797,623,590	₱4,282,484,759

Trade payables and accrued expenses are non-interest-bearing and are normally settled on fifteen (15) to sixty (60)-day terms.

Other accrued expenses include accruals for advertising, supplies, representation, rental of vehicle and equipment and others.

Interest payable pertains to the unpaid portion of interest arising from the service concession obligations and long-term debts of the Company.

Contractors payable pertains to the accrual of expenses which requires the Company to pay the contractor based on progress billings. Contractors payable are normally settled within one (1) year.

Other payables are non-interest bearing and are normally settled within one (1) year.

13. Long-term Debt

This account consists of:

	2018	2017
USD loans:		
NEXI Loan	₱1,943,410,415	₱2,749,959,587
MWMP Loan	3,726,897,404	3,097,191,169
Japanese Yen (JPY) loans:		
JP¥40.00 billion Loan	12,931,751,997	14,999,076,082
MTSP Loan	562,501,053	672,747,524
First IFC Loan	–	63,333,112
PHP loans:		
₱5.00 Billion Metrobank Loan	4,866,865,987	4,887,248,393
₱5.00 Billion Philippine National Bank (PNB) Loan	4,840,160,200	–
Fixed Rate Corporate Notes	4,834,255,683	4,862,889,901
	33,705,842,739	31,332,445,768
Less current portion	4,971,163,962	4,126,033,722
	₱28,734,678,777	₱27,206,412,046

Unamortized debt discounts (premium) and issuance costs of the Company's long-term debt as of December 31, 2018 and 2017 follow:

	2018	2017
USD loans	₱52,499,381	₱80,039,544
JPY loans	179,542,477	259,654,871
PHP loans	33,718,131	(138,293)
	₱265,759,989	₱339,556,122

The rollforward analysis of unamortized debt discounts and issuance costs of long-term debt follows:

	2018	2017
Balance at beginning of year	₱339,556,122	₱198,769,469
Additions	40,317,028	262,489,691
Amortization (Note 16)	(137,804,019)	(121,005,053)
Foreign exchange adjustments	23,690,858	(697,985)
Balance at end of year	₱265,759,989	₱339,556,122

NEXI Loan
On October 21, 2010, the Company entered into a term loan agreement (NEXI Loan) amounting to US$150.00 million to partially finance capital expenditures within the East Zone. The loan has a tenor of ten (10) years and is financed by a syndicate of four (4) banks, namely - ING N.V Singapore, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. The first, second and third drawdowns of the loan amounted to US$84.00 million, US$30.00 million and US$36.00 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to US$36.96 million and US$55.08 million, respectively.

MWMP Loan
On October 2, 2012, the Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank ("MWMP Loan"). The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty-five (25) years and was made available in U.S. Dollars in the

aggregated principal amount of US$137.5 million payable via semi-annual installments after the seven (7)-year grace period. The Company has made four (4) drawdowns in 2015 with an aggregate amount of US$22.60 million, three (3) drawdowns in 2016 with an aggregate amount of US$17.46 million, and three (3) drawdowns in 2017 with a total amount of US$22.40 million. In 2018, the Company made an additional drawdown amounting to US$8.88 million. The carrying value of the MWMP loan as of December 31, 2018 and 2017 is US$70.88 million and US$62.03 million, respectively.

Summary of financial transactions related to MWMP Loan for the years ended December 31, 2018 and 2017 are shown below (in thousands):

	2018	2017
Balance at beginning of year	$28	$100
Amounts received during the year	8,880	22,400
Expenditures during the year	(8,777)	(22,472)
Balance at end of year	$131	$28

The US$0.13 million and US$0.03 million as at December 31, 2018 and 2017, respectively, represents the outstanding balance of Land Bank of the Philippines (LBP) designated account no. 3404-032-835, under the account name MWMP - Category 1 - MWCI, and is presented as part of "Other receivables" under "Receivables" account (see Note 5). The proceeds of the MWMP loan will be expended in accordance with the intended purposes as specified in the loan agreement.

JP¥40 billion Loan
On September 30, 2015, the Company signed a seven (7)-year JP¥40.00 billion term loan facility, payable semi-annually, with three (3) international banks: MUFJ Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan will be used to finance the Company's capital expenditures. The Company made its first drawdown on March 9, 2016 amounting to JP¥13.40 billion. In 2017, the Company made two (2) additional drawdowns totaling JP¥26.60 billion. The Company has not made any drawdown in 2018. The loan's carrying value as of December 31, 2018 and 2017 is JP¥27,219.01 million and JP¥33,911.54 million, respectively.

MTSP Loan
On October 20, 2005, the Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (MTSP Loan) to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of seventeen (17) years, and was made available in Japanese Yen in the aggregate principal amount of JP¥6.59 billion payable via semi-annual installments after the five (5) year grace period.

The Company made its last drawdown on October 26, 2012. The total drawn amount from the loan is JP¥3.99 billion. As of December 31, 2018 and 2017, the outstanding balance of the MTSP loan amounted to JP¥1,183.96 million and JP¥1,521.02 million, respectively.

First IFC Loan
On March 28, 2003, the Company entered into a loan agreement with IFC ("First IFC Loan") to partially finance the Company's investment program from 2002 to 2005 to expand water supply and sanitation services, improvement on the existing facilities of the Company, and for concession fee payments. The First IFC Loan was made available in Japanese Yen in the aggregate principal amount of JP¥3,591.60 million equivalent to US$30.00 million and payable in twenty-five (25) semi-annual installments, within twelve (12) years starting on July 15, 2006.

On June 15, 2018, the Company paid the outstanding balance of the loan as scheduled. As of December 31, 2018 and 2017, the carrying value of the loan amounted to nil and JP¥143.19 million, respectively.

₱5.00 Billion Metrobank Loan
On August 16, 2013, the Company entered into a Credit Facility Agreement (₱5.00 billion Metrobank Loan) with Metropolitan Bank and Trust Company (Metrobank) having a fixed nominal rate of 4.42% and with a term of seven (7) years from the issue date and is payable annually. The Company may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱4,866.87 million and ₱4,887.25 million, respectively.

₱5.00 Billion PNB Loan
On May 11, 2018, the Company signed a ₱5.00 billion, ten (10) year term loan facility with the PNB. The loan will be used to finance general corporate requirements and capital investment programs in the East Zone as well as to refinance existing concessionaire loans. On July 31, 2018, the Company made its first and only drawdown amounting to ₱5.00 billion. The carrying value of the ₱5.00 Billion PNB Loan as of December 31, 2018 amounted to ₱4,840.16 million.

Fixed Rate Corporate Notes
On April 8, 2011, the Company issued ₱10.00 billion notes (Fixed Rate Corporate Notes) with ₱5.00 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.00 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date, both of which is payable quarterly. The Company may repay the whole and not a part only of the Ten-Year FXCN Note on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter.

On April 8, 2016, the Company repaid the outstanding balance of the Five-Year FXCN in bullet as scheduled. The carrying value of the fixed rate corporate notes as of December 31, 2018 and 2017 amounted to ₱4,834.26 million and ₱4,862.89 million, respectively.

Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements
On July 17, 2008, the Company, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligations of the Company to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the Company in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by the Company, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released the Company from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where the Company is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, the Company agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either the Company or MWSS. Currently, all lenders of the Company are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, the Company signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing the Company more operational and financial flexibility. The loan amendments include the shift to the use of the Company from consolidated financial statements to stand alone parent company financial statements for the purposes of calculating the financial covenant ratios, the increase in maximum debt to equity ratio to 3:1 from 2:1 and the standardization of the definition of debt-service-coverage ratio at a minimum of 1:2:1 across all loan agreements.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Company which include compliance with certain financial ratios such as the debt-to-equity and debt-service-coverage ratios. As of December 31, 2018 and 2017, the Company was in compliance with all the loan covenants required by the creditors and has not received any written notice of default from lenders or the trustees.

14. Retirement Plan

The Company has a funded, noncontributory and tax-qualified defined benefit pension plan covering substantially all of its regular employees. The benefits are based on current salaries, years of service and compensation as of the last year of employment. The latest actuarial valuations were made on December 31, 2018.

RA No. 7641, the existing regulatory framework, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under law. The law does not require minimum funding for the plan.

The Company's funding policy states that equivalent target funding ratio must always be at least 80% and should the ratio reach 120%, the Retirement and Welfare Plan Committee (the Committee) may opt to declare a funding holiday. In the event there is an extraordinary increase in defined benefit obligation, which may arise from benefit improvement, massive hiring and other extraordinary personnel movements, the Company has a maximum of three (3) years to comply with the required minimum funded ratio of 80%.

The retirement plan is covered by a retirement fund administered by trustee banks, which are under the supervision of the Committee. The Committee, which is composed of six (6) members appointed by the Company, defines the investment strategy of the fund and regularly reviews the strategy based on market developments and changes in the plan structure. When defining the investment strategy, the Committee considers the plan's objectives, benefit obligations and risk capacity. The Committee also reviews, on a quarterly basis, the performance of the funds managed by trustee banks.

Changes in net pension (asset) liability of funded funds are as follows:

	2018		
	Present value of defined benefit obligations	Fair value of plan assets	Net pension liabilities (assets)
Balance at beginning of year	₱868,740,600	₱884,852,100	(₱16,111,500)
Net benefit costs in profit or loss:			
Current service cost	67,594,100	–	67,594,100
Net interest (Note 16)	45,977,300	48,203,000	(2,225,700)
	113,571,400	48,203,000	65,368,400
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	–	(74,129,100)	74,129,100
Actuarial changes arising from experience adjustments	32,429,200	–	32,429,200
Actuarial changes arising from changes in financial assumptions	(31,580,300)	–	(31,580,300)
	848,900	(74,129,100)	74,978,000
Benefits paid	(120,791,000)	(120,791,000)	–
Transfers	(17,529,900)	–	(17,529,900)
Contributions	–	48,711,200	(48,711,200)
Balance at end of year	₱844,840,000	₱786,846,200	₱57,993,800

	2017		
	Present value of defined benefit obligations	Fair value of plan assets	Net pension liabilities (assets)
Balance at beginning of year	₱748,013,100	₱866,023,100	(₱118,010,000)
Net benefit costs in profit or loss:			
Current service cost	57,748,800	–	57,748,800
Net interest (Note 16)	32,527,200	38,381,900	(5,854,700)
	90,276,000	38,381,900	51,894,100
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	–	21,272,300	(21,272,300)
Actuarial changes arising from experience adjustments	6,185,600	–	6,185,600
Actuarial changes arising from changes in financial assumptions	65,091,100	–	65,091,100
	71,276,700	21,272,300	50,004,400
Benefits paid	(40,825,200)	(40,825,200)	–
Balance at end of year	₱868,740,600	₱884,852,100	(₱16,111,500)

The fair value of net plan assets by each class is as follows:

	2018	2017
Assets		
Cash and cash equivalents	₱7,771,247	₱8,647,713
Debt investments - Domestic	597,533,587	641,392,986
Equity investments - Domestic	176,300,135	230,417,466
Interest receivable	5,952,938	5,061,264
	787,557,907	885,519,429
Liabilities		
Accrued trust fees	711,707	667,329
Fair value of plan assets	₱786,846,200	₱884,852,100

All equity and debt investments held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in active markets.

The plan assets are invested in different financial instruments and do not have any concentration risk.

The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuations involve making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2018	2017
Discount rate	8.25%	5.50%
Salary increase rate	7.00%	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (Decrease)	Effect on Defined Benefit Obligation 2018	2017
Discount rate	1.00%	(₱31,428,048)	(₱63,331,190)
	(1.00%)	44,523,068	75,059,188
Salary increase rate	1.00%	44,692,036	74,711,692
	(1.00%)	(31,934,952)	(64,199,930)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than 1 year	₱59,591,100	₱65,579,700
More than 1 year and up to 5 years	516,044,000	464,058,400
More than 5 years and up to 10 years	403,807,300	418,320,100
	₱979,442,400	₱947,958,200

The average duration of the defined benefit obligation at the end of the reporting period is 7.26 years and 8.72 years as of December 31, 2018 and 2017, respectively.

The asset allocation of the plan is set and reviewed regularly by the Committee taking into consideration the membership profile, liquidity requirements of the plan and expected benefit cash flows which are matched with asset durations.

Contributions to the plan are recommended by the Committee and approved by the Company, in consideration of the contribution advice from the actuary. The Company expects to make a contribution amounting to ₱71.24 million in 2019 based on the recommendations to the Committee.

15. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	2018	2017
Deferred credits	₱440,920,691	₱423,883,685
Customers' guaranty and other deposits	235,114,414	212,598,176
	₱676,035,105	₱636,481,861

Deferred credits pertain to the unamortized discounts of the customers' guaranty deposits. The rollforward analysis of the deferred credits follows:

	2018	2017
Balance at beginning of year	₱423,883,685	₱408,814,406
Additions	29,572,608	26,211,526
Amortization (Note 16)	(12,535,602)	(11,142,247)
Balance at end of year	₱440,920,691	₱423,883,685

Customers' guaranty and other deposits pertain to the deposits paid by the Company's customers for the set-up of new connections which will be refunded to the customers upon termination of customers' water service connections or at the end of the concession, whichever comes first.

16. Other Operating Income, Operating Expenses, Interest Income and Interest Expense

Other operating income consist of:

	2018	2017
Connection fees for water and service connections	₱201,896,734	₱186,442,637
Technical services agreement	164,430,091	139,079,443
Reconnection fee	35,881,904	30,913,542
Septic sludge disposal and bacteriological water analysis	20,937,117	19,876,369
Rental of equipment	18,221,855	736,923
Sale of inventories	5,625,100	24,109,727
Miscellaneous	592,080	13,302,598
	₱447,584,881	₱414,461,239

Miscellaneous income includes income from other customer-related fees.

Operating expenses consist of:

	2018	2017
Salaries, wages and employee benefits (Notes 14, 18 and 19)	₱850,953,833	₱734,329,256
Management, technical and professional fees (Note 19)	286,416,971	242,195,428
Depreciation and amortization (Notes 8 and 9)	258,532,941	229,799,008
Taxes and licenses	257,496,470	164,225,250
Occupancy costs (Note 21)	154,048,655	136,206,222
Repairs and maintenance (Note 19)	140,565,584	96,329,284
Insurance	78,332,794	74,789,753
Business meetings and representation	35,280,690	25,380,492
Printing and communication (Note 19)	30,656,800	31,117,437
Transportation and travel	21,017,054	20,460,872
Advertising	11,200,081	11,095,831
Premium on performance bond (Note 25)	3,827,990	4,721,199
Power, light and water (Note 19)	2,483,028	2,712,531
Other expenses (Note 5)	155,251,677	85,205,824
	₱2,286,054,568	₱1,858,568,387

Other expenses include donations, rental of equipment, net reversal of provision for ECL (see Note 5), and laboratory supplies, among others.

Interest income consists of:

	2018	2017
Interest income on:		
Cash and cash equivalents (Note 4)	₱195,141,945	₱99,539,671
Receivable from BWC (Note 5)	28,083,490	34,641,123
Receivable from related parties (Note 19)	2,881,742	10,748,769
Pension assets (Note 14)	2,225,700	5,854,700
Others	317,695	7,627,246
	₱228,650,572	₱158,411,509

Other interest income pertains to interest from employee loans and car plans.

Interest expense consists of:

	2018	2017
Interest expense on:		
Service concession obligations (Note 9)	₱445,169,349	₱457,728,958
Long-term debt:		
Coupon interest	557,032,896	557,668,324
Amortization of debt discount, issuance costs and premium (Note 13)	137,804,019	121,005,053
Guaranty deposits (Note 15)	12,535,602	11,142,247
Others	104,488,538	–
	₱1,257,030,404	₱1,147,544,582

Other income (losses) include gain on write-off of payables, miscellaneous receipts on penalties to service providers and others.

17. Income Tax

Provision for (benefit from) income tax consists of:

	2018	2017
Current	₱1,948,721,342	₱1,627,277,014
Deferred	(102,180,905)	9,324,707
	₱1,846,540,437	₱1,636,601,721

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2018	2017
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Nondeductible expense	54.19	57.08
Income not subject to tax	(37.67)	(42.39)
Excess of 40% Optional Standard Deduction (OSD) against allowable deductions	(15.12)	(17.81)
Change in unrecognized deferred tax	–	(0.13)
Others - net	(8.83)	(4.54)
Effective income tax rate	22.57%	22.21%

The components of the net deferred tax assets of the Company pertain to the deferred income tax effects of the following:

	2018	2017
Deferred tax asset (liability)		
Service concession obligations - net	₱1,390,345,294	₱1,167,318,943
Difference between amortization expense of SCA per straight line and per UOP methods	(196,360,671)	(75,515,225)
	₱1,193,984,623	₱1,091,803,718

Revenue Regulation (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the OSD for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by the Company for the years ended December 31, 2018 and 2017.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. The Company forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

The effective tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

Deferred taxes on allowance for ECL and pension liability were not recognized by the Company. The net reduction in deferred tax assets from applying the 18% effective tax rate to the recognized deferred taxes on net service obligation and the derecognition of the deferred taxes relating to the accounts with temporary differences which are not considered in determining gross income for income tax purposes by the Company amounted to ₱288.21 million and ₱212.77 million as of December 31, 2018 and 2017, respectively.

18. Equity

The Company's capital stock consists of:

	2018 Shares	2018 Amount	2017 Shares	2017 Amount
Common stock - ₱1 per share				
Authorized	3,100,000,000	₱3,100,000,000	3,100,000,000	₱3,100,000,000
Issued and subscribed	2,064,839,617	2,064,839,617	2,053,666,576	2,053,666,576
Outstanding	2,030,732,360	2,030,732,360	2,026,067,122	2,026,067,122
Preferred stock - ₱0.10 par value, 10% cumulative, voting, participating, nonredeemable and nonconvertible				
Authorized, issued and outstanding - 4,000,000,000 shares	4,000,000,000	400,000,000	4,000,000,000	400,000,000

On March 18, 2005, the Company launched its Initial Public Offering where a total of 745.33 million common shares were offered at an offering price of ₱6.50 per share. The Company has 949 and 900 existing certificated shareholders as of December 31, 2018 and 2017, respectively. The Scripless shareholders are counted under PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino).

On March 1, 2018, the BOD approved the following:

a. amendment of the Company's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Company.

On April 16, 2018, the stockholders of the Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 300.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings, (i) for properties or assets needed for the business of the Company, or (ii) for cash to acquire properties or assets needed for the business of the Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The movement of the Company's outstanding common stock follows:

	2018	2017
Number of shares at beginning of year	2,026,067,122	2,024,934,090
Additions	4,665,238	1,133,032
Number of shares at end of year	2,030,732,360	2,026,067,122

Dividends

The following table shows the cash dividends declared by the Company's BOD on the outstanding capital stock for the years ended December 31, 2018 and 2017:

Declaration Date	Record Date	Amount Per Share: Common Shares	Amount Per Share: Participating Preferred Shares	Payment Date
March 1, 2017	March 15, 2017	₱0.4244	₱0.04244	March 31, 2017
October 3, 2017	October 17, 2017	0.4244	0.04244	November 2, 2017
November 23, 2017	December 8, 2017	–	0.01000	December 20, 2017
March 1, 2018	March 15, 2018	0.4302	0.04302	March 28, 2018
October 2, 2018	October 17, 2018	0.4283	0.04283	October 31, 2018
November 20, 2018	December 6, 2018	–	0.01000	December 20, 2018

There are no dividends in arrears for the Company's participating preferred shares as of December 31, 2018 and 2017.

Retained earnings
The approved Business Plan includes planned capital expenditures on (i) service continuity, (ii) service accessibility, (iii) water security, and (iv) environmental sustainability described as follows:

a. Service continuity projects are endeavored to maintain the level of service provided to its customers even in times of calamity;

b. Service accessibility projects would enable the Company to expand its service coverage;

c. Water security projects include two components: (1) new water source development and, (2) existing water source rehabilitation and improvement; and

d. Projects under the Environmental Sustainability Investment category are comprised of wastewater projects endeavored to achieve the Company's wastewater coverage targets.

On November 20, 2018, November 23, 2017 and November 22, 2016, the Company's BOD approved the appropriation of ₱3.75 billion, ₱7.60 billion and ₱21.10 billion respectively, to ensure the completion of the Company's large system projects included in its approved Business Plan. The implementation of these projects is consistent with the timeline of the approved Business Plan which covers until the end of the concession period.

In accordance with Securities Regulation Code (SRC) Rule 68, as Amended (2011), Annex 68-C, the Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 is computed at ₱7.22 billion and ₱7.02 billion, respectively.

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN
The subscribed shares are effectively treated as options exercisable within a given period which is the same as the grantee's payment schedule.

For the unsubscribed shares of the ESOWN grants in 2013 and 2012, the employee still has the option to subscribe within seven (7) years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into consideration the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Dates			
	March 7, 2018	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	16,054,873	7,281,647	6,627,100	4,772,414
Number of unsubscribed shares	5,161,140	884,873	351,680	460,000
Fair value of each option	₱5.74	₱11.58	₱10.58	₱11.76
Weighted average share price	₱26.55	₱21.35	₱23.00	₱26.24
Exercise price	₱27.31	₱26.00	₱22.92	₱24.07
Expected volatility	24.92%	26.53%	24.90%	30.66%
Dividend yield	2.80%	2.55%	3.47%	2.56%
Risk-free interest rate	3.43%	3.79%	2.99%	4.57%

To enjoy the rights provided for in the ESOWN, the grantee should be with the Company at the time the holding period expires. The Holding Period of the ESOWN shares follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

For the 2013 and previous year's grants, the ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of year five (5) from grant date up to the end of year six (6). Any additional subscription made by the employee (after the initial subscription) will be subjected to another three (3) year holding period. For the 2018 and 2015 grants, unsubscribed shares were forfeited.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2018	Weighted average exercise price	2017	Weighted average exercise price
Balance at beginning of year	231,980	₱23.49	4,923,730	₱23.49
Cancelled	(100,380)	–	(4,691,750)	–
Balance at end of year	131,600	₱23.49	231,980	₱23.49

Total expense arising from equity-settled share-based payment transactions amounted to ₱23.97 million and ₱12.17 million in 2018 and 2017, respectively.

On March 6, 2018, the Remuneration Committee of the Company's Board of Directors approved the grants of ESOWN equivalent to 16,054,873 shares at the subscription price of ₱27.31 per share. The subscription price is equivalent to the average closing price of Company's common shares at the PSE for twenty (20) consecutive trading days ending March 6, 2018.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The Company's expected volatility was used as an input in the valuation of the outstanding options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

19. Related Party Transactions

Parties are considered to be related to the Company if it has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

In the normal course of business, the Company has transactions with related parties. The sales and investments made to related parties are made at normal market prices. Service agreements are based on rates agreed upon by the parties. Outstanding balances at year-end are unsecured and interest-free. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and 2017, the Company has not recognized any provision for probable losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties follow:

a. The Company entered into an Administrative and Support Services Agreement (ASSA) with Ayala in 1997 with Ayala as its sponsor as required during the privatization process. The ASSA was initially effective for ten (10) years and automatically renewable every five (5) years. Under the agreement, Ayala shall provide technical and other knowledge, experience and skills as reasonably necessary for the development, administration and operation of the concession, for which the Company shall pay an annual base fee of US$1.00 million and adjusted for the effect of CPI. As a result, certain key management positions are occupied by employees of Ayala.

   On March 1, 2017, the BOD confirmed the automatic renewal of the ASSA between the Company and Ayala for another five (5) years until July 30, 2022 and approved the amendment reducing the base fee to ₱1.00 per year beginning August 1, 2017.

   Total management and professional fees charged to operations arising from these agreements amounted to ₱209.22 million and ₱276.20 million in 2018 and 2017, respectively. There were no outstanding payables as of December 31, 2018 and 2017.

b. The following tables provide the total amount of all other transactions that have been entered into with the Company's shareholders and affiliates for the relevant financial year:

	Cash in Banks and Cash Equivalents		Trade Receivables		Trade Payables	
	2018	2017	2018	2017	2018	2017
Shareholder:						
Ayala	₱–	₱–	₱12,776	₱9,776	₱–	₱–
Affiliates:						
Ayala Land (ALI) and subsidiaries	–	–	246,218	131,170	6,125	2,354,124
AC Industrial Technology Holdings, Inc. (AITHI) and subsidiaries	–	–	–	10,430	–	–
Globe Telecom (Globe) and subsidiaries	–	–	208,865	-	–	–
Bank of the Philippine Islands (BPI) and subsidiaries	2,448,244,237	1,913,291,836	105,114	6,112	693,269	–
	2,448,244,237	1,913,291,836	559,197	147,712	699,394	2,354,124
	₱2,448,244,237	₱1,913,291,836	₱571,973	₱157,488	₱699,394	₱2,354,124

Cash in banks and cash equivalents pertain to deposits and investments with original maturities of three (3) months or less from the date of original acquisition.
Trade receivables are primarily composed of receivables for water and sewerage services rendered by the Company. These are non-interest bearing and are collectible within thirty (30) days from bill generation. No allowance for ECL was provided for receivables from related parties as of December 31, 2018 and 2017.

Trade payables pertain to retentions deducted from contractors' billings and are normally paid within a year after the project acceptance.

	Revenue		Purchases	
	2018	2017	2018	2017
Shareholder:				
Ayala	₱6,109,967	₱6,356,135	₱209,220,988	₱276,204,416
Affiliates:				
ALI and subsidiaries	109,304,366	101,938,887	3,920,146	4,722,951
BPI and subsidiaries	10,703,159	11,173,282	1,587,843	–
Globe and subsidiaries	2,764,468	3,242,537	30,924,898	21,054,995
AITHI and subsidiaries	592,314	545,243	5,375,175	577,076
AC Energy Holdings, Inc. (AC Energy)	–	–	377,271,684	160,805,173
HCX Technology Partners, Inc.	–	–	5,679,690	5,977,427
	123,364,307	116,899,949	424,759,436	193,137,622
	₱129,474,274	₱123,256,084	₱633,980,424	₱469,342,038

Revenue is mainly attributable to water and used water services and shared facilities rendered by the Company to its shareholder and affiliates. Purchases from Ayala Land and the subsidiaries pertain mainly to construction of fixed assets, while purchases from AITHI relates to the acquisition and repairs of transportation equipment. Purchases from Globe pertain to telecommunication services and purchases from BPI relate to banking transactions and financial services needs of the Company, while purchases from HCX Technology Partners, Inc. consist of human resource services.

In September 2017, the Company entered into an Open Access Contract with AC Energy which will cover a two-year supply of electricity to five (5) of the Company's facilities currently enrolled under Open Access. As of December 31, 2018 and 2017, the Company has guaranty deposits with AC Energy amounting to ₱9.23 million.

c. The Company made advances and loan to its subsidiaries, which are included in "Receivables" in the parent company statements of financial position, as follows:

	2018	2017
MWTS	₱291,373,263	₱287,438,648
MWPV and subsidiaries	128,546,639	103,082,411
MWAP	57,860,845	63,339,821
Calasiao Water	6,074,862	–
	₱483,855,609	₱453,860,880

In June 2017, the Company provided MWTS with a ₱150.00 million short-term loan to support the entity's capital working requirements (see Note 5). Interest income earned from this loan amounted to ₱2.88 million and ₱10.75 million as of December 31, 2018 and 2017, respectively (see Note 16).

d. One of the trustee banks who manage the Company's retirement fund is BPI, an affiliate. The Company's plan assets under BPI amounted to ₱471.19 million and ₱553.16 million as of December 31, 2018 and 2017, respectively (see Note 14).

e. Compensation of key management personnel of the Company by benefit type, included as part of "Salaries, wages and employee benefits" are as follows:

	2018	2017
Short-term employee benefits	₱549,791,280	₱502,864,917
Post-employment benefits	19,899,576	16,402,047
Share-based payment	16,960,455	10,349,090
	₱586,651,311	₱529,616,054

20. Significant Contracts with the West Zone Concessionaire

In relation to the Concession Agreement, the Company entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires formed an unincorporated joint venture that will manage, operate, and maintain the interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116.60 million with maturity of twenty (20) years including five (5) years of grace period. Interest rate is 3% per annum. MWSS then entered into a MOA with the Company and Maynilad for the Company and Maynilad to shoulder equally the repayment of the loan, with such repayment to be part of the concession fees (see Note 9).

d. On May 12, 2015, MWSS entered into a MOA with the Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

21. Assets Held in Trust

The Company is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by the Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Company.

The Concession Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both the East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Company on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 billion.

In 2015, the Company engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by the Company as of 2014, based on the asset registry as of December 31, 2013. Total reproduction cost as of December 31, 2015 amounted to ₱123.47 billion, with a sound value of ₱69.10 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. The lease was last renewed on October 27, 2006. On August 28, 2012, additional office space was leased by the Company. Rent expense amounted to ₱32.25 million and ₱27.75 million in 2018 and 2017, respectively. These are included under "Occupancy costs" in the parent company statements of comprehensive income.

In March 2015, the Company and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by the Company as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2018 and 2017 both amounted to ₱16.20 million which is included under "Occupancy costs" in the parent company statements of comprehensive income.

22. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the segment information is reported based on the nature of service the Company is providing and its geographic location.

The Company's BOD and Management Committee monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the parent company financial statements.

Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the parent company statements of financial position which is in accordance with PFRS.

The Company has one operating segment which is the Manila Concession and Head Office which represents the operations of the Company in the East Zone in accordance with its Concession Agreement.

The Company does not have a single customer contributing more than 10% of its total revenue.

Disaggregated revenue Information
The following are the disaggregation of the Company's revenue from contracts with customers for the year ended December 31, 2018:

Timing of revenue recognition:	
Revenue recognized over time	₱16,106,433,185
Revenue recognized at a point in time	245,688,147
	₱16,352,121,332

23. Fair Value Measurement

The carrying amounts approximate fair values of the Company's financial assets and liabilities due to its short-term maturities, except for the following financial assets and financial liabilities as of December 31, 2018 and 2017:

	2018		2017	
	Carrying Value	Fair Value Significant unobservable Inputs (Level 3)	Carrying Value	Fair Value Significant unobservable Inputs (Level 3)
	(In Thousands)			
Other financial liabilities				
Long-term debt	₱33,705,843	₱32,446,710	₱31,332,446	₱31,164,152
Service concession obligations	6,946,855	7,680,868	6,829,461	7,949,147
Customers' guaranty and other deposits	235,114	177,722	212,598	165,901
	₱40,887,812	₱40,305,300	₱38,374,505	₱39,279,200

The methods and assumptions used by the Company in estimating the fair values of the other financial liabilities such as long-term debt, customers' guaranty deposits and other deposits, and service concession obligations are as follows:

a. The fair values are estimated using the discounted cash flow methodology using the Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

b. The discount rates used for PHP-denominated loans were 5.22% to 7.41% in 2018 and 2.50% to 4.47% in 2017 while the discount rates used for foreign currency-denominated loans ranged from 5.31% to 7.51% in 2018 and 2.45% to 5.70% in 2017.

Fair Value Hierarchy
There were no financial assets carried at fair value as of December 31, 2018 and 2017. During the periods ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

24. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents, long-term debt and service concession obligation. The main purpose of the Company's financial instruments is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Company has other various financial assets such as trade receivables and payables which arise directly from the conduct of its operations.

The Company's BOD reviews and approves the policies for managing each of these risks. The Company monitors risks arising from all financial instruments and regularly report financial management activities and the results of these activities to the Company's BOD.

The Company's risk management policies are summarized below:

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its financial instruments with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

The Company's policy is to manage the interest payments using a mix of fixed and variable rate debts to minimize the Company's exposure to changes. As of December 31, 2018 and 2017, the Company's mix of fixed interest and floating interest rate of long-term debt are 81.49% to 18.51% and 79.19% to 20.81%, respectively.

Fixed interest rates of the Company's foreign currency and Peso denominated long-term debt range from 1.39% to 7.40% and from 4.66% to 7.71%, respectively. Floating interest rates are based on six (6) month LIBOR plus margin as of December 31, 2018 and 2017.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values follows:

2018

	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due after 2023	Total in Original Currency (In PHP)	Total in Original Currency (In JPY)	Total in Original Currency (In USD)	Total (In PHP)
Liabilities:										
Long-Term Debt										
Fixed Rate (exposed to fair value risk)										
Fixed Rate Corporate Notes	□25,000,000	□25,000,000	□4,775,000,000	₱–	₱–	₱–	□4,825,000,000	–	–	□4,825,000,000
₱5.00 Billion Metrobank Loan	□25,000,000	□4,850,000,000	₱–	₱–	₱–	₱–	□4,875,000,000	–	–	□4,875,000,000
₱5.00 Billion PNB Loan	□500,000,000	□500,000,000	□500,000,000	□500,000,000	□500,000,000	□2,375,000,000	□4,875,000,000	–	–	□4,875,000,000
JP¥40.00 billion Loan	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥–	¥–	–	¥27,591,608,392	–	□13,108,773,147
Floating Rate (exposed to cash flow risk)										
NEXI Loan	$18,750,000	$18,750,000	$–	$–	$–	$–	–	–	$37,500,000	□1,971,750,000
MWMP Loan	¥340,366,724	¥340,366,724	¥340,366,724	¥168,170,255	¥–	¥–	–	¥1,189,270,427	–	□565,022,380
MTSP Loan	$1,983,252	$3,966,504	$3,966,504	$3,966,504	$3,966,504	$53,490,732	–	–	$71,340,000	□3,751,057,200
Total in Original Currency							₱14,575,000,000	¥28,780,878,819	$108,840,000	□33,971,602,727
Total in PHP	□5,079,055,907	□10,008,335,298	□8,922,460,298	□4,065,849,755	□708,558,780	□5,187,542,689	□14,575,000,000	□13,673,795,527	□5,722,807,200	□33,971,602,727

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.
The spot exchange rates used were ₱52.58 to US$1 and ₱0.4751 to JP¥1 in 2018.

2017

	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due after 2022	Total in Original Currency (In PHP)	Total in Original Currency (In JPY)	Total in Original Currency (In USD)	Total (In PHP)
Liabilities:										
Long-Term Debt										
Fixed Rate (exposed to fair value risk)										
First IFC Loan	¥22,024,000	¥–	¥–	¥–	¥–	¥–	–	¥22,024,000	–	₱9,741,215
Fixed Rate Corporate Notes	₱25,000,000	₱25,000,000	₱25,000,000	₱4,775,000,000	₱–	₱–	₱4,850,000,000	–	–	₱4,850,000,000
₱5.00 billion Metrobank Loan	₱25,000,000	₱25,000,000	₱4,850,000,000	₱–	₱–	₱–	₱4,900,000,000	–	–	₱4,900,000,000
JP¥40.00 billion Loan	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥–	–	¥34,489,510,490	–	₱15,254,710,490
Floating Rate (exposed to cash flow risk)										
NEXI Loan	$18,750,000	$18,750,000	$18,750,000	$–	$–	$–	–	–	$56,250,000	₱2,808,562,500
First IFC Loan	¥121,640,000	¥–	¥–	¥–	¥–	¥–	–	¥121,640,000	–	₱53,801,372
MTSP Loan	¥340,366,724	¥340,366,724	¥340,366,724	¥340,366,724	¥168,170,256	¥–	–	¥1,529,837,152	–	₱676,558,512
MWMP Loan	$–	$1,736,388	$3,472,776	$3,472,776	$3,472,776	$50,305,284	–	–	$62,460,000	₱3,118,627,800
Total in Original Currency							₱9,750,000,000	¥36,162,811,642	$118,710,000	₱31,672,001,889
Total in PHP	₱4,251,216,387	₱4,274,371,653	₱9,186,069,506	₱8,149,882,006	₱3,298,719,508	₱2,511,742,829	₱9,750,000,000	₱15,994,811,589	₱5,927,190,300	₱31,672,001,889

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.
The spot exchange rates used were ₱49.93 to US$1 and ₱0.4423 to JP¥1 in 2017.

The following tables demonstrate the sensitivity of the Company's income before income tax to a reasonably possible change in interest rates on December 31, 2018 and 2017, with all variables held constant (through the impact on floating rate borrowings).

2018

	Changes in Basis Points	Effect on Income before Income Tax
	(In Thousands)	
Floating rate borrowings	100	(₱62,878)
	(100)	62,878

2017

	Changes in Basis Points	Effect on Income before Income Tax
	(In Thousands)	
Floating rate borrowings	100	(₱66,576)
	(100)	66,576

Foreign exchange risk
The Company's foreign exchange risk results primarily from movements of the PHP against the USD and JPY. Substantially all revenues are generated in PHP while majority of capital expenditures are also in PHP. Approximately 57% and 69% of long-term debt as of December 31, 2018 and 2017, respectively, are denominated in foreign currency.

Information on the Company's foreign currency-denominated monetary assets and liabilities and their Philippine Peso equivalents are as follows:

	2018		2017	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
	(In Thousands)		(In Thousands)	
Assets				
Cash and cash equivalents:				
USD	$7,196	₱378,361	$21,445	₱1,070,749
VND	VND34,961	79	VND50,843	112
JPY	¥556	264	¥556	246
		₱378,704		₱1,071,107
Liabilities				
Long-term debt:				
JPY	¥28,402,974	₱13,494,253	¥35,575,756	₱15,735,157
USD	$107,842	5,670,308	$117,107	5,847,151
Service concession obligation:				
JPY	¥118,468	56,284	¥198,292	87,704
USD	$64,859	3,410,310	$62,839	3,137,537
French Franc (FRF)	FRF4	35	FRF306	2,785
		22,631,190		24,810,334
Net foreign currency-denominated liabilities		(₱22,252,486)		(₱23,739,227)

The spot exchange rates used were ₱52.58 to US$1, ₱0.4751 to JP¥1, ₱9.16 to FRF1, ₱0.00227 to VND1 in 2018 and ₱49.93 to US$1, ₱0.4423 to JP¥1, ₱9.09 to FRF1, ₱0.0022 to VND1 in 2017.

Under the Concession Agreement, the Company has a natural hedge on foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff (see Note 1). The Company does not expect any movement of the USD, JPY, VND and FRF against the Philippine Peso to have a significant effect on the Company's income before income tax.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by the Company's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Company has no significant concentration of credit risk. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The information about the credit risk exposure on the Company's receivables and contract assets using a provision matrix is as follows:

	December 31, 2018						
	Current	Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	Expected Credit Loss	Total
				(In thousands)			
Receivables							
Customers							
Residential	₱107,633	₱251,693	₱73,215	₱27,532	₱231,347	₱439,882	₱1,131,302
Commercial	17,139	40,874	10,514	3,249	220	82,698	154,694
Semi-business	9,423	27,883	6,548	2,580	128	27,719	74,281
Industrial	2,663	12,725	641	153	–	3,678	19,860
Related parties	483,856	–	–	–	–	–	483,856
BWC	388,411	–	–	–	–	–	388,411
Employees	24,114	–	–	–	–	–	24,114
Interest from banks	23,119	–	–	–	–	–	23,119
Others	49,112	–	–	–	–	57,989	107,101
	₱1,105,470	₱333,175	₱90,918	₱33,514	₱231,695	₱611,966	₱2,406,738

	January 1, 2018						
	Current	Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	Expected Credit Loss	Total
				(In thousands)			
Receivables							
Customers							
Residential	₱105,761	₱246,776	₱64,307	₱18,880	₱159,012	₱408,134	₱1,002,870
Commercial	12,512	29,194	9,222	3,126	18,970	75,926	148,950
Semi-business	5,849	13,647	4,314	1,561	10,228	25,628	61,227
Industrial	1,531	3,573	-	352	901	980	7,337
Related parties	453,861	–	–	–	–	–	453,861
BWC	501,014	–	–	–	–	–	501,014
Employees	28,070	–	–	–	–	–	28,070
Interest from banks	15,427	–	–	–	–	–	15,427
Others	51,593	–	–	–	–	57,990	109,583
	₱1,175,618	₱293,190	₱77,843	₱23,919	₱189,111	₱568,658	₱2,328,339

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty limits are reviewed and approved by the BOD, and are updated when necessary.

Cash and cash equivalents are placed in various banks. Material amounts are held by banks which belong to the top five (5) banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. These are considered to be low credit risk investments.

Liquidity risk
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and debentures. The Company's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash generation.

The Company's financial assets used for liquidity management based on their maturities are as follows:

	2018			
	Within 1 Year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱6,749,935,407	₱–	₱–	₱6,749,935,407
Receivables from:				
Customers	1,380,137,569	–	–	1,380,137,569
Related parties	483,855,609	–	–	483,855,609
Employees	24,113,763	–	–	24,113,763
Interest from banks	23,119,503	–	–	23,119,503
Others	107,101,233	–	–	107,101,233
	₱8,768,263,084	₱–	₱–	₱8,768,263,084

	2017			
	Within 1 Year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱6,188,372,172	₱–	₱–	₱6,188,372,172
Receivables from:				
Customers	1,220,384,475	–	–	1,220,384,475
Related parties	453,860,880	–	–	453,860,880
Employees	28,070,246	–	–	28,070,246
Interest from banks	15,426,725	–	–	15,426,725
Others	109,582,867	–	–	109,582,867
	₱8,015,697,365	₱–	₱–	₱8,015,697,365

The Company's financial liabilities based on contractual undiscounted payments:

	2018			
	Within 1 Year	1-5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱4,797,623,590	₱–	₱–	₱4,797,623,590
Long-term debt*	6,403,531,687	26,568,187,965	6,818,209,808	39,789,929,460
Service concession obligations*	908,416,937	3,110,161,811	8,471,678,250	12,490,256,998
Customers' guaranty and other deposits	–	–	676,035,105	676,035,105
	₱12,109,572,214	₱29,678,349,776	₱15,965,923,163	₱57,753,845,153

**Includes contractual interest cash flows*

	2017			
	Within 1 Year	1-5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱4,282,484,759	₱–	₱–	₱4,282,484,759
Long-term debt*	5,087,162,367	27,462,783,951	3,565,419,099	36,115,365,417
Service concession obligations*	865,288,682	3,084,906,986	8,000,120,672	11,950,316,340
Customers' guaranty and other deposits	–	–	636,481,861	636,481,861
	₱10,234,935,808	₱30,547,690,937	₱12,202,021,632	₱52,984,648,377

***Includes contractual interest cash flows**

Changes in liabilities arising from financing activities:

	2018			
	Long-term Debt	Service Concession Obligations	Interest Payable	Total
Balance at beginning of year	₱31,332,445,768	₱6,829,461,477	₱305,116,662	₱38,467,023,907
Cash flows	683,356,082	(875,350,761)	(1,473,677,188)	(1,665,671,867)
Accretion	137,804,019	322,344,946	–	460,148,965
Interest	–	140,533,042	1,532,999,476	1,673,532,518
Concession fees	–	476,269,457	–	476,269,457
Foreign exchange losses	1,552,236,870	53,596,666	–	1,605,833,536
	₱33,705,842,739	₱6,946,854,827	₱364,438,950	₱41,017,136,516

	2017			
	Long-term Debt	Service Concession Obligations	Interest Payable	Total
Balance at beginning of year	₱21,558,327,078	₱7,170,632,044	₱254,660,247	₱28,983,619,369
Cash flows	9,520,649,973	(834,801,817)	(965,146,346)	7,720,701,810
Accretion	121,005,053	323,832,844	–	444,837,897
Interest	–	140,661,034	1,015,602,761	1,156,263,795
Concession fees	–	11,305,325	–	11,305,325
Foreign exchange losses	132,463,664	17,832,047	–	150,295,711
	₱31,332,445,768	₱6,829,461,477	₱305,116,662	₱38,467,023,907

Capital management

The primary objective of the Company's capital management strategy is to ensure that it maintains a healthy capital structure, in order to maintain a strong credit standing while it maximizes shareholder value.

The Company closely manages its capital structure vis-à-vis a certain target gearing ratio, which is total debt (less concession obligation) divided by the sum of the total stockholders' equity and total debt (less concession obligation). The Company's target gearing ratio is set at 60%. This target is to be achieved by managing the Company's level of borrowings and dividend payments to shareholders.

	2018	2017
Total liabilities	₱47,204,987,569	₱43,914,727,725
Less service concession obligation	6,946,854,827	6,829,461,477
	40,258,132,742	37,085,266,248
Total stockholders' equity	47,842,723,961	43,636,991,875
Total	₱88,100,856,703	₱80,722,258,123
Gearing ratio	46%	46%

For purposes of computing its net debt, the Company includes the outstanding balance of its long-term debt (including current portion), accounts and other payables, less cash and cash equivalents. To compute its total capital, the Company uses the total stockholders' equity.

	2018	2017
Total liabilities	₱47,204,987,569	₱43,914,727,725
Less:		
Service concession obligations	6,946,854,827	6,829,461,477
Cash and cash equivalents	6,749,935,407	6,188,372,172
	13,696,790,234	13,017,833,649
Net debt	33,508,197,335	30,896,894,076
Total stockholders' equity	47,842,723,961	43,636,991,875
Total net debt and equity	₱81,350,921,296	₱74,533,885,951
Total net debt and equity ratio	41%	41%

25. Commitments

The significant commitments of the Company under the Concession Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of the Company's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within thirty (30) days from the commencement of each renewal date, the Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

With a minimum of 10-day written notice period to the Company, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by the Company is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, the Company agreed to increase its annual share in MWSS operating budget by 100% from ₱100.00 million to ₱395.00 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with the Company);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, the Company has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

The Company is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

Operating Leases - as a Lessee

The Company leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period. As of December 31, 2018 and 2017, the Company's future minimum lease payments are as follows:

	2018	2017
Within one year	₱16,200,000	₱16,200,000
After one year but not more than five years	64,800,000	64,800,000
More than five years	217,350,000	233,550,000
	₱298,350,000	₱314,550,000

Rent expense recognized in 2018 and 2017 amounted to ₱16.20 million.

26. Provisions and Contingencies

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed the Company and Maynilad Water Services, Inc. (jointly, the "Concessionaires") real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.11 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.71 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On January 26, 2011, the Supreme Court issued a Temporary Restraining Order enjoining the local government of Quezon City from levying the real properties, machineries and equipment of MWSS. Total provision for these assessments amounted to ₱416.23 million as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the remaining provision for estimated probable losses pertains to various legal proceedings and exposures arise in the ordinary course of business. Management believes that any amount the Company may have to pay in connection with any of these matters will not have a material adverse effect on the Company's financial position or operating results. The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

27. Events after the Reporting Period

The Company and MWPV Joint Venture Agreement with the Tanauan Water District

On February 4, 2019, the Company and MWPV (collectively the "Consortium") signed and executed a joint venture agreement with the Tanauan Water District for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of the Tanauan Water District in Tanauan City, Batangas (the Tanauan Project).

Upon completion of the conditions precedent set out in the joint venture agreement, the Consortium, through a SPV, and the Tanauan Water District shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

Declaration of Cash Dividends
On February 26, 2019, the Company's BOD approved the declaration of cash dividends of ₱0.4551 per share on outstanding common shares and ₱0.0455 per share on outstanding participating preferred shares with date of record on March 14, 2019 and payment date of March 28, 2019.

28. Supplementary Tax Information under Revenue Regulations No. 15-2010

The Company reported and/or paid the following types of taxes for the year:

VAT
The National Internal Revenue Code (NIRC) of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT.

Details of the Company's net sales/receipts, output VAT and input VAT accounts follow:

a. Net sales/receipts and output VAT declared in the Company's VAT returns filed for the period:

	Net Sales/ Receipts	Output VAT
Vatable sales/receipt to private entities	₱15,111,537,400	₱1,813,384,488
Sale to government	1,625,007,000	195,000,840
Exempt sales/receipts	13,593,060	–
Zero-rated sales	11,799,758	–
	₱16,761,937,218	₱2,008,385,328

VAT exempt sales includes sales to embassies evidenced by VAT exemption certificates duly issued by the BIR. The embassies are established for diplomatic missions and are entitled to VAT exemption, on the basis of reciprocity, as confirmed by the Office of Protocol of the Department of Foreign Affairs.

Zero-rated sales pertain to sale of services to PEZA-registered entities and registered in Special Economic Zone. This is in accordance with the provisions set forth in RA No. 7916 and RA No. 7227, as amended by RA9400.

b. The amount of input VAT claimed are broken down as follows:

Balance at January 1	₱155,351,228
Input tax deferred on capital goods from previous period	234,619,810
Current year's domestic purchases/payments for:	
Purchase of capital goods	22,222,197
Domestic purchase of goods other than capital goods	111,447,941
Domestic purchase of services	885,092,551
Service rendered by non-residents	248,508
Total available input VAT	1,408,982,235
Less claims for tax credit/refund and other adjustments:	
Output tax due	2,008,385,328
Input tax deferred for succeeding period	200,950,050
VAT withheld on sales to government	(76,947,474)
Input tax on sales to government closed to expense	(14,826,044)
Input tax allocable to exempt sales	693,062
Net VAT payable	(709,272,687)
Less: VAT payments	668,093,997
Balance at December 31 (output VAT payable)	(₱41,178,690)

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees.

Details consist of the following:

Included in Operating Expenses:	
Mayor's business permit	₱108,972,156
Real property tax	47,283,224
Documentary stamps	6,063,192
BIR and PSE registration	2,015,091
Discharge permit fee	1,444,510
Vehicle registration	1,228,550
Excavation permit fee	528,319
Others	89,961,428
Total	₱257,496,470

Withholding Taxes

Details of withholding taxes for the year are as follows:

Expanded withholding taxes	₱303,461,920
Withholding taxes on compensation and benefits	285,517,966
Final withholding taxes	244,600,630
	₱833,580,516

Outstanding withholding taxes payable as of December 31, 2018 amounted to ₱30.19 million.

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1226 Makati City
Philippines

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Water Company, Inc.
MWSS Administration Building, 489 Katipunan Road
Balara, Quezon City

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of Manila Water Company, Inc. (the Company) as of and for the years ended December 31, 2018 and 2017 and have issued our report thereon dated February 26, 2019. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The accompanying schedules of all the effective standards and interpretations under the Philippine Financial Reporting Standards and reconciliation of retained earnings available for dividend declaration as of December 31, 2018 are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic parent company financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic parent company financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332607, January 3, 2019, Makati City

February 26, 2019

MANILA WATER COMPANY, INC.
SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-12	Service Concession Arrangements	✓		
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures	✓		
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

MANILA WATER COMPANY, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2018

Unappropriated retained earnings, beginning	₱8,460,483,333
Adjustments:	
Deferred tax asset recognized	(1,167,318,943)
Accretion of receivable from Bonifacio Water Corporation (BWC)	(120,591,565)
Mark-to-market gain on receivables from BWC	(113,488,598)
Accretion of deferred credits	(42,797,799)
Unappropriated retained earnings, adjusted to available for dividend distribution, beginning	7,016,286,428
Add (Less):	
Net income during the period closed to retained earnings	6,333,092,498
Deferred tax benefit during the period	(223,026,351)
Amortization of deferred credits	(12,535,602)
Total	13,113,816,973
Less:	
Dividend declarations during the period	(2,151,378,328)
Appropriations during the period	(3,746,000,000)
Unappropriated retained earnings available for dividend distribution, ending*	₱7,216,438,645

**As disclosed in Note 18 to the parent company financial statements, excess retained earnings will be utilized for capital expenditures under the approved Business Plan in compliance with the Company's service obligations under the Concession Agreement.*

MANILA WATER
CARE IN EVERY DROP

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Manila Water Company, Inc. (the "Company") and its subsidiaries (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or its subsidiaries, or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

FERNANDO ZOBEL DE AYALA
Chairman of the Board

FERDINAND M. DELA CRUZ
President and Chief Executive Officer

MA. CECILIA T. CRUZABRA
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 26 2019 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Fernando Zobel de Ayala		
Ferdinand M. dela Cruz		
Ma. Cecilia T. Cruzabra		

Doc. No. 33 ;
Page No. 8 ;
Book No. I ;
Series of 2019.

KATRINA MAE P. MAGALLANES
NOTARY PUBLIC
ROLL NO. 64109
MAKATI CITY, PHILIPPINES

KATRINA MAE P. MAGALLANES
Notary Public – Makati City
Appt. No. M-188 until December 31, 2020
Roll of Attorneys No. 64109
IBP No. 059415 – 01/09/19 – Makati City
PTR No. 7341735ME – 01/08/19 – Makati City
MCLE Compliance No. VI – 0009479 – 06/20/2018
3rd Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

MANILA WATER COMPANY, INC.
MWSS Administration Building,
489 Katipunan Road, 1105 Balara,
Quezon City, Philippines
T: (632) 917 5900
W: www.manilawater.com

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 - 1 1 5 9 3

COMPANY NAME

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE (*No. / Street / Barangay / City / Town / Province)*

MWSS ADMINISTRATION BUILDING, 489 KATIPUNAN ROAD, BALARA, QUEZON CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
corporatesecretary@manilawater.com	(632) 917-5900	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
949	04/22	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Cecilia T. Cruzabra	cecile.cruzabra@manilawater.com	(632) 981-8156	N/A

CONTACT PERSON's ADDRESS

2nd Floor, MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Water Company, Inc.
MWSS Administration Building, Katipunan Road
Balara, Quezon City

Opinion

We have audited the consolidated financial statements of Manila Water Company, Inc. (the Parent Company) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition for Manila Concession (East Zone)

The Group's revenue from East Zone accounts for 82% of total consolidated revenue. The recognition process for the East Zone revenue requires processing of data from large number of customers classified as either residential, commercial, semi-business, or industrial within the Parent Company's concession area. The amounts billed to customers consist of a number of components, including basic charge, environmental charge and foreign currency differential adjustment and where applicable, sewer charge. These tariffs depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). This matter is significant to our audit because the revenue recognized depends on the completeness of capture of water consumption based on the meter readings over the concession area taken on various dates; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions. In addition, the Group adopted PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, which involves the application of significant judgment in the assessment of impracticability of retrospective restatement on accounting for connection fees.

Relevant disclosures related to this matter are provided in Notes 1, 2, 3 and 6 to the consolidated financial statements.

Audit response

We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, downloading of data from the billing system and uploading of data to the Parent Company's financial reporting system. We involved our internal specialist in the testing of the related controls over these processes. We performed test calculation of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statement.

For the adoption of PFRS 15, we obtained an understanding of the Group's processes in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis. For connection fees, we obtained an understanding of the process for new water service connections. We obtained sample water and sewer contracts and reviewed whether the accounting policies for connection fees appropriately considered requirements of PFRS 15. We also reviewed the basis of impracticability of retrospective restatement invoked by management against the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and against company and industry practices.

Provision and contingencies

The Group is involved in legal proceedings and assessments for local and national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax and legal matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosure about provisions and contingencies are included in Note 28 to the consolidated financial statements.

Audit response

Our audit procedures include, among others, involvement of our tax specialists in reviewing the status of these assessments, the tax position of the Parent Company's legal counsels on the merits of the arguments against the assessments, previous court decisions, implementing rules and opinions issued by relevant government and regulatory bodies. In addition, we performed an independent calculation of the amount of the provisions and compared this with the outstanding provisions as of year-end.

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Amortization of Service Concession Assets Using the Units-of-production Method

The service concession assets (SCA) of the Group is related to its concession agreements. The Group uses units-of-production (UOP) method in amortizing its SCA based on the actual billed volume over the estimated billable water volume for the remaining period of the concession agreement. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total estimated billable water volume over the remaining periods of the concession agreements. It considers different factors such as population growth, supply and consumption, and service coverage, including ongoing and future expansions.

Refer to Note 3 to the consolidated financial statements for the relevant disclosures related to this matter.

Audit response

We obtained an understanding of management's processes and controls in the estimation of billable water volume. We evaluated the competence, capabilities, and objectivity of management's specialist who estimated the total billable water volume. We also reviewed the report of the management's specialist and gained an understanding of the methodology and the basis of computing the forecasted volumes. Furthermore, we compared the estimated billable water volume for the year against the data generated from the billing system. We recalculated the amortization expense for the year based on the actual billed water volume.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael C. Sabado.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332607, January 3, 2019, Makati City

February 26, 2019

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 21 and 26)	**₱9,390,591,273**	₱9,020,744,089
Receivables (Notes 2, 6, 21 and 26)	**1,955,232,694**	2,043,815,823
Concession financial receivables - current portion (Notes 10, 25, 26 and 27)	**193,706,165**	197,043,608
Contract assets - current portion (Notes 2, 6 and 10)	**398,447,879**	–
Inventories (Note 7)	**205,923,232**	210,749,569
Other current assets (Notes 2 and 8)	**1,304,639,661**	1,286,412,717
Total Current Assets	**13,448,540,904**	12,758,765,806
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 21)	**3,508,214,865**	2,735,314,542
Service concession assets - net (Notes 10, 21 and 22)	**82,529,565,838**	74,150,945,381
Concession financial receivables - net of current portion (Notes 2, 10, 25, 26 and 27)	**853,335,377**	1,187,507,674
Contract assets - net of current portion (Notes 2, 6 and 10)	**492,942,902**	–
Investments in associates (Note 11)	**15,994,949,046**	6,796,037,256
Goodwill (Note 4)	**136,566,475**	132,755,065
Deferred tax assets - net (Note 18)	**1,363,604,153**	1,202,732,462
Other noncurrent assets (Notes 2, 12, 15, 26 and 27)	**4,205,597,344**	4,430,377,797
Total Noncurrent Assets	**109,084,776,000**	90,635,670,177
	₱122,533,316,904	₱103,394,435,983
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13, 21, 22 and 26)	**₱7,309,174,242**	₱5,882,548,281
Short-term debt (Notes 14, 25 and 26)	**8,596,538,853**	–
Current portion of:		
Long-term debt (Notes 14, 21, 25 and 26)	**5,525,372,414**	4,614,057,448
Service concession obligations (Notes 10, 22, 25, 26 and 27)	**809,405,231**	800,961,856
Income tax payable (Note 18)	**467,887,912**	441,002,056
Total Current Liabilities	**22,708,378,652**	11,738,569,641
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 14, 21, 25 and 26)	**37,525,555,157**	35,110,322,008
Service concession obligations (Notes 10, 22, 25, 26 and 27)	**7,119,121,473**	6,646,714,054
Pension liabilities - net (Note 15)	**109,391,800**	41,506,260
Deferred tax liabilities - net (Note 18)	**103,104,628**	111,542,934
Provisions (Note 28)	**569,893,356**	501,099,013
Other noncurrent liabilities (Notes 16, 25, 26 and 27)	**776,778,646**	683,984,650
Total Noncurrent Liabilities	**46,203,845,060**	43,095,168,919
Total Liabilities	**68,912,223,712**	54,833,738,560

(Forward)

	December 31	
	2018	2017
Equity		
Attributable to equity holders of Manila Water Company, Inc.		
Capital stock (Note 19):		
Common stock	**₱2,064,839,617**	₱2,053,666,576
Preferred stock	**400,000,000**	400,000,000
	2,464,839,617	2,453,666,576
Additional paid-in capital	**4,518,048,369**	4,230,508,417
Subscriptions receivable	**(458,453,326)**	(235,693,873)
Total paid-up capital	**6,524,434,660**	6,448,481,120
Common stock options outstanding (Note 19)	**51,742,998**	28,700,622
Retained earnings (Note 19):		
Appropriated	**32,444,000,000**	28,698,000,000
Unappropriated	**12,052,604,642**	11,426,282,242
Remeasurement gain (loss) on defined benefit plans (Note 15)	**(57,483,208)**	3,251,651
Other equity reserves (Notes 1 and 19)	**54,106,905**	54,106,905
Cumulative translation adjustment (Notes 2 and 11)	**1,420,590,161**	895,910,482
	52,489,996,158	47,554,733,022
Noncontrolling interests (Notes 2 and 19)	**1,131,097,034**	1,005,964,401
Total Equity	**53,621,093,192**	48,560,697,423
	₱122,533,316,904	₱103,394,435,983

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE FROM CONTRACTS WITH CUSTOMERS			
Water (Notes 21 and 24):			
East Zone	**₱12,966,630,787**	₱12,123,443,381	₱12,034,756,289
Outside East Zone	**2,264,887,691**	2,145,622,488	1,635,673,199
Environmental charges (Notes 21 and 24)	**2,719,651,143**	2,481,248,409	2,420,227,209
Sewer (Notes 21 and 24):			
East Zone	**246,597,711**	226,593,869	223,006,038
Outside East Zone	**273,802,932**	229,012,345	190,936,818
Other operating income (Notes 17, 21 and 24)	**1,364,722,038**	1,309,851,738	1,207,311,554
	19,836,292,302	18,515,772,230	17,711,911,107
COST OF SERVICES			
Depreciation and amortization (Notes 9 and 10)	**2,208,750,431**	2,206,053,556	2,241,324,647
Power, light and water (Note 21)	**1,319,150,756**	1,183,196,711	970,000,400
Salaries, wages and employee benefits (Notes 15, 19 and 21)	**1,083,008,341**	1,063,651,691	1,315,751,741
Repairs and maintenance	**375,657,094**	379,544,022	375,526,324
Contractual services	**291,298,802**	316,447,411	388,677,337
Management, technical and professional fees (Note 21)	**254,675,568**	285,635,648	155,749,508
Water treatment chemicals	**235,095,937**	107,109,226	81,992,647
Regulatory costs (Note 1)	**215,435,898**	191,815,032	174,320,051
Wastewater costs	**199,369,725**	162,923,138	124,909,208
Amortization of water service connections	**178,663,181**	190,849,340	184,761,974
Collection fees	**138,568,031**	110,573,321	119,708,560
Cost of packaged water (Note 7)	**127,895,192**	111,340,926	69,741,022
Occupancy costs (Notes 23 and 27)	**35,989,179**	43,488,003	55,562,977
Other expenses	**272,638,498**	222,433,481	122,869,574
	6,936,196,633	6,575,061,506	6,380,895,970
GROSS PROFIT	**12,900,095,669**	11,940,710,724	11,331,015,137
OPERATING EXPENSES (Note 17)	**3,795,561,313**	3,342,316,747	2,677,731,651
INCOME BEFORE OTHER INCOME (EXPENSES)	**9,104,534,356**	8,598,393,977	8,653,283,486
OTHER INCOME (EXPENSES)			
Revenue from rehabilitation works (Notes 1, 2, 6 and 10)	**9,661,976,629**	11,672,137,031	6,804,908,377
Cost of rehabilitation works (Notes 1, 2, 6 and 10)	**(9,661,976,629)**	(11,672,137,031)	(6,804,908,377)
Interest expense (Notes 14 and 17)	**(1,783,808,602)**	(1,403,236,110)	(1,429,206,868)
Equity share in net income of associates (Note 11)	**699,142,026**	457,208,214	368,829,594
Interest income (Note 17)	**411,883,015**	345,737,796	257,123,462
Foreign currency differentials (Note 1)	**1,787,217,975**	152,454,045	796,311,013
Foreign exchange losses	**(1,753,929,481)**	(150,895,347)	(761,789,202)
Gain on disposal of property and equipment - net	**18,643,022**	15,999,530	2,173,007
Amortization of deferred credits (Note 16)	**12,535,602**	11,142,247	9,814,745
Other income - net (Notes 4, 9, 11 and 17)	**115,172,172**	55,071,907	36,825,155
	(493,144,271)	(516,517,718)	(719,919,094)
INCOME BEFORE INCOME TAX	**8,611,390,085**	8,081,876,259	7,933,364,392
PROVISION FOR INCOME TAX (Note 18)	**1,976,357,294**	1,941,928,572	1,746,374,542
NET INCOME	**6,635,032,791**	6,139,947,687	6,186,989,850

(Forward)

	Years Ended December 31		
	2018	2017	2016
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Cumulative translation adjustment (Note 11)	**₱524,679,679**	₱108,488,162	₱288,592,221
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain (loss) on pension liabilities - net (Note 15)	**(55,044,900)**	(57,131,400)	187,090,600
Income tax effect (Note 18)	**(4,159,906)**	815,960	(1,193,263)
	(59,204,806)	(56,315,440)	185,897,337
TOTAL COMPREHENSIVE INCOME	**₱7,100,507,664**	₱6,192,120,409	₱6,661,479,408
Net income (loss) attributable to:			
Equity holders of Manila Water Company, Inc.	**₱6,523,700,728**	₱6,146,608,317	₱6,065,220,845
Noncontrolling interests (Note 1)	**111,332,063**	(6,660,630)	121,769,005
	₱6,635,032,791	₱6,139,947,687	₱6,186,989,850
Total comprehensive income attributable to:			
Equity holders of Manila Water Company, Inc.	**₱6,987,645,548**	₱6,197,535,437	₱6,538,209,743
Noncontrolling interests (Note 1)	**112,862,116**	(5,415,028)	123,269,665
	₱7,100,507,664	₱6,192,120,409	₱6,661,479,408
Earnings per Share (Note 20)			
Net income attributable to common equity holders of Manila Water Company, Inc.:			
Basic	**₱2.64**	₱2.49	₱2.45
Diluted	**₱2.64**	₱2.49	₱2.44

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2018	2017	2016
ATTRIBUTABLE TO EQUITY HOLDERS OF MANILA WATER COMPANY, INC.			
CAPITAL STOCK (Note 19)			
Common stock - ₱1 par value			
Authorized - 3,100,000,000 shares			
Issued and outstanding - 2,030,732,360 in 2018, 2,026,067,122 in 2017 and 2,024,934,090 in 2016	**₱2,030,732,360**	₱2,026,067,122	₱2,024,934,090
Subscribed common stock - 34,107,257 in 2018, 27,599,454 shares in 2017 and 28,732,486 shares in 2016			
Balance at beginning of year	**27,599,454**	28,732,486	35,457,053
Additions	**10,893,733**	–	–
Issuance of shares	**(4,385,930)**	(1,133,032)	(6,724,567)
Balance at end of year	**34,107,257**	27,599,454	28,732,486
	2,064,839,617	2,053,666,576	2,053,666,576
Preferred stock - ₱0.10 par value, 10% cumulative, voting participating, nonredeemable and nonconvertible			
Authorized, issued, and outstanding - 4,000,000,000 shares	**400,000,000**	400,000,000	400,000,000
	2,464,839,617	2,453,666,576	2,453,666,576
ADDITIONAL PAID-IN CAPITAL (Note 19)			
Balance at beginning of year	**4,230,508,417**	4,221,712,962	4,193,022,955
Additions	**287,539,952**	8,795,455	28,690,007
Balance at end of year	**4,518,048,369**	4,230,508,417	4,221,712,962
SUBSCRIPTIONS RECEIVABLE (Note 19)			
Balance at beginning of year	**(235,693,873)**	(319,227,328)	(346,017,395)
Additions	**(297,787,156)**	–	–
Collections	**75,027,703**	83,533,455	26,790,067
Balance at end of year	**(458,453,326)**	(235,693,873)	(319,227,328)
COMMON STOCK OPTIONS OUTSTANDING (Note 19)			
Balance at beginning of year	**28,700,622**	25,325,260	20,818,325
Cost of share-based payment	**23,968,213**	12,170,817	33,196,942
Exercised	**(925,837)**	(8,795,455)	(28,690,007)
Balance at end of year	**51,742,998**	28,700,622	25,325,260
RETAINED EARNINGS (Note 19)			
Appropriated:			
Balance at beginning of year	**28,698,000,000**	21,100,000,000	–
Appropriations	**3,746,000,000**	7,598,000,000	21,100,000,000
Balance at end of year	**32,444,000,000**	28,698,000,000	21,100,000,000
Unappropriated:			
Balance at beginning of year	**11,426,282,242**	15,000,583,191	32,120,480,845
Net income	**6,523,700,728**	6,146,608,317	6,065,220,845
Appropriations	**(3,746,000,000)**	(7,598,000,000)	(21,100,000,000)
Dividends declared	**(2,151,378,328)**	(2,122,909,266)	(2,085,118,499)
Balance at end of year	**12,052,604,642**	11,426,282,242	15,000,583,191
	44,496,604,642	40,124,282,242	36,100,583,191
REMEASUREMENT GAIN (LOSS) ON DEFINED BENEFIT PLANS (Note 15)			
Balance at beginning of year	**3,251,651**	60,812,693	(123,583,985)
Actuarial gain (loss) on pension liabilities - net	**(64,239,028)**	(58,467,800)	187,090,600
Income tax effect	**3,504,169**	906,758	(2,693,922)
Balance at end of year	**(57,483,208)**	3,251,651	60,812,693

(Forward)

	Years Ended December 31		
	2018	2017	2016
OTHER EQUITY RESERVES (Notes 1 and 19)			
Balance at beginning of year	**₱54,106,905**	₱54,106,905	₱7,500,000
Gain on dilution of noncontrolling interest	**–**	–	46,606,905
Balance at end of year	**54,106,905**	54,106,905	54,106,905
CUMULATIVE TRANSLATION ADJUSTMENT (Notes 2 and 11)			
Balance at beginning of year	**895,910,482**	787,422,320	498,830,099
Other comprehensive income	**524,679,679**	108,488,162	288,592,221
Balance at end of year	**1,420,590,161**	895,910,482	787,422,320
NONCONTROLLING INTERESTS (Notes 1, 2 and 19)			
Balance at beginning of year	**1,005,964,401**	997,284,976	894,274,986
Additions	**12,270,517**	14,094,453	26,347,230
Remeasurement gain on defined benefit plans - net of income tax effect	**1,530,053**	1,245,602	1,500,660
Share in net income (loss)	**111,332,063**	(6,660,630)	121,769,005
Loss on dilution of noncontrolling interests (Note 19)	**–**	–	(46,606,905)
Balance at end of year	**1,131,097,034**	1,005,964,401	997,284,976
	₱53,621,093,192	₱48,560,697,423	₱44,381,687,555

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,611,390,085**	₱8,081,876,259	₱7,933,364,392
Adjustments for:			
Depreciation and amortization (Notes 9 and 10)	**2,655,669,800**	2,556,998,878	2,866,043,020
Interest expense (Notes 14 and 17)	**1,783,808,602**	1,403,236,110	1,429,206,868
Equity share in net income of associates (Note 11)	**(699,142,026)**	(457,208,214)	(368,829,594)
Interest income (Note 17)	**(411,883,015)**	(345,737,796)	(257,123,462)
Impairment losses (Notes 9 and 11)	**136,835,943**	–	–
Gain on bargain purchase (Note 4)	**(43,753,620)**	(54,907,714)	–
Pension expense, contribution and benefit payment - net (Note 15)	**29,257,110**	59,730,460	(5,476,801)
Gain on disposal of property and equipment - net	**(18,643,022)**	(15,999,530)	(2,173,007)
Share-based payments (Note 19)	**23,968,213**	12,170,817	33,196,942
Amortization of deferred credits (Note 16)	**(12,535,602)**	(11,142,247)	(9,814,745)
Operating income before changes in operating assets and liabilities	**12,054,972,468**	11,229,017,023	11,618,393,613
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(99,349,092)**	332,923,442	(507,924,210)
Contract assets	**(377,538,722)**	–	–
Inventories	**4,826,337**	(44,179,799)	10,457,502
Service concession assets	**(7,127,729,094)**	(10,692,179,117)	(7,031,012,111)
Concession financial receivable	**197,043,608**	2,357,501	143,659,168
Other current assets	**(197,212,618)**	181,652,388	(406,814,739)
Increase (decrease) in accounts and other payables	**786,531,476**	915,374,397	(547,863,167)
Net cash provided by operations	**5,241,544,363**	1,924,965,835	3,278,896,056
Income tax paid	**(1,943,955,666)**	(2,082,541,702)	(1,893,893,734)
Net cash provided by (used in) operating activities	**3,297,588,697**	(157,575,867)	1,385,002,322
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investments in associates (Notes 1 and 11)	**(8,871,042,180)**	(229,156,421)	–
Property, plant and equipment (Note 9)	**(1,353,557,438)**	(1,299,299,740)	(943,753,491)
Dividends received from associates (Note 11)	**413,819,111**	185,044,328	159,595,839
Interest received	**275,902,629**	150,589,335	109,917,563
Consideration paid for business combination (Note 4)	**(45,133,895)**	(74,244,286)	–
Proceeds from sale of property and equipment	**21,160,944**	3,183,205	3,827,265
Decrease (increase) in other noncurrent assets (Note 12)	**699,841,343**	(1,107,195,937)	(259,899,841)
Net cash used in investing activities	**(8,859,009,486)**	(2,371,079,516)	(930,312,665)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the availments of (Note 14):			
Short-term debt	**8,864,235,143**	–	–
Long-term debt	**6,843,198,491**	15,428,965,322	7,565,619,992
Payments of:			
Long-term debt (Note 14):	**(5,208,266,498)**	(3,579,761,563)	(6,805,626,705)
Service concession obligation (Note 10)	**(955,119,919)**	(778,818,684)	(1,049,272,956)
Dividends (Note 19)	**(2,151,378,328)**	(2,122,909,266)	(2,085,118,499)
Interest	**(1,641,493,122)**	(1,557,039,464)	(1,117,317,490)
Collection of subscriptions receivable (Note 19)	**75,027,703**	83,533,455	26,790,067
Increase (decrease) in other noncurrent liabilities	**92,793,986**	(4,364,903)	199,633,147
Additions to noncontrolling interest (Note 1)	**12,270,517**	14,094,453	26,347,230
Net cash provided by (used in) financing activities	**5,931,267,973**	7,483,699,350	(3,238,945,214)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**369,847,184**	4,955,043,967	(2,784,255,557)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,020,744,089**	4,065,700,122	6,849,955,679
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱9,390,591,273**	₱9,020,744,089	₱4,065,700,122

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Manila Water Company, Inc. (the Parent Company) was incorporated on January 6, 1997 with remaining corporate life of twenty-nine (29) years. The Parent Company started commercial operations on January 1, 2000. It became a publicly listed company via an initial public offering on March 18, 2005. As of December 31, 2018, the Parent Company is 41.99% owned by Ayala Corporation (Ayala). Ayala is a publicly listed company which is 47.04% owned by Mermac, Inc. and the rest by the public. The Parent Company and its subsidiaries (collectively referred to as the Group) are incorporated to provide water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management services.

Parent Company Amendment of Articles of Incorporation
On March 1, 2018, the Board of Directors (BOD) approved the following:

a. amendment of the Parent Company's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Parent Company.

On April 16, 2018, the stockholders of the Parent Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 300.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings,
(i) for properties or assets needed for the business of the Parent Company, or (ii) for cash to acquire properties or assets needed for the business of the Parent Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The Parent Company's principal place of business is at the MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Country of Incorporation and Place of Business	Effective Percentages of Ownership	
		2018	2017
Manila Water Total Solutions Corp. (MWTS)	Philippines	**100.0**	100.0
Calasiao Water Company, Inc. (Calasiao Water)	-do-	**90.0**	90.0
Manila Water Asia Pacific Pte. Ltd. (MWAP)	Singapore	**100.0**	100.0
Manila Water South Asia Holdings Pte. Ltd. (MWSAH)	-do-	**100.0**	100.0
Asia Water Network Solutions Joint Stock Company (Asia Water)[1]	Vietnam	**67.9**	67.9
Thu Duc Water Holdings Pte. Ltd. (TDWH)	Singapore	**100.0**	100.0
Kenh Dong Water Holdings Pte. Ltd. (KDWH)	-do-	**100.0**	100.0
Manila Water Thailand Holdings Pte. Ltd. (MWTH)[2]	-do-	**100.0**	100.0
Manila Water (Thailand) Co., Ltd. (MWTC)[3]	Thailand	**100.0**	–
Manila South East Asia Water Holdings Pte. Ltd. (MSEA)[4]	Singapore	**100.0**	100.0
PT Manila Water Indonesia (PTMWI)[5]	Indonesia	**100.0**	–
Manila Water Philippine Ventures, Inc. (MWPVI)	Philippines	**100.0**	100.0
Laguna AAAWater Corporation (Laguna Water)	-do-	**70.0**	70.0
Clark Water Corporation (Clark Water)	-do-	**100.0**	100.0
Boracay Island Water Company, Inc. (Boracay Water)	-do-	**80.0**	80.0
Filipinas Water Holdings Corp. (Filipinas Water)[6]	-do-	**100.0**	100.0
Obando Water Company, Inc. (Obando Water)	-do-	**90.0**	90.0
Bulakan Water Company, Inc. (Bulakan Water)	-do-	**90.0**	–
Manila Water Consortium, Inc. (MW Consortium)	-do-	**57.2**	57.2

	Country of Incorporation and Place of Business	Effective Percentages of Ownership	
		2018	2017
Cebu Manila Water Development, Inc. (Cebu Water)[7]	Philippines	**40.4**	40.4
Davao del Norte Water Infrastructure Company, Inc. (Davao Water)	-do-	**51.0**	51.0
Tagum Water Company, Inc. (Tagum Water)[8]	-do-	**45.9**	45.9
Bulacan MWPV Development Corp. (BMDC)	-do-	**100.0**	100.0
Aqua Centro MWPV Corp. (Aqua Centro)	-do-	**100.0**	100.0
Manila Water International Solutions, Inc. (MWIS)	-do-	**100.0**	100.0
EcoWater MWPV Corp. (EcoWater)	-do-	**100.0**	–
Leyte Water Company, Inc. (Leyte Water)	-do-	**100.0**	–
Zamboanga Water Company, Inc. (Zamboanga Water)	-do-	**70.0**	70.0

[1]Asia Water is 51.00% owned by Saigon Water Infrastructure Corporation (Saigon Water) and 48.50% owned by MWSAH. MWSAH's effective ownership interest in Asia Water is 67.87% as of December 31, 2018 and December 31, 2017 by virtue of its 37.99% ownership interest in Saigon Water.
[2]Previously named Manila Water Indonesia Holdings Pte. Ltd.
[3]MWTC was incorporated on February 20, 2018 and is 100% owned by MWTH.
[4]Previously named North-West of Saigon Holdings Pte. Ltd.
[5]PTMWI is incorporated on February 1, 2018 and is 95.00% owned by MSEA and 5.00% owned by a director of PTMWI whose ownership has been pledged to MSEA.
[6]Previously named Obando Water Consortium Holdings Corp. Filipinas Water is 49.00% owned by the Parent Company and 51.00% owned by MWPVI.
[7]Cebu Water is 70.58% owned by MW Consortium. MWPVI's effective ownership interest in Cebu Water is 40.39% by virtue of its 57.22% ownership interest in MW Consortium.
[8]Tagum Water Company is 90.00% owned by the Davao Water. MWCI's effective interest in Tagum Water is 45.90% by virtue of its 51.00% ownership interest in Davao Water.

Unless otherwise indicated, the Philippines is the principal place of business and country of incorporation of the Group's investments in subsidiaries.

Investments in MWIS, Davao Water, and Zamboanga Water
On October 3, 2017, the BOD approved the sale of the Parent Company's shareholdings in MWIS to MWPVI. On December 26, 2017, the Parent Company executed a Deed of Absolute Sale of Shares and Receivables to MWPVI for the transfer of 2,500,000 common shares of MWIS and receivables from MWIS.

On May 23, 2018, the Parent Company sold to MWPVI its 765,000 common shares of Davao Water comprising approximately 51% of Davao Water's outstanding capital stock in consideration for ₱75.58 million.

On July 2, 2018, the Parent Company sold to MWPVI its 245,000 common shares of Zamboanga Water comprising approximately 70% of Zamboanga Water's outstanding capital stock in consideration for ₱35.81 million.

Parent Company's Concession Agreement with Metropolitan Waterworks and Sewerage System (MWSS)
On February 21, 1997, the Parent Company entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of the Parent Company throughout a twenty five (25)-year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires – the Parent Company and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants the Parent Company (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of twenty five (25) years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While the Parent Company has the right to manage, operate, repair, and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by the Parent Company during the Concession remains with the Parent Company until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, the Parent Company officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in the Parent Company's project plans, operational commercial capacity has been obtained upon substantial completion of the rehabilitation work.

Under the Concession Agreement, the Parent Company is entitled to the following rate adjustments:

a. annual standard rate adjustment to compensate for increases in the Consumer Price Index (CPI);
b. extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. foreign currency differential adjustment (FCDA) to recover foreign exchange losses, including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001 (see Notes 2, 10 and 14); and
d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
    i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four (4) Charging Years shall be zero; and
    ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by the Parent Company for water and sewerage services as follows:

a. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by the Parent Company (subject to interim adjustments) are set out in the Concession Agreement; and,
b. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit the Parent Company to recover, over the twenty five (25)-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and the Parent Company's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees (MWSS BOT) passed Resolution No. 2009-072 approving the fifteen (15)-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the Office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for the Parent Company's investment has been extended by another fifteen (15) years from 2022 to 2037.

In March 2012, the Parent Company submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. MWSS conducted a review of the proposal including the Parent Company's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on the Parent Company's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in five (5) equal tranches of negative 5.894% per charging year. The Parent Company objected to MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS BOT, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for the Parent Company's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, the Parent Company received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
d. exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with the Parent Company's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved the Parent Company's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, the Parent Company shall stagger its implementation over a five-year period. The first tranche took effect on October 16, 2018.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved the Parent Company's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments are recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-12-CA) and shall take effect on January 1, 2019.

Arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Rules (1976)
On April 23, 2015, the Parent Company served to the Republic of the Philippines (the "Republic"), through the DOF, its Notice of Claim demanding that the Republic indemnify the Parent Company in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009. At present, the arbitration case remains pending.

FCDA
The MWSS BOT approves the FCDA quarterly. The FCDA has no impact on the net income of the Parent Company, as the same is a recovery or refund mechanism of foreign exchange losses or gains. The following FCDA adjustments and their related foreign exchange basis took effect in 2016 to 2018.

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
March 10, 2016	April 1, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	July 1, 2016	₱0.25 per cubic meter	USD1: ₱46.29 / JPY1: ₱0.42
April 5, 2017	April 22, 2017	₱0.69 per cubic meter	USD1: ₱49.74 / JPY1: ₱0.37
July 27, 2017	August 13, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.64 / JPY1: ₱0.45
December 13, 2017	January 1, 2018	₱0.63 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45
March 13, 2018	April 1, 2018	₱0.59 per cubic meter	USD1: ₱50.51 / JPY1: ₱0.46
June 14, 2018	July 1, 2018	₱1.58 per cubic meter	USD1: ₱52.10 / JPY1: ₱0.48
September 14, 2018	October 1, 2018	₱1.56 per cubic meter	USD1: ₱53.43 / JPY1: ₱0.48
December 14, 2018	January 1, 2019	₱0.75 per cubic meter	USD1: ₱53.94 / JPY1: ₱0.48

There were no FCDA adjustments for the third and fourth quarters of 2016 and for the first quarter of 2017 due to the vacancies in the MWSS BOT, resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including the FCDA.

Laguna Water's Concession Agreement with the Provincial Government of Laguna (PGL)
On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, and June 30, 2015) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, PGL grants Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of twenty-five (25) years which commenced on October 20, 2004.

While Laguna Water has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by Laguna Water in the performance of its obligations under the agreement remains with Laguna Water and shall not pass to PGL until the end of the concession period at which time, Laguna Water will transfer, or if the ownership is vested in another person, cause the transfer to PGL. Laguna Water has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services (see Note 10).

Seventy percent (70%) of the concession fees are applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30%) of the concession fees are payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, from the start of the operational period.

On June 30, 2015, Laguna Water and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

In connection with the amendment to the concession agreement, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan. The provision of services by Laguna Water in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020.

Furthermore, the concession period's commencement date was amended to mean the later of either: (i) three (3) years from the takeover date (i.e., October 20, 2004); or (ii) availment by at least 25,000 customers of the services (i.e., September 30, 2010). The concession period is deemed to have commenced on September 30, 2010 and shall end on September 30, 2035.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna, has approved the inclusion of its municipality within the service area of Laguna Water.

On May 3, 2018, the concession agreement was amended to include the approval of Environmental Charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

Laguna Water implemented a tariff adjustment of 10% on December 1, 2018.

Boracay Water's Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority (TIEZA)
On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of Boracay Water as concessionaire throughout a twenty five (25)-year concession period. TIEZA Regulatory Office (TIEZA-RO) will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants Boracay Water the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island for a period of twenty five (25) years commencing on January 1, 2010 until December 31, 2035, or the early termination date as the case may be. The legal title to all fixed assets contributed to the existing TIEZA system by Boracay Water during the concession remains with Boracay Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

On January 1, 2010, Boracay Water officially took over the operations of the service area. Rehabilitation works for the service area commenced immediately thereafter. As provided in Boracay Water's project plans, operational commercial capacity will be attained upon completion of the rehabilitation works.

Under its concession agreement, Boracay Water is entitled to the following rate adjustments:

a. annual standard rate adjustment to compensate for increases in the consumer CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments (see Notes 2, 10 and 14).

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in Boracay Water's concession agreement.

The rate rebasing date is set every five (5) years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

In January 2016, Boracay Water implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was continuously implemented throughout the year.

On June 7, 2017, TIEZA approved the new water rates of Boracay Water, which is equivalent to an increase of 52.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99%, and 10.70% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017.

On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase of 15.53% effective January 1, 2018.

On August 1, 2018, TIEZA-RO approved the suspension of the 14.34% downward adjustment, which resulted to the implementation of 0.00% FCDA effective August 17, 2018.

On December 4, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase equivalent to 18.08% of the basic water and sewer charge, inclusive of CPI, arising from its 2017 rate rebasing. Furthermore, a 3.00% increase shall be applied to the basic water and sewer charge to account for FCDA. The new rates shall take effect on January 1, 2019.

Boracay Water's concession agreement also provides a general rate setting policy for rates chargeable by Boracay Water for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2017), the maximum rates chargeable by Boracay Water (subject to interim adjustments) are set out in the concession agreement; and,
b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit Boracay Water to recover, over the twenty five (25)-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five (5)-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also, as part of the concession agreement, Boracay Water assumed certain property and equipment of Boracay Water Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, Boracay Water recognized a total of ₱986.86 million service concession assets on commencement date. It includes the JICA loan assumed by Boracay Water, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees (see Note 10).

Clark Water's Concession Agreement with Clark Development Corporation (CDC)
On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling twenty-five (25) years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to Clark Water by virtue of an assignment and assumption agreement between VWPI and Clark Water. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, Clark Water pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by Clark Water on the facilities as well as title to new facilities procured by Clark Water in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, where in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of Clark Water the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of Clark Water and CDC under the concession agreement. Under the lease agreement, Clark Water was required to make a rental deposit amounting to ₱2.77 million equivalent to six (6) months lease rental and a performance security amounting to ₱6.72 million to ensure the faithful compliance of Clark Water with the terms and conditions of the lease agreement. Clark Water pays semi-annual rental fees of ₱2.77 million amounting to a total of ₱138.28 million for the entire concession period. The lease term shall be co-terminus with the concession period, unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, Clark Water and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The amendment provides for the following:

a. extension of the original concession period for another fifteen (15) years up to October 1, 2040;
b. additional investment of ₱4.00 billion over the remaining life of the extended concession period, provided under the amended concession agreement, to be spent for further improvement and expansion of water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Initial investment prior to the amendment of the concession agreement amounted to ₱1.00 billion.
c. introduction of a rate rebasing mechanism for every four (4) years starting 2014.
d. reduction in tariff rates by 3.9% (from ₱25.63/m^3 to ₱24.63/m^3) effective September 1, 2014, subject to the EPA; and
e. increase in tariff rates by:
    i. ₱0.41/m3 (from 24.63/m^3 to ₱25.04/m^3) in 2018;
    ii. ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019;
    iii. ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020; and
    iv. ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/m^3) in 2021.

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the Clark Water's investment was extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in the concession agreement. As of December 31, 2018, the rate rebasing is still ongoing.

MW Consortium Agreement with the Provincial Government of Cebu (PGC)
On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51.00% and 49.00% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is thirty (30) years starting March 2012 and renewable for another twenty five (25) years. MW Consortium and the PGC incorporated Cebu Water, with an ownership of 51.00% and 49.00%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). On December 18, 2013, Cebu Water and MCWD signed a twenty (20)-year Bulk Water Supply Contract for the supply of 18 million liters per day of water for the first year and 35.0 million liters per day of water for years two (2) up to twenty (20). Cebu Water delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. Cebu Water increased its bulk water delivery to 35.0 million liters per day in 2016.

JVA for Non-revenue Water (NRW) Reduction Activities with Zamboanga City Water District (ZCWD)
On December 19, 2014, the Parent Company received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga. On January 30, 2015, the Parent Company and ZCWD signed and executed a JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, the Parent Company and ZCWD incorporated Zamboanga Water to implement the NRW project.

On June 2, 2015, Zamboanga Water entered into a NRW Service Agreement (NRWSA) with ZCWD. Under the NRWSA, ZCWD grants Zamboanga Water the right to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system.

Bulk Water Supply Agreements between Davao Water and Tagum Water District (TWD)
On July 28, 2015, TWD awarded the Tagum City Bulk Water Supply Project (the "Tagum Bulk Water Project") to Davao Water, a consortium of the Parent Company and iWater, Inc.

On October 15, 2015, Davao Water has signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, Tagum Water, which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date as defined in the JVA.

The consortium of Davao Water owns 90.00%, while TWD owns 10.00% of Tagum Water's outstanding capital stock. Tagum Water was registered with the SEC on December 15, 2015 and its primary purpose is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TWD.

On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the Operations Start Date.

MWPVI's Memorandum of Agreement (MOA) with Ayala Land Inc. (ALI)
On January 15, 2016, MWPVI entered into a MOA with ALI and its subsidiaries (collectively, the ALI Group), whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

Aqua Centro's MOA with the SM Group
On December 8, 2016, MWPVI entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On October 5, 2017, Aqua Centro was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

On December 28, 2017, MWPVI entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPVI has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

Calasiao Water's Concession Agreement with Calasiao Water District (CWD)
On December 9, 2016, the Parent Company received a Notice of Award from CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of CWD in Calasiao, Pangasinan.

On June 19, 2017, the Parent Company signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, the Parent Company and CWD shall cause the incorporation of a joint venture company where the Parent Company and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty five (25) years commencing on December 29, 2017 (the Commencement Date) until December 29, 2042 (the Expiration Date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the Expiration Date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by the CWD.

The ground for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

MWPVI Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) and Incorporation of BMDC
On January 4, 2017, MWPVI entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, BMDC was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPVI, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC (see Note 4).

Obando Water's Concession Agreement with Obando Water District (OWD)
On January 24, 2017, the consortium of the Parent Company and MWPVI received the Notice of Award from OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium Holdings Corp. (now Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between the Parent Company and MWPVI with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Filipinas Water is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement without the necessity for another bidding and subject to mutual agreement by Obando Water and the OWD. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty five (25) years commencing on January 1, 2018 (the Commencement Date) until January 1, 2043 (the Expiration Date) or the early termination date, as the case may be.

The initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreeement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed;
d. change in assumptions at the time of the execution of the concession agreement; or
e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

BMDC APA with Solar Resources, Inc. (Solar Resources)
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC (see Note 4).

BMDC APA with Borland Development Corporation (Borland)
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan (see Note 4).

Notice of Award from Leyte Metropolitan Water District (LMWD)
On December 6, 2017, the Parent Company received the Notice of Award from LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

MWPVI JVA with Tubig Pilipinas Group, Inc. (TPGI)
On December 11, 2017, the Municipality of Malasiqui granted a franchise to MWPVI and TPGI for the implementation of a joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On February 20, 2018, the board of directors of MWPVI approved the creation of a SPV for this project.

On November 16, 2018, MWPVI has signed and executed a JVA with TPGI. Under the agreement, MWPVI and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

MWPVI Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI signed a twenty five (25) year lease agreement with PEZA. Pursuant to the agreement, MWPVI will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone for the provision of water and used water services to the locators therein. MWPVI shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.0 million liters per day.

Notice of Award from Ilagan City Water District (ICWD) and JVA with ICWD
On January 26, 2018, the Parent Company and MWPVI (collectively the "Consortium") received the Notice of Award from ICWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the "Ilagan Project").

On November 16, 2018, the Consortium signed and executed a JVA with the ICWD. Under the JVA, the Consortium and ICWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project.

Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with ICWD for the implementation of the Ilagan Project for twenty five (25) years from the commencement date.

Share Purchase Agreement (SPA) with Electricity Generating Public Company Limited (EGCO)
On February 19, 2018, the Parent Company signed a SPA with EGCO to acquire EGCO's 18.72% equity in Eastern Water Resources Development and Management Public Company Limited (East Water). East Water is a publicly listed company whose shares are traded in the Stock Exchange of Thailand. It is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.30 billion to finance MWTC's acquisition of shares in East Water (see Note 14).

On March 14, 2018, MWTC acquired 311,443,190 ordinary shares in East Water representing 18.72% equity of East Water (see Note 11).

SPA with PT. Triguna Rapindo Mandiri
On March 6, 2018, PTMWI signed a SPA with PT. Triguna Rapindo Mandiri to acquire 4,478 shares of PT. Sarana Tirta Ungaran (PT STU) which allowed PTMWI to own twenty percent (20%) of the outstanding capital stock of PT STU (see Note 11).

PT STU is a bulk water supply company servicing PDAM Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.5 million liters per day.

Notice of Award from Balagtas Water District (BWD)
On April 25, 2018, the Parent Company and MWPVI (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Bulacan Water District (BuWD) and JVA with BuWD
On April 30, 2018, the Parent Company and MWPVI (collectively the "Consortium") received the Notice of Award from BuWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BuWD in the Municipality of Bulacan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10% ownership, respectively, which shall be granted a concession by BuWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the BuWD in the municipality of Bulacan. On October 16, 2018, the joint venture company was incorporated and was registered with the SEC under the name of Bulakan Water Company, Inc.

Notice to Proceed from the Municipality of Sta. Barbara, Pangasinan
On June 14, 2018, MWPVI received a Notice to Proceed from the municipality of Sta. Barbara, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPVI for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Pagsanjan Water District (PAGWAD)
On July 12, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD's service area.

Incorporation of EcoWater
On July 27, 2018, MWPVI incorporated EcoWater MWPV Corp. which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ) (see Note 20). Out of 75 million subscribed shares, 25 million shares at ₱1.00 par value or ₱25 million was initially paid by the Company for the 100% equity interest.

Notice of Award from Tanauan Water District
On October 12, 2018, MWPVI received the Notice of Award from Tanauan Water District for the implementation of the joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of Tanauan Water District, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in Tanauan Water District's service area.

Notice to Proceed from the Municipality of San Fabian, Pangasinan
On October 15, 2018, MWPVI received a Notice to Proceed from the municipality of San Fabian, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPVI to establish, construct, operate, manage, repair, and maintain water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Lambunao Water District
On November 27, 2018, the Parent Company received a Notice of Award from Lambunao Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Lambunao Water District in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, Manila Water and Lambunao Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calinog Water District
On November 27, 2018, the Parent Company received a Notice of Award from Calinog Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Calinog Water District in the Municipality of Calinog, Iloilo.

Upon completion of conditions precedent specified in the notice, the Parent Company and Calinog Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

On December 11, 2018, Laguna Water entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

Notice of Award from San Jose City Water District
On December 21, 2018, the consortium of MWPVI and TPGI received a Notice of Award from San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the notice of award, the consortium partners and the water district would enter into a JVA that will grant them as contractor to perform certain functions and as agent for the exercise of its right and powers, the sole right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities in the service area, including the right to bill and collect tariff for water and sanitation services supplied in the service area of SJCWD.

Notice of Award from Calbayog City Water District
On December 27, 2018, the Parent Company received the Notice of Award from Calbayog City Water District for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of Calbayog City Water District in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the Calbayog City Water District in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, the Parent Company shall enter into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a twenty five (25) year contract period.

Approval for the Issuance of the Consolidated Financial Statements
The BOD approved and authorized the issuance of the consolidated financial statements on February 26, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis. The Parent Company's presentation and functional currency is the Philippine Peso (₱, Peso, or PHP). Amounts are rounded off to the nearest Peso, except otherwise stated. The consolidated financial statements of the Group provide comparative information in respect of the previous periods.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements; and
c. the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
b. derecognizes the carrying amount of any noncontrolling interests;
c. derecognizes the cumulative translation differences recorded in equity;
d. recognizes the fair value of the consideration received;
e. recognizes the fair value of any investment retained;
f. recognizes any surplus or deficit in profit or loss; and
g. reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years, except for the PFRS, amended PFRS and improvements to PFRS which were adopted as of January 1, 2018. Unless otherwise stated, the new standards and amendments did not have any material impact to the Group.

a. Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

   The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

   The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and has not made any modification to the terms and conditions of its share-based payment transactions. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

b. PFRS 9, *Financial Instruments*

   PFRS 9, *Financial Instruments*, replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment and hedge accounting.

   The Group adopted PFRS 9 prospectively, with an initial application date as of January 1, 2018. The Group has not restated comparative information for the year ended December 31, 2017, which was reported under PAS 39. The adoption of PFRS 9 did not result to differences requiring adjustment to the Group's opening retained earnings.

   i. Classification and measurement

      Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through OCI (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

      The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

      The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. All financial assets held at amortized costs under PAS 39 continues to be measured at amortized costs and are classified and measured as debt instruments at amortized cost beginning January 1, 2018. Also, the adoption of PFRS 9 did not have a material impact on the Group's other comprehensive income and its operating, investing, and financing cash flows.

      In summary, upon the adoption of PFRS 9, the Group had the following required or elected reclassifications for financial assets:

	At January 1, 2018	
	PAS 39 Carrying Value	PFRS 9 At Amortized Cost
PAS 39 measurement category:		
Loans and receivables		
Cash and cash equivalents	₱9,020,744,089	₱9,020,744,089
Receivables	1,848,352,530	1,848,352,530
Concession financial receivable	1,177,597,647	1,177,597,647

The Group has not designated any financial assets or liabilities as at FVPL. The adoption has no impact on the classification and measurement of the Group's financial liabilities.

ii. Impairment

The adoption of PFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets. The Group has applied the simplified approach and recorded lifetime ECLs on all trade receivables. Adoption of ECL approach under PFRS 9 did not result to changes in the impairment loss allowance to the Group's financial assets as of January 1, 2018.

iii. Hedge accounting

Under PAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under PFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change is not applicable to the Group because it does not have cash flow hedging arrangements.

c. Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance nor does the Group issue insurance contracts.

d. PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with January 1, 2018 as the date of initial application. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

Before the adoption of PFRS 15, the Group has been recognizing revenue from connection fee when the customer is connected to the Group's water or sewer network. Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. Accordingly, connection fees previously recognized for all active water service connections will have to be recognized over time. Management invoked the impracticability of retrospective restatement under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and has accounted for the change in accounting for connection fees prospectively starting on the date of initial application as allowed under PAS 8 (see Note 3).

The adoption of PFRS 15 did not result to differences requiring adjustment to the Group's opening retained earnings. The comparative information was not restated and continues to be reported under PAS 11, PAS 18, and related Interpretations.

The effect of adopting PFRS 15 in the consolidated statements of financial position as at January 1, 2018 is as follows:

	Reference	Increase (Decrease)
Assets:		
Receivables	(a)	(₱195,463,293)
Contract assets - current portion	(a)	195,463,293
Total current assets		–
Contract assets - net of current portion	(a), (b)	258,970,410
Concession financial receivable - net of current portion	(b)	(206,953,634)
Other noncurrent assets	(a)	(52,016,776)
Total noncurrent assets		–
Total assets		₱–

The adoption of PFRS 15 did not have a material impact on total liabilities, total comprehensive income, and the Group's operating, investing, and financing cash flows.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated statement of financial position as at December 31, 2018 are described below:

a. Accrued receivable for supervision fees and for performance fees – before the adoption of PFRS 15, the Group recognized receivables even if the receipt of the total consideration was conditional on the final acceptance and milestone completion of the related services. Under PFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than a receivable. Therefore, upon the adoption of PFRS 15, the Group reclassified ₱244.31 million (inclusive of the noncurrent portion amounting to ₱52.02 million) from "Receivables" to "Contract assets" as at January 1, 2018.

b. Concession financial receivables – before the adoption of PFRS 15, the Group recognized revenue from rehabilitation works and finance income earned during the construction phase as concession financial receivable. Under PFRS 15, during the construction phase, any amount earned is classified as a contract asset. Contract assets are derecognized when construction is completed, and the consideration to be received is recognized as concession financial receivable. Therefore, upon the adoption of PFRS 15, the Group reclassified ₱206.95 million from "Concession financial receivables" to "Contract assets" as at January 1, 2018.

There were no adjustments made to the consolidated statement of comprehensive income for the year ended December 31, 2018.

e. Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments is not applicable to the Group as the Group does not include an entity that is considered as a venture capital organization or other qualifying entity under the amendments.

f. Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments are not applicable to the Group as the Group does not have assets classified as investment property.

g. Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Retrospective application of this interpretation is not required .

The interpretation did not have any significant impact on the Group's consolidated financial statements.

h. Philippine Interpretation Committee (PIC) Question and Answer (Q&A) 2018-15, PAS 1 – *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Noncurrent*

Upon the adoption of PIC Q&A 2018-15, advances to contractors and suppliers that have been previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage or realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment).

The Group adopted PIC Q&A 2018-15 starting January 1, 2018. The impact adoption is applied retrospectively which resulted to the decrease in other current assets and increase in other noncurrent assets by ₱940.65 million as of December 31, 2017. The adoption of the PIC also resulted to an increase in cash flows from operating activities and corresponding decrease in cash flows from investing activities amounting to ₱46.64 million and ₱316.04 million for the years ended 2017 and 2016, respectively.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

a. Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

The amendments are not expected to have any significant impact on the consolidated financial statements.

b. PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

c. Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

d. Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associates and joint ventures, the amendments will not have an impact on its consolidated financial statements.

e. Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and,
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

f. Annual Improvements to PFRSs 2015- 2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A Group's party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

  An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

a. Amendments to PFRS 3, *Definition of a Business*

   The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

   These amendments will apply on future business combinations of the Group.

b. Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

   The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

   These amendments will apply on future business combinations of the Group.

Effective beginning on or after January 1, 2021

a. PFRS 17, *Insurance Contracts*

   PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

   The standard is not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

   Interpretation with Deferred Effective Date

a. Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

   The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Significant Accounting Policies

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

a. expected to be realized or intended to be sold or consumed in normal operating cycle;
b. held primarily for the purpose of trading;
c. expected to be realized within twelve (12) months after the reporting period; or
d. cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

a. it is expected to be settled in normal operating cycle;
b. it is held primarily for the purpose of trading;
c. it is due to be settled within twelve (12) months after the reporting period, or
d. there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
Fair value is the estimated price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability; or
b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

a. Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
b. Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
c. Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring and nonrecurring fair value measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. 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 the date of acquisition and that are subject to an insignificant risk of change in value.

Recognition and Measurement of Financial Instruments (Effective January 1, 2018)
Financial assets

a. *Initial recognition*

   Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or at FVPL.

   The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

   In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is referred to as the 'solely payments of principal and interest test' and is performed at an instrument level.

   The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

   Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

   As of December 31, 2018, the Group's financial assets comprise of financial assets at amortized cost.

b. *Subsequent measurement – Financial assets at amortized cost*

   Financial assets are measured at amortized cost if both of the following conditions are met:

   - the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

   The Group classified cash in banks and cash equivalents, receivables, and concession financial receivable as financial assets at amortized cost (see Notes 5, 6, and 10).

c. *Derecognition*
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

d. *Impairment*
The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate (EIR). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are ninety (90) up to one hundred eighty (180) days past their due dates. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities
a. *Initial recognition*
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

As of December 31, 2018, the Group’s financial liabilities comprise of financial liabilities at amortized cost.

b. *Subsequent measurement – Other financial liabilities*
After initial recognition, long-term debts are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized under the “Other income (expense)” account in the consolidated statements of comprehensive income when the liabilities are derecognized or impaired, and through the “Interest expense” account when the gains and losses are amortized.

This accounting policy applies to the Group’s accounts and other payables, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities, income tax payable, and other statutory liabilities).

c. *Derecognition*
A financial liability is derecognized when the obligation under the liability is discharged or canceled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Group’s comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Recognition and Measurement of Financial Instruments (Prior to Adoption of PFRS 9)
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition
All financial assets are initially recognized at fair value. Except for financial assets and liabilities at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument, or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2017, the Group’s financial instruments primarily consist of loans and receivables and other financial liabilities.

Day 1 profit
For transactions other than those related to customers’ guaranty deposits and other deposits, where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a ‘Day 1’ profit) in profit or loss under “Other income” unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ profit amount.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the

same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. Embedded derivatives are measured at fair value with fair value changes being reported through profit or loss, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification in the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows from the contract.

The Group has certain closely and clearly related derivatives that are embedded in the host contract (such as long-term debt) which do not require bifurcation.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. These are included in current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “Interest income” in profit or loss. The losses arising from impairment of such loans and receivables are recognized as “Provision for probable losses and doubtful accounts” in profit or loss.

This accounting policy applies primarily to the Group’s cash in banks and cash equivalents, receivables, concession financial receivables, deposits under other current assets and other noncurrent assets, and advances and receivable from related parties.

Other financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issuance.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

This accounting policy applies primarily to the Group’s long-term debt, service concession obligation, accounts and other payables except statutory liabilities, customers’ guaranty deposits and other deposits under other noncurrent liabilities, payable to related parties and stockholders, and other payables that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities and income tax payable).

Derecognition of Financial Assets and Financial Liabilities (Prior to Adoption of PFRS 9)
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the right to receive cash flows from the asset has expired;
b. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
c. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments (Prior to Adoption of PFRS 9)
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets (Prior to Adoption of PFRS 9)
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with default. For the Group's receivables from customers, evidence of impairment may also include non-collection of the Group's trade receivables, which remain unpaid after thirty days from bill generation.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price less estimated costs to complete and to sell. The cost is determined using the moving average method for all inventories, except for raw materials and finished goods. The cost of raw materials and finished goods are determined based on the periodic weighted average method.

The cost of raw materials includes all costs directly attributable to their acquisition.

Finished goods include the cost of raw materials, direct labor, and a proportion of manufacturing overhead.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically include prepayments for business taxes, insurance and employee health care expenses and other benefits, as well as prepaid concession fees of Laguna Water with the PGL.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related property, plant and equipment.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and are calculated on a straight line basis over the estimated useful lives (EUL) of the property, plant and equipment as follows:

Leasehold improvements	5 years or lease term, whichever is shorter
Plant and technical equipment	5 years or the term of the related management contract, whichever is shorter
Office furniture and equipment	3 to 5 years
Transportation equipment	5 years

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction and is stated at cost including costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

When property, plant and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations
The Group accounts for its concession arrangements with MWSS, PGL, TIEZA, CDC, OWD, and CWD under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall transfer to MWSS, PGL, TIEZA, CDC, OWD, and CWD at the end of the concession period.

On the other hand, the concession arrangements with PGC and TWD are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement, Cebu Water and Tagum Water are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period.

During the construction phase of the arrangements, the Group's contract asset (representing its accumulating right to be paid for rehabilitation works) is presented as part of "Service concession assets" (SCA) for Intangible Asset model and under "Contract Assets" for Financial Asset model. The SCA also include the fair value of the service concession obligations at drawdown date and other local component costs and cost overruns paid by the Group.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight line basis over the remaining concession period. Beginning May 1, 2017, the Parent Company, Boracay Water, Clark Water, and Laguna Water's water and used water assets are amortized using the units of production (UOP) method over the estimated total billable volume for the remaining period of the respective concession agreements to better reflect the usage of these assets, which is directly related to its estimated total billable volume and is aligned with industry practice. This change in method resulted to a ₱553.96 million reduction of amortization expense from May 1 to December 31, 2017.

Investments in Associates
An associate is an entity in which the Group has significant influence and which is neither a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, an investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in the other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside of operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate. If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses.
The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognizes the loss as "Equity share in net income of associates" in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss included under "Remeasurement gain (loss) arising from business combination."

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Goodwill is initially measured at cost where cost is the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss and included under "Other income (expenses)."

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured exceeds the aggregate of the consideration transferred.

Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts to be recognized at the acquisition date for all of the following:

a. the identifiable assets acquired and liabilities assumed;
b. the non-controlling interest in the acquiree, if any;
c. for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
d. the consideration transferred.

If that excess remains after applying the requirements above, the acquirer shall recognize the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Water Banking Rights
Water banking rights are accounted for as an intangible asset with indefinite useful life. These pertain to the permit acquired separately, and are recognized as an intangible asset as these were issued by the National Water Resources Board (NWRB) without an explicit provision on the period of effectivity. Costs incurred for the acquisition of water banking rights are capitalized and measured on initial recognition at cost.

Presidential Decree No. 1067, also known as the Water Code, states that water permits shall continue to be valid as long as water is beneficially used. The rights may be suspended or revoked based on certain grounds such as non-compliance with approved plans and specifications or schedules of water distribution, and use of water for a purpose other than that for which it was granted.

All water permits are subject to modification or cancellation by the NWRB, after due notice and hearing, in favor of a project of greater beneficial use or for multi-purpose development, and a water permittee who suffers thereby shall be duly compensated by the entity or person in whose favor the cancellation was made.

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group’s property, plant, and equipment, SCA, investments in associates, water banking rights, and other current and noncurrent assets. The Group assesses these nonfinancial assets, excluding water banking rights, at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount.

Water banking rights with indefinite useful life are tested for impairment annually at the CGU level. Such intangibles are not amortized. The life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the life from indefinite to finite is made on a prospective basis.

An asset’s recoverable amount is calculated as the higher of the asset’s or CGU’s fair value less cost of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill and water banking rights with indefinite life, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal of or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

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

Revenue Recognition (Upon the Adoption of PFRS 15)
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Revenue recognized over time using output method

The Group recognizes revenue from water and sewerage services, environmental charge, operation and maintenance services and performance fees over time using output method. As a practical expedient allowed under PFRS 15, the Group recognizes revenue in the amount to which the Group has a right to invoice since the Group bills a fixed amount for every cubic meter of water delivered or NRW recovered.

- *Water and sewer revenue*
  Water and sewer revenue is recognized over time as the customer receives and consumes the benefit from the performance of the related water and sewerage services. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by the Parent Company as environmental charge.

- *Operation and maintenance services*
  Revenue from operation and maintenance services is recognized over time as the operation, maintenance and management services are rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

- *Performance fees*
  Performance fees are recognized as revenue over time as the NRW are recovered as agreed in the NRWSA with ZCWD.

The Group has determined that the output method is the appropriate method in measuring the progress of the connection services, project management services, and pipeworks and integrated used water services since this depicts the Group's performance in managing and providing service connection from water and used water facilities to the developments.

- *Connection fees*
  Connection fees are amounts paid by customers in exchange for the set-up of a connection from the customer's establishment to the Group's water or sewer network. Revenue from connection fees is recognized over time using the output method based on time elapsed over the period when the related water and sewer services are expected to be provided.

- *Supervision fees*
  Supervision fees arise from MWPVI, Aqua Centro, and Laguna Water's assurance for potable water and effective used water services for new developments, functions includes, but not limited to the provision of design and project management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time using an output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor, and reviewed and approved by the project management head.

- *Revenue from pipeworks and integrated used water services*
  Revenue from pipeworks and integrated used water services is recognized over time as the water and wastewater network related services are rendered using an output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved by the project management head.

Revenue recognized over time using input method

The Group determined that the input method is the appropriate method in measuring progress of the rehabilitation works, construction revenue, and service fees because there is a direct relationship between the Group's effort (i.e., actual cost incurred incurred) and the transfer of service to the customer.

- *Revenue from rehabilitation works and Cost of rehabilitation works*
  Revenue from rehabilitation works is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of contract assets included under SCA or concession financial receivables, and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

- *Construction revenue*
  Construction revenue arise from the NRWSA with ZCWD for the establishment of district metering areas. Revenue from construction services is recognized over time, using input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and overhead relative to the total project costs.

- *Service fees*
  Service fees for technical assistance extended to ZCWD are recognized over time, using input method, when the related services have been rendered to the ZCWD. Under this method, progress is measured based on actual costs incurred on manpower and overhead relative to the total project costs.

Revenue recognized at a point in time

- *Distributors' fee*
  Distributors' fee is recognized as revenue at a point in time when control of the trade assets have been transferred to the distributor, generally upon delivery of the related assets.

- *Revenue from packaged water*
  Revenue from packaged water and other water related products is recognized at the point in time when control of the goods is transferred to the distributor, generally upon receipt of the related product, to the customer.

- *Other operating income*
  Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized at a point in time when the control over these good or services have been transferred to the customer.

Interest income
Interest income is recognized as it accrues, taking into account the effective yield of the assets.

For all financial instruments measured at amortized cost, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of comprehensive income.

<u>Contract Balances</u>
Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to a customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Revenue Recognition (Prior to Adoption of PFRS 15)
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized.

Water and sewer revenue
Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by the Parent Company as environmental charge.

Connection fees
Revenue from connection fee is recognized outright upon when the customer's establishment is connected to the Group's water or sewer network.

Revenue from rehabilitation works and Cost of rehabilitation works
Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

Supervision fees
Supervision fees are recognized using the percentage of completion method of accounting, measured principally on the basis of the physical proportion of the contract work to the estimated completion of a project.

Construction revenue
Construction revenue arising from the NRWSA with ZCWD is recognized by reference to the stage of completion of the construction activity at the end of the reporting period.

Revenue from pipeworks and integrated used water services
Revenue from pipeworks and integrated used water services is recognized when the related water and wastewater network related services are rendered.

Distributors' fee
Distributors' fee is recognized when significant risk and rewards of ownership of trade assets have been transferred to the distributor.

Revenue from packaged water
Revenue from packaged water and other water related products is recognized when the significant risks and rewards of ownership have been transferred to the customer. The timing of transfers of risks and rewards varies depending on the individual terms of the contract of sale but usually occurs when the customer receives the product.

Operation and maintenance services
Service fee income is recognized when the operation, maintenance and management services have been rendered for water and waste water facilities of BWC.

Performance fees
Performance fees are recognized when the NRW has been recovered based on specific targets and schedule as agreed in the NRWSA with ZCWD.

Service fees
Service fees for technical assistance extended to ZCWD are recognized when the related services have been rendered.

Other operating income
Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

Interest income
Interest income is recognized as it accrues, taking into account the effective yield of the assets.

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of comprehensive income.

Cost of Services and Operating Expenses
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. These are recognized:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or,
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Cost of services and operating expenses are measured at the amount paid or payable.

Foreign Currency-Denominated Transactions
Foreign exchange differentials arising from foreign currency transactions are credited to or charged against operations. For the Parent Company, as approved by the MWSS BOT under Amendment No.1 of the Concession Agreement, the following will be recovered through billings to customers:

a. restatement of foreign currency-denominated loans;
b. excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱53.16:US$1.00 based on the latest rate rebasing exercise effective January 1, 2018.
c. excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

For Boracay Water, its concession agreement with TIEZA allows for the recovery of the following from its customers:

a. restatement of foreign currency-denominated loans;
b. excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at agreed base rate; and
c. excess of actual payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rates on settlement dates over the amount of other financing charges translated at agreed base rate.

The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the separate financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

In view of the automatic reimbursement mechanism, the Group recognizes deferred FCDA (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by the MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

The functional currency of MWAP, MWSAH, TDWH, KDWH, MSEA, and MWTH is the United States Dollar (US$ or USD), while Asia Water's functional currency is the Vietnamese Dong (VND), PTMWI's is the Indonesian Rupiah (IDR), and MWTC's is the Thailand Baht (THB). As of reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in OCI and reported as "Cumulative translation adjustment", a separate component of equity. On disposal of a foreign entity, the "Cumulative translation adjustment" relating to that particular foreign operation shall be recognized in profit or loss.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) that necessarily takes a substantial period of time to get ready for its intended use are recorded as property, plant and equipment or SCA, as applicable. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowing associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of those borrowing costs 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. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds. Premiums and/or discounts on long-term debt are included in the "Short-term and Long-term debt" account in the consolidated statement of financial position and are amortized using the effective interest rate method.

Provisions

A provision is recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset and only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost,
b. net interest on the net defined benefit liability or asset, and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability or asset) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Short-term Employee Benefits
Short-term employee benefits include items such as salaries and wages, social security contributions, and nonmonetary benefits, if expected to be settled wholly within twelve (12) months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Employee Leave Entitlement
Employee leave entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for employee leaves expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-Based Payment
Employee share purchase plan
The Parent Company has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Parent Company recognizes stock compensation expense over the holding period. The Parent Company treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2, *Share-based Payment*, options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as "Common stock options outstanding" in the consolidated statement of financial position.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group. Appropriated retained earnings are set aside for future business expansions. The Parent Company's BOD declares dividends from the unappropriated portion of its retained earnings.

Other equity reserves pertain to gain from sale of investments in a subsidiary by the Parent Company that did not result to a loss of control.

Taxes
VAT
Input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services. Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment and service concession assets for each month amounting to ₱1 million or more. This is amortized over five (5) years or the life of the property, plant and equipment or service concession assets, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation.

Output VAT pertains to the 12% tax due on the local sale of goods and services by the Group.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under "Trade payables" in the "Accounts and other payables" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under the "Other current assets" account.

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided, using the liability method, for all temporary differences, with certain exceptions, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary difference associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.
-

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Earnings per Share (EPS)
Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the year and adjusted to give retroactive effect to any stock dividends declared, if any, during the period. The net income attributable to common stock is net of the dividends on preferred shares including the participating preferred shares' participation in earnings. The participating preferred shares participate in the earnings at a rate of 1/10 of the dividends paid to a common share.

Diluted EPS is computed by dividing earnings attributable to common shares by the weighted average number of common shares outstanding during the period, after giving retroactive effect of any stock dividends, if any, during the period and adjusted for the effect of dilutive options. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effects of the assumed exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

Assets Held in Trust
Assets which are owned by MWSS, PGL, TIEZA, CDC, OWD, and CWD that are operated by the Group under the Group's concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 23).

Segment Reporting
The Group aggregates two or more operating segments into a single operating segment when separately, each operating segment has similar economic characteristics and service area. The Group aggregated its local and foreign subsidiaries into the Domestic Subsidiaries segment and Foreign Subsidiaries segment, even if the subsidiaries cater to different customers, since management has assessed that these entities have similar economic characteristics and service area. The Group considers the Manila Concession and Head Office, Domestic Subsidiaries, and Foreign Subsidiaries as its operating segments that are aggregated based on the geographical location and source of revenues. Financial information on business segments is presented in Note 24 to the consolidated financial statements.

Events after the Reporting Date
Any event after the reporting date up to the date of the auditors' report that provide additional information about the Group's financial position at the reporting date (adjusting events) is reflected in the consolidated financial statements. Any event after the reporting date that is not an adjusting event is disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Management believes the following represent a summary of these significant estimates and judgments:

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Service concession arrangements
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with MWSS, PGL, TIEZA, CDC, OWD, and CWD qualify under the Intangible Asset model as it receives the right (license) to charge users of public service (see Notes 2 and 10).

On the other hand, the Group has made a judgment that the bulk water sale and purchase agreements with MCWD and TWD qualify under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from MCWD and TWD (see Notes 2 and 10).

Investments in associates
The Group has determined that it has significant influence over East Water despite holding less than 20% of East Water's outstanding shares of stock. The Group considers several factors including its representation in East Water's BOD, representation in East Water's Investment Committee, and its voting power through share ownership to determine the Group's power to participate in the financial and operating policy decisions of East Water.

As of December 31, 2018, the Group owns 18.72% of East Water (see Note 11).

Revenue recognized using the input and output method
The Group recognizes revenue from rehabilitation works, construction revenue, and service fees using the input method while it recognizes supervision fees and revenue from pipeworks and integrated used water services using the output method. The input or output method of recognizing revenue over the period covered by the separate contracts with customers requires the Group to base the level of transfer of control over these services based on the Group's review and concurrence with work accomplishment reports prepared by project managers or submitted by independent project contractors.

Operating lease commitments - Group as lessee
The Group entered into various lease arrangements for its Healthy Family plant sites, stockyard, office areas, and water and used water facilities. The Group has determined, based on the evaluation of the terms and conditions of the arrangements, that the significant risks and rewards for properties leased from third parties are retained by the lessors and accordingly, accounts for these contracts as operating leases (see Notes 23 and 27).

Segment reporting
The Group aggregates two or more operating segments into a single operating segment when separately, each operating segment has similar economic characteristics and service area. The Group aggregated its local and foreign subsidiaries into the Domestic Subsidiaries segment and Foreign Subsidiaries segment even if it caters to different customers since management assessed that these entities have similar economic characteristics and service area. As of December 31, 2018 and 2017, the Group considers the Manila Concession and Head Office, Domestic Subsidiaries, and Foreign Subsidiaries as its operating segments that are aggregated based on the geographical location and source of revenues (see Note 24).

Provisions and contingencies
The Group is currently involved in various legal proceedings and exposures in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsels handling the defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings and exposures will have a material or adverse effect on the Group's financial position and results of operations (see Note 28).

Use of Estimates
Key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition – rehabilitation works
The Group measures revenue from rehabilitation works at the fair value of the consideration received or receivable. The Group's revenue from rehabilitation works are recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date. Revenue from rehabilitation works recognized by the Group is equivalent to the costs of rehabilitation works incurred as these costs are recovered by the Group through its right to charge the customers. The Group's revenue from and cost of rehabilitation works amounted to ₱9,661.98 million and ₱11,672.14 million in 2018 and 2017, respectively (see Notes 6 and 10).

Provision for expected credit losses of receivables from customers
The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increase in prices of basic goods and services, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

As of December 31, 2018 and 2017, allowance for expected credit losses of receivables from customers amounted to ₱1,239.76 million and ₱1,064.89 million, respectively (see Note 6).

Accounting for connection fees
Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. The adoption of PFRS 15 requires that the connection fee collected for all active water service connections as at January 1, 2018 to be recognized as revenue over time. Management has made a judgment that it is impracticable to restate revenue from connection fee retrospectively given the impracticality in obtaining all the relevant information to properly and accurately estimate the cumulative impact of the change in accounting for connection fees, including among others, sources and number of active service connections, amount of connection fee paid per connection, and the related cost.

Considering impracticability of retrospective restatement, the Group adopted the change in accounting for connection fees prospectively starting on January 1, 2018, as allowed under PAS 8.

Estimating the period over which control over services is transferred to the customer
For each group of similar customer contracts that result in revenues recognized over a period of the time, the Group makes an estimate of such period over which the Group transfers the control of the services provided to the customer. For revenue from rehabilitation works, construction revenue, service fees, supervision fees, and revenue from pipeworks and integrated used water services, the Group has determined that the period of revenue recognition is the term of the customer contract. For connection fees revenue, the Group has estimated that the customer receives control over the remaining concession period or remaining corporate life.

Estimating useful lives of water banking rights
Cebu Water and MWPVI estimate that the useful lives of the water banking rights to be indefinite, considering that the water permits remain valid for as long as water is beneficially used. It is possible that future results of operations could be materially affected by changes in Cebu Water and MWPVI's estimates. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances (see Note 12).

Impairment of nonfinancial assets
The Group assesses the impairment of nonfinancial assets (property, plant and equipment, SCA, investments in associates, other current assets, and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business;
- significant negative industry or economic trends;
- significant decline in net worth or market capitalization; and
- significant decline in distributed profits or increase in losses.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

In 2018, MWTS closed three (3) water bottling plants. As a result, the Group recognized impairment loss on its property, plant and equipment amounting to ₱71.43 million, representing the write-down of leasehold improvements and water treatment equipment to its recoverable amounts as of December 31, 2018 (see Note 9). This is presented as part of "Other income - net" in the consolidated statements of comprehensive income.

For the year ended December 31, 2018, the Group recognized impairment loss on its investment in Saigon Water amounting to ₱65.41 million due to market capitalization. This is presented as part of "Other income - net" in the consolidated statements of comprehensive income.

As of December 31, 2018 and 2017, the Group has determined that there are no indicators of impairment on its investments in Thu Duc Water, Kenh Dong Water, Cu Chi Water, East Water, and PT STU (see Note 11).

As of December 31, 2018, there were no indicators of impairment on the Group's SCA, other current assets, and other noncurrent assets. As of December 31, 2017, there were no indicators of impairment on the Group's investment in nonfinancial assets (see Notes 9, 10, and 11).

Impairment of goodwill on the acquisition of Clark Water
Goodwill impairment testing requires an estimation of the recoverable amount which is the fair value less cost to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use amount requires management to make an estimate of the expected future cash flows for the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

The Parent Company's impairment test for goodwill related to the acquisition of Clark Water is based on value in use calculations using a discounted cash flow model. The 2018 cash flows for the next twenty-two (22) years assume a steady growth rate and is are derived from Clark Water's latest business plan. The Parent Company used the remaining concession life of Clark Water when testing for impairment. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flow projections was 12.48% and 8.97% in 2018 and 2017, respectively.

The carrying value of goodwill on the acquisition of Clark Water in the consolidated statements of financial position amounted to ₱130.30 million as of December 31, 2018 and 2017. No impairment loss was recognized as a result of the impairment testing performed.

Estimating billable water volume
Starting May 1, 2017, the SCAs related to the Group's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. The Group considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. For the years ended December 31, 2018 and 2017, SCA amortization expense based on the UOP method amounted to ₱2,042.04 million and ₱1,194.45 million, respectively (see Note 10).

Deferred FCDA
Under the concession agreements entered into by the Parent Company and Boracay Water with MWSS and TIEZA, respectively, the Parent Company and Boracay Water are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. The Parent Company and Boracay Water recognized deferred FCDA (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by the Parent Company and Boracay Water as a result of past events and from which future economic benefits are expected to flow to the Parent Company and Boracay Water. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. As of December 31, 2018 and 2017, the Parent Company and Boracay Water's deferred FCDA classified under "Other noncurrent assets" amounted to ₱2,620.32 million and ₱1,329.35 million (see Note 12).

The Group's deferred FCDA arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgement is required to determine the amounts that could be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning.

Also, the Group does not recognize certain deferred taxes on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future (see Note 18).

Pension assets and liabilities
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, incapacity rates, retirement rate, and termination rates. The amounts of defined benefit obligations are highly sensitive to changes due to the complexity of the valuation and its long-term nature. Discount rate, salary increase rate, retirement rate, and termination rate assumptions are reviewed at each reporting date. The net pension liability amounted to ₱109.39 million and ₱25.39 million as of December 31, 2018 and 2017, respectively (see Notes 12 and 15).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. Retirement and termination rates are based on expected rates at which employees are assumed to retire or leave the employment of the Group.

Further details about the assumptions used are provided in Note 15.

4. Business Combination and Goodwill

2018 Business Combinations

EDCG
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related tothe provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

On January 9, 2019, Aqua Centro paid 50% of the total contract price amounting to total consideration of ₱24.67 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date.

On December 11, 2018, Laguna Water entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp. Total acquisition cost amounted to ₱20.46 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date .

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Aqua Centro			
First Advance Development Corporation	₱40,790,000	₱20,769,400	(₱20,020,600)
Earth Aspire Corporation	3,753,000	1,356,000	(2,397,000)
Ambition Land Inc.	5,528,000	4,559,550	(968,450)
Prosperity Builders Resources Inc.	11,604,000	12,475,200	871,200
Tahanang Yaman Homes Corporation	7,249,000	10,189,210	2,940,210
Laguna Water			
Earth Prosper Corporation	13,952,000	6,880,570	(7,071,430)
Earth + Style Corporation	23,303,000	17,337,590	(5,965,410)
Extraordinary Development Corp.	5,753,000	81,360	(5,671,640)
Earth Aspire Corporation	18,278,000	16,618,910	(1,659,090)

No identifiable liabilities were assumed by Aqua Centro and Laguna Water in these acquisitions. Total gain on bargain purchase amounting to ₱43.75 million is presented as part of "Other income - net" in the 2018 consolidated statement of comprehensive income.

As of December 31, 2018, the purchase price allocations of Aqua Centro and Laguna Water for the acquisitions are provisional as the valuation of property, plant and equipment is yet to be finalized.

2017 Business Combinations

Asian Land
On January 4, 2017, MWPVI entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to BMDC, its wholly owned subsidiary.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC under a Deed of Assignment. On the same day, the Deed of Absolute Sale has also been executed between Asian Land and BMDC. Total consideration paid by BMDC to Asian Land amounted to ₱54.00 million, inclusive of VAT.

Solar Resources
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar developments in the province of Bulacan. On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC. Total consideration paid by BMDC to Solar Resources amounted to ₱21.00 million, inclusive of VAT.

Borland
On December 14, 2017, Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey its assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC. Total consideration paid by BMDC to Borland amounted to ₱7.28 million, exclusive of VAT.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Asian Land	₱103,122,000	₱48,214,286	(₱54,907,714)
Solar Resources	17,544,000	18,750,000	1,206,000
Borland	6,050,400	7,280,000	1,229,600

No identifiable liabilities were assumed by BMDC in these acquisitions. The gain on bargain purchase is presented as part of "Other income - net" in the 2017 consolidated statement of comprehensive income.

The rollforward of goodwill is as follows:

	2018	2017
Balance at beginning of year	**₱132,755,065**	₱130,319,465
Additions from business combination	**3,811,410**	2,435,600
Balance at end of year	**₱136,566,475**	₱132,755,065

The goodwill balance is attributable to acquisitions of the following businesses:

	2018	2017
Clark Water	**₱130,319,465**	₱130,319,465
Tahanang Yaman Homes Corporation	**2,940,210**	–
San Vicente Homes	**1,229,600**	1,229,600
Las Palmas Subdivisions Phases 1 to 7	**1,206,000**	1,206,000
Prosperity Builders Resources Inc.	**871,200**	–
Balance at end of year	**₱136,566,475**	₱132,755,065

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks (Note 21)	**₱1,440,142,718**	₱1,200,628,004
Cash equivalents (Note 21)	**7,950,448,555**	7,820,116,085
	₱9,390,591,273	₱9,020,744,089

Cash in banks earn interest at the respective bank deposit rates ranging from 0.01% to 3.33%, 0.01% to 2.80%, and 0.01% to 2.38% in 2018, 2017, and 2016, respectively. Cash equivalents are highly liquid investments with varying periods of up to three (3) months and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱255.35 million, ₱116.52 million, and ₱82.14 million in 2018, 2017, and 2016, respectively (see Note 17).

6. Receivables and Contract Assets

a. Receivables

This account consists of receivables from:

	2018	2017
Customers of:		
Water and used water services:		
Residential	**₱1,814,528,501**	₱1,694,829,492
Commercial	**265,422,961**	273,305,137
Semi-business	**91,609,334**	81,899,863
Industrial	**44,800,792**	82,519,488
Pipework services	**407,668,929**	296,247,701
Distributor's fees	**146,564,312**	141,352,430
Supervision fees	**108,366,330**	261,780,202
BWC	**388,410,670**	501,014,249
ZCWD	**10,450,032**	112,293,823
Employees	**31,155,782**	34,775,785
Interest from banks	**23,936,806**	16,405,733
Others (Note 14)	**183,093,834**	115,616,360
	3,516,008,283	3,612,040,263
Less allowance for ECLs	**1,239,761,340**	1,064,885,100
	2,276,246,943	2,547,155,163
Less noncurrent portion of:		
Receivable from BWC (Note 12)	**321,014,249**	451,322,564
Receivable from ZCWD (Note 12)	**–**	52,016,776
	₱1,955,232,694	₱2,043,815,823

The classes of the Group's receivables arising from water and sewer services rendered to customers, collectible within thirty (30) days from billing date, follow:

- Residential - pertains to receivables from residential households.
- Commercial - pertains to receivables from commercial customers.
- Semi-business - pertains to receivables from small businesses.
- Industrial - pertains to receivables from customers for industrial and manufacturing purposes.

Trade receivables from pipework services pertain to pipelaying, pipe replacements, and other services related to water and used water treatment facilities. These receivables are collectible within twelve (12) months.

Trade receivables from distributors' fees arise from the Exclusive Distributorship Agreement (EDA) entered into by MWTS with distributors of its Healthy Family drinking water and are collectible within the period that is agreed with the distributors.

Trade receivables arising from supervision fees on the development of water and used water facilities are collectible within thirty (30) days from billing date.

Receivable from ZCWD pertains to billed charges for service fees, construction revenue, and performance fees arising from Zamboanga Water's NRWSA. Zamboanga Water classifies as current the portion of the gross receivable from ZCWD that is collectible within the next twelve (12) months (see Note 12).

Receivable from BWC pertains to the assigned receivable between the Parent Company and VWPI covered by the Share Purchase Agreement related to the acquisition of VWPI's interest in Clark Water in 2011 (see Note 1).

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by the Parent Company on its customers falling under the corresponding classification pursuant to the Concession Agreement and all amounts received by BWC as connection fees from customers and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest-bearing and the Parent Company classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

Receivable from employees arise from car, salary, and other loans which are due and demandable based on an agreed payment schedule and are collected through salary deductions.

Interest from banks are accrued interest arising from the Group's cash in banks and cash equivalents.

Other receivables include receivables from Land Bank of the Philippines in relation to the MWMP Loan (see Note 14), and receivables from shared facilities, and collection facilities.

Movements in the Group's allowance for ECLs follows:

	2018					
	Receivable from Customers				**Other**	
	Residential	**Commercial**	**Semi-business**	**Industrial**	**Receivables**	**Total**
Balance at beginning of year	**₱733,140,957**	**₱130,835,492**	**₱39,121,515**	**₱18,313,091**	**₱143,474,045**	**₱1,064,885,100**
Provision (Note 17)	**97,027,297**	**19,447,802**	**6,425,949**	**13,428,896**	**62,787,944**	**199,117,888**
Reversal (Note 17)	**–**	**–**	**–**	**(24,241,648)**	**–**	**(24,241,648)**
Balance at end of year	**₱830,168,254**	**₱150,283,294**	**₱45,547,464**	**₱7,500,339**	**₱206,261,989**	**₱1,239,761,340**

	2017					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-business	Industrial	Receivables	Total
Balance at beginning of year	₱550,832,142	₱108,508,951	₱35,224,984	₱7,007,800	₱68,633,259	₱770,207,136
Provision (Note 17)	434,763,390	99,731,927	3,946,933	11,305,291	74,840,786	624,588,327
Reversal (Note 17)	(38,362,383)	–	–	–	–	(38,362,383)
Write-off	(214,092,192)	(77,405,386)	(50,402)	–	–	(291,547,980)
Balance at end of year	₱733,140,957	₱130,835,492	₱39,121,515	₱18,313,091	₱143,474,045	₱1,064,885,100

b. *Contract assets*

As of December 31, 2018, contracts assets consist of:

Contract assets from:	
Supervision fees	₱262,202,448
NRWSA with ZCWD	66,475,151
Bulk Water Sales and Purchase Agreement with TWD (Note 10)	69,770,280
Current portion	398,447,879
Bulk Water Sales and Purchase Agreement with TWD (Note 10)	415,679,332
NRWSA with ZCWD	77,263,570
Noncurrent portion	492,942,902
	₱891,390,781

Contract assets from supervision fees are initially recognized for revenue earned arising from the provision of design and project management services in the development of water and used water facilities. These contract assets are reclassified to "Receivables" upon acceptance and reaching certain construction milestones for the related water and used water facilities.

Contract assets from the NRWSA with ZCWD are initially recognized for revenue earned arising from construction revenue and performance fees for NRW reduction services. These contract assets are reclassified to "Receivables" upon acceptance of and billing to the customer.

Contract assets arising from the Bulk Water Sales and Purchase Agreement with TWD consist of the cost of rehabilitation works which will be reclassified to "Concession financial receivables" upon completion of construction of the related facilities. The rollforward of these contract assets follows:

Balance at beginning of year	₱–
Impact of adoption of PFRS 15 (Note 2)	206,953,634
Rehabilitation works	219,077,622
Finance income (Note 17)	70,847,020
Reclassification to concession financial receivables (Note 10)	(11,428,664)
Balance at end of year	₱485,449,612

7. Inventories

This account consists of:

	2018	2017
Maintenance materials	**₱72,879,100**	₱98,148,488
Raw materials and finished goods	**46,309,824**	48,025,466
Water meters and connection supplies	**44,980,771**	56,055,064
Water treatment chemicals	**41,753,537**	8,520,551
	₱205,923,232	₱210,749,569

Finished goods consist of 300-milliliter and 500-milliliter bottled water, five (5)-gallon packaged water, and dispenser while raw materials consist of the cap seals for the 5-gallon packaged water bottles.

The Group's inventories are carried at cost except for its maintenance materials, raw materials, and finished goods which are carried at NRV. Allowance for obsolescence amounted to ₱4.40 million and ₱1.46 million as of December 31, 2018 and 2017, respectively.

In 2018, 2017, and 2016, MWTS recognized ₱20.46 million, ₱17.09 million, and ₱12.68 million, respectively, as part of its cost of sales of packaged water.

8. Other Current Assets

This account consists of:

	2018	2017
Net input VAT	**₱875,216,925**	₱912,195,638
Prepaid expenses	**385,565,676**	337,395,697
Guaranty deposits	**33,612,710**	23,585,532
Security bonds	**10,244,350**	13,235,850
	₱1,304,639,661	₱1,286,412,717

Net input VAT pertains to the Group's excess input VAT over the output VAT as of the end of the reporting period.

Prepaid expenses consist of prepayments for transaction costs for undrawn credit facilities, loan guarantee fees, regulatory costs, business taxes, insurance, rent, interest, and employee health care expenses and other employee benefits.

Guaranty deposits consist of rental deposits and other advance payments that can be recovered within one (1) year.

9. Property, Plant and Equipment

The rollforward analysis of this account follows:

	2018						
	Land	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year	₱226,340,760	₱1,868,872,078	₱2,112,898,787	₱995,529,679	₱389,089,410	₱729,993,933	₱6,322,724,647
Additions	–	478,680,838	198,429,066	172,791,097	143,296,929	490,958,441	1,484,156,371
Transfers (Note 10)	–	(164,371,631)	46,636	–	187,580,230	(44,065,299)	(20,810,064)
Disposals	–	(4,057,636)	(85,844,119)	(62,425,617)	–	–	(152,327,372)
Balance at end of year	226,340,760	2,179,123,649	2,225,530,370	1,105,895,159	719,966,569	1,176,887,075	7,633,743,582

(Forward)

	2018						
	Land	**Plant and Technical Equipment**	**Office Furniture and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Accumulated depreciation, amortization, and impairment							
Balance at beginning of year	**₱–**	**₱1,068,543,434**	**₱1,775,684,977**	**₱455,299,213**	**₱287,882,481**	**₱–**	**₱3,587,410,105**
Depreciation and amortization (Note 17)	**–**	**152,554,152**	**257,968,825**	**158,078,468**	**45,029,958**	**–**	**613,631,403**
Impairment loss	**–**	**46,271,291**	**–**	**–**	**25,158,619**	**–**	**71,429,910**
Disposals	**–**	**(4,057,636)**	**(85,627,988)**	**(57,257,077)**	**–**	**–**	**(146,942,701)**
Balance at end of year	**–**	**1,263,311,241**	**1,948,025,814**	**556,120,604**	**358,071,058**	**–**	**4,125,528,717**
Net book value	**₱226,340,760**	**₱915,812,408**	**₱277,504,556**	**₱549,774,555**	**₱361,895,511**	**₱1,176,887,075**	**₱3,508,214,865**

	2017						
	Land	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year	₱225,832,101	₱1,244,432,935	₱1,930,277,647	₱604,586,336	₱391,300,870	₱517,206,027	₱4,913,635,916
Additions	508,659	624,439,143	183,272,096	403,425,326	1,740,798	212,787,906	1,426,173,928
Transfers (Note 10)	–	–	–	–	(3,952,258)	–	(3,952,258)
Disposals	–	–	(650,956)	(12,481,983)	–	–	(13,132,939)
Balance at end of year	226,340,760	1,868,872,078	2,112,898,787	995,529,679	389,089,410	729,993,933	6,322,724,647
Accumulated depreciation and amortization							
Balance at beginning of year	–	934,533,307	1,552,373,553	376,228,774	254,331,212	–	3,117,466,846
Depreciation and amortization (Note 17)	–	134,010,127	223,882,299	89,191,160	33,971,180	–	481,054,766
Transfers (Note 10)	–	–	–	–	(419,911)	–	(419,911)
Disposals	–	–	(570,875)	(10,120,721)	–	–	(10,691,596)
Balance at end of year	–	1,068,543,434	1,775,684,977	455,299,213	287,882,481	–	3,587,410,105
Net book value	₱226,340,760	₱800,328,644	₱337,213,810	₱540,230,466	₱101,206,929	₱729,993,933	₱2,735,314,542

The net book value of noncash transfers to SCA in 2018 and 2017 amounted to ₱20.81 million and ₱3.53 million, respectively (see Note 10).

As of December 31, 2018 and 2017, noncash acquisitions of property, plant and equipment, amounted to ₱346.18 million and ₱141.04 million, respectively.

As of December 31, 2018, the impairment loss of ₱71.43 million pertains to the write-down of leasehold improvements and water treatment equipment of MWTS to its recoverable amount arising from the closure of several of its water bottling plants during the year.

As of December 31, 2018 and 2017, fully depreciated property, plant and equipment that are still in use by the Group amounted to ₱3,023.37 million and ₱2,683.31 million, respectively.

10. Service Concession Assets and Obligations

a. Service concession assets

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	**₱98,574,659,298**	₱87,000,596,988
Additions:		
Rehabilitation works	**9,442,899,007**	11,474,241,845
Concession fees	**948,016,106**	91,418,802
Transfers (Note 9)	**16,648,552**	3,952,258
Local component cost	**13,095,189**	4,449,405
Balance at end of year	**108,995,318,152**	98,574,659,298

(Forward)

	2018	2017
Accumulated amortization		
Balance at beginning of year	**₱24,423,713,917**	₱22,347,349,894
Amortization	**2,042,038,397**	2,075,944,112
Transfers (Note 9)	**–**	419,911
Balance at end of year	**26,465,752,314**	24,423,713,917
Net book value	**₱82,529,565,838**	₱74,150,945,381

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, of the Parent Company, Laguna Water, Boracay Water, Clark Water, Obando Water, and Calasiao Water pursuant to the Group's concession agreements, and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the concession arrangements. As of December 31, 2018 and 2017, SCA includes assets under construction amounting to ₱23,082.31 million and ₱19,523.40 million in 2018 and 2017, respectively.

SCA also includes prepaid concession fees which represents the thirty percent (30%) ownership of the PGL in Laguna Water. These are amortized based on the terms set forth in Laguna Water's concession agreement (see Note 1). As of December 31, 2018 and 2017, the unamortized portion of prepaid concession fees presented as part of SCA amounted to ₱84.36 million.

Contract assets arising from concession agreements consist of the cost of rehabilitation works covered by the concession agreements of the Parent Company, Laguna Water, Boracay Water, Clark Water, and Calasiao Water.

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱1,018.30 million, ₱713.33 million, and ₱654.30 million in 2018, 2017, and 2016, respectively. The capitalization rates used ranged from 0.64% to 7.57% in 2018, 5.12% to 9.15% in 2017, and 2.62% to 9.15% in 2016.

As of December 31, 2018 and 2017, non-cash acquisitions of SCA amounted to ₱92.77 million and ₱3.53 million.

b. *Service concession obligations*

The breakdown of service concession obligations follows:

	2018	2017
Current	**₱809,405,231**	₱800,961,856
Noncurrent	**7,119,121,473**	6,646,714,054
	₱7,928,526,704	₱7,447,675,910

<u>MWSS Concession Fees</u>
The aggregate concession fees of the Parent Company fare equal to the sum of the following:

i. 10% of the aggregate Peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
ii. 10% of the aggregate Peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
iii. 10% of the local component costs and cost overruns related to the UATP;
iv. 100% of the aggregate Peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the Parent Company for continuation;
v. 100% of the local component costs and cost overruns related to existing projects;
vi. Parent Company's share in the repayment of MWSS loan for the financing of new projects; and
vii. one-half of MWSS annual corporate operating budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II. Total loan facility amounted to $116.60 million with a maturity of twenty (20) years including a five (5)-year grace period. The interest rate is 3.00% per annum.

MWSS subsequently entered into a MOA with the Parent Company and Maynilad for the Parent Company and Maynilad to equally shoulder the repayment of the loan with such repayment to form part of the concession fees.

On May 12, 2015, MWSS entered into a MOA with the Parent Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2016, the Parent Company paid MWSS ₱500.00 million as compensation for additional water allocation in the Angat reservoir.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency-Denominated Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2019	$9,750,894	₱395,714,907	₱908,416,913
2020	9,348,648	395,714,907	887,266,819
2021	6,711,761	395,714,907	748,619,300
2022	6,419,168	395,714,907	733,234,760
2023	6,567,631	395,714,907	741,040,945
2024 onwards	51,115,013	5,540,008,695	8,227,636,079
	$89,913,115	₱7,518,583,230	₱12,246,214,816

**Peso equivalent is translated using the closing rate as of December 31, 2018 amounting to ₱52.58 to US$1.*

PGL Concession Fees
Under Laguna Water's concession agreement with PGL, Laguna Water is required to pay concession fees to PGL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Seventy percent (70%) of the concession fees shall be applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, starting on the first operational period, which begins upon the expiration of the transition period. Advances as of December 31, 2018 and 2017 amounted to ₱84.36 million.

TIEZA Concession Fees
The aggregate concession fees pursuant to Boracay Water's concession agreement with TIEZA is equal to the sum of the following:

i. servicing the aggregate Peso equivalent of all liabilities of BWSS as of commencement date;
ii. 5% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes which are for the account of Boracay Water; and
iii. payment of annual operating budget of the TIEZA-RO starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.00 million. For the year 2012 and beyond, Boracay Water shall pay not more than ₱20.00 million, subject to annual CPI adjustments.

CDC Concession Fees
The aggregate concession fees pursuant to Clark Water's concession agreement with CDC is equal to the sum of the following:

i. annual franchise fee of ₱1.50 million; and
ii. semi-annual rental fees of ₱2.77 million for leased facilities from CDC.

As a result of the extension of the concession agreement of Clark Water, payment of rental fees on the CDC existing facilities was extended by an additional fifteen (15) years from October 1, 2025 to October 1, 2040 (see Note 1).

OWD Concession Fees
The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD and 2% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

For the year ended December 31, 2018, concession fees recognized as part of SCA and SCO arising from the concession agreement with OWD amounted to ₱470.94 million (nil as of December 31, 2017).

CWD Concession Fees
Under Calasiao Water's concession agreement with CWD, concession fees are based on a fixed schedule of annual payments over the twenty five (25) year concession period.

For the year ended December 31, 2017, concession fees recognized as part of SCA and SCO arising from the concession agreement with CWD amounted to ₱80.11 million (nil as of December 31, 2018).

c. *Concession financial receivables*

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	**₱1,395,814,171**	₱1,214,410,232
Additions:		
Rehabilitation works	**–**	197,895,186
Service income	**82,023,265**	79,158,815
Finance income (Note 17)	**55,058,838**	181,095,164
Reclassification to contract assets (Notes 2 and 6)	**(206,953,634)**	–
Reclassification from contract assets (Note 6)	**11,428,664**	–
Collections	**(275,730,349)**	(276,745,226)
Balance at end of year	**1,061,640,955**	1,395,814,171
Allowance for ECL		
Balance at beginning of year	**(11,262,889)**	(8,596,614)
Provisions (Note 17)	**(3,336,524)**	(2,666,275)
Balance at end of year	**(14,599,413)**	(11,262,889)
Net book value	**₱1,047,041,542**	₱1,384,551,282

The breakdown of concession financial receivables follows:

	2018	2017
Current	**₱193,706,165**	₱197,043,608
Noncurrent	**853,335,377**	1,187,507,674
	₱1,047,041,542	₱1,384,551,282

MCWD Bulk Water Supply Agreement
On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the MCWD. In relation to this, Cebu Water and MCWD signed a twenty (20)-year Bulk Water Supply Agreement for the supply of eighteen (18) million liters per day of water for the first year and thirty-five (35) million liters per day of water for years two (2) up to twenty (20).

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between Cebu Water and MCWD, whereby the facilities constructed by Cebu Water shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of eighteen (18) million liters per day for the first year and thirty-five (35) million liters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter.

In 2016, due to the declaration of the state of calamity arising from the El Niño, Cebu Water and MCWD invoked the force majeure clause in the Bulk Water Supply Agreement which effectively lifted the requirement for MCWD to purchase and for Cebu Water to deliver the agreed thirty-five (35) million liters of water starting January 2016 until September 2016. Due to this change in the timing of the implementation of the thirty five (35) million liters of guaranteed volume, Cebu Water recognized in 2016 an impairment loss amounting to ₱8.60 million on its concession financial receivable (see Note 17).

In 2018 and 2017, Cebu Water invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required thirty-five (35) million liters of water to MCWD. As a result, Cebu Water recognized ₱3.34 million and ₱2.67 million impairment loss for the years ended December 31, 2018 and 2017, respectively (see Note 17).

As of December 31, 2018 and 2017, concession financial receivable from the Bulk Water Supply Agreement of Cebu Water amounted to ₱1,047.04 million and ₱1,177.60 million, respectively.

TWD Bulk Water Sales and Purchase Agreement
The concession financial receivable arising from the Bulk Water Sales and Purchase Agreement between Tagum Water and TWD is accounted for in accordance with IFRIC 12. As of December 31, 2018 and 2017, Tagum Water was constructing water treatment facilities which shall be used for the delivery of potable water to TWD at an aggregate volume of twenty-six (26) million liters per day for the 1st to 3rd years; thirty-two (32) million liters per day for the 4th to 6th years; and thirty-eight (38) million liters per day for the remaining years of the agreement. There shall be a tariff rate adjustment of fifteen percent (15%) every three (3) years starting on the 4th year from the Operations Start Date as defined in the Bulk Water Sale and Purchase Agreement.

As of December 31, 2018, the net balance of rehabilitation works and finance income earned during the construction phase and recognized as part of contract assets amounted to ₱485.45 million and is presented as part of contract assets in the 2018 consolidated statements of financial position (see Note 6). As of December 31, 2017, concession financial receivable arising from the Bulk Water Sales and Purchase Agreement of Tagum Water amounted to ₱206.95 million (see Notes 2 and 6).

11. **Investments in Associates**

This account consists of the following:

	2018	2017
Acquisition cost	**₱13,443,606,385**	₱4,637,970,238
Accumulated equity in net earnings	**1,547,479,451**	1,262,156,536
Cumulative translation adjustments	**1,003,863,210**	895,910,482
	₱15,994,949,046	₱6,796,037,256

Details of the Group's investments in associates are shown below.

Thu Duc Water
Thu Duc Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October 12, 2011, TDWH and Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) entered into a share sale and purchase agreement whereby CII will sell to TDWH its 49.00% interest (equivalent to 2.45 million common shares) in Thu Duc Water. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of Thu Duc Water after which TDWH obtained significant influence in Thu Duc Water.

The acquisition cost of the investment amounted to ₱1.79 billion (VND858.00 billion). The investments in associate account includes a notional goodwill amounting to ₱1.41 billion arising from the acquisition of shares of stock in Thu Duc Water.

The financial information of Thu Duc Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱213,377,855**	₱156,621,929
Noncurrent assets	**3,938,017,112**	3,221,460,900
Current liabilities	**323,778,792**	263,328,725
Noncurrent liabilities	**440,281,223**	438,553,813
Revenue	**851,034,995**	807,978,209
Net income	**520,193,273**	493,766,963

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the net income of Thu Duc Water for the years ended December 31, 2018, 2017 and 2016 amounted to ₱254.89 million, ₱241.95 million, and ₱228.97 million, respectively.

Kenh Dong Water
Kenh Dong Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On May 17, 2012, the Parent Company, through KDWH, entered into a sale and purchase agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The payment for the shares was done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱1.66 billion.

As of December 31, 2012, considerations paid by the Parent Company for its investment in Kenh Dong Water amounted to ₱1.57 billion (VND785.24 billion). The share purchase transaction was completed on July 20, 2012 and KDWH gained significant influence in Kenh Dong Water.

In 2013, Kenh Dong Water finalized its purchase price allocation which resulted in a final notional goodwill amounting to ₱1.38 billion.

The financial information of Kenh Dong Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱689,947,464**	₱407,147,852
Noncurrent assets	**3,900,513,345**	3,736,694,413
Current liabilities	**406,157,481**	410,774,584
Noncurrent liabilities	**1,348,948,908**	1,208,080,222
Revenue	**511,661,133**	488,878,021
Net income	**322,399,454**	313,383,602

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the net income of Kenh Dong Water for the years ended December 31, 2018, 2017, and 2016 amounted to ₱152.66 million, ₱148.39 million, and ₱127.46 million, respectively.

The Group's share in net income from its investments in Thu Duc Water and Kenh Dong Water resulted from concession arrangements with the People's Committee of Ho Chi Minh City (the Grantor). These concession arrangements are accounted for under the Financial Asset model of IFRIC 12 as these associates have an unconditional contractual right to receive fixed and determinable amounts of payment for its construction services at the direction of the Grantor.

Saigon Water
Saigon Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam. Saigon Water is listed in the Ho Chi Minh City Stock Exchange.

On October 8, 2013, the Parent Company, through MWSAH, entered into an Investment Agreement for the acquisition of a 31.47% stake in Saigon Water. The acquisition cost of the investment amounted to ₱642.76 million (VND310.45 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH gained significant influence in Saigon Water.

In 2014, MWSAH finalized the notional goodwill amounting to ₱288.84 million arising from the acquisition of shares of stock in Saigon Water by the Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water for ₱229.16 million (VND103.87 billion), which increased MWSAH's holding in Saigon Water's outstanding capital stock to 37.99% from 31.47%. The notional goodwill arising from the additional subscription amounted to ₱39.47 million.

In 2018, MWSAH recognized impairment on its investment in Saigon Water amounting to ₱65.41 million arising from the decline in the market capitalization of Saigon Water shares. This is presented as part of "Other income - net" in the consolidated statement of comprehensive income for the year ended December 31, 2018.

The financial information of Saigon Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱1,143,528,444**	₱940,973,673
Noncurrent assets	**4,842,593,792**	8,608,679,526
Current liabilities	**424,658,015**	3,958,675,293
Noncurrent liabilities	**3,167,576,010**	3,426,623,174
Revenue	**597,745,763**	86,112,309
Net income	**72,305,734**	212,504,820

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the consolidated net income of Saigon Water for the years ended December 31, 2018, 2017, and 2016 amounted to ₱27.47 million, ₱66.89 million, and ₱12.40 million, respectively. Closing share price of Saigon Water as of December 28, 2018 was VND17,150 per share.

Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)
Cu Chi Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water in the total amount of ₱318.16 million (VND154.35 billion). Pursuant to the Capital Transfer Agreement, Saigon Water granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. As of December 31, 2018 and 2017, no trigger event has occurred and the value of the put option was determined to be nil.

The financial information of Cu Chi Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱108,941**	₱128,177
Noncurrent assets	**1,486,783,437**	1,411,827,853
Current liabilities	**115,000**	111,327

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the net income of Cu Chi Water amounted to nil in both 2018 and 2017, and ₱8,117 in 2016.

PT STU
PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia.

On March 6, 2018, PTMWI acquired 4,478 ordinary shares in PT STU to own 20% of the outstanding capital stock.

The financial information of PT STU as of December 31, 2018 and for the period March 6 to December 31, 2018 follows:

Current assets	₱36,564,148
Noncurrent assets	169,645,979
Current liabilities	8,123,117
Noncurrent liabilities	1,587
Revenue	65,779,462
Net income	7,015,707

The conversion rates used was ₱0.0036 to IDR1 as of December 31, 2018.

The acquisition cost of the investment amounted to ₱37.00 million (IDR10.00 billion). The investment in associate account includes a notional goodwill amounting to ₱1.12 million arising from the acquisition of shares of stock in PT STU. The share in the net identifiable assets of PT STU on the date of acquisition amounted to ₱35.91 million.

The share of the Group in the net income of STU amounted to ₱1.40 million in 2018.

East Water
East Water is incorporated in Thailand with principal place of business in Bangkok, Thailand. East Water is listed in the Stock Exchange of Thailand.

On March 14, 2018, MWTC acquired 311.44 million ordinary shares in East Water representing 18.72% equity of East Water.

The financial information of East Water as of December 31, 2018 and for the period from March 14 to December 31, 2018 follows:

Current assets	₱1,383,264,201
Noncurrent assets	48,437,442,066
Current liabilities	3,602,841,873
Noncurrent liabilities	9,826,027,340
Revenue	6,194,498,451
Net income	1,403,413,951

The conversion rates used was ₱1.6220 to THB1 as of December 31, 2018.

The acquisition cost of the investment amounted to ₱8.83 billion (THB5.29 billion). The investment in associate account includes a notional goodwill amounting to ₱1.81 billion arising from the acquisition of shares in East Water. Share in net identifiable assets on date of acquisition amounted to ₱6.81 billion.

The share of the Group in the net income of East Water amounted to ₱262.72 million in 2018. Closing share price of East Water as of December 28, 2018 was THB10.70 per share.

The reconciliation of the net assets of the associates to the carrying amounts of the investments in associates recognized in the consolidated financial statements follows:

December 31, 2018					
Associate	**Net Assets of Associate***	**Proportionate Ownership Interest**	**Share in Net Identifiable Assets**	**Notional Goodwill**	**Carrying Values**
Thu Duc Water	**₱3,387,334,952**	**49.00%**	**₱1,659,794,127**	**₱1,413,891,653**	**₱3,073,685,780**
Kenh Dong Water	**2,835,354,420**	**47.35%**	**1,342,540,318**	**1,378,777,432**	**2,721,317,750**
Saigon Water	**2,393,888,210**	**37.99%**	**909,438,131**	**262,902,118**	**1,172,340,249**
Cu Chi Water	**1,486,777,378**	**24.50%**	**364,260,458**	**–**	**364,260,458**
PT STU	**198,085,423**	**20.00%**	**39,617,084**	**1,122,763**	**40,739,847**
East Water	**36,391,837,054**	**18.72%**	**6,812,551,896**	**1,810,053,066**	**8,622,604,962**
Total	**₱46,693,277,437**		**₱11,128,202,014**	**₱4,866,747,032**	**₱15,994,949,046**

**Attributable to common shareholders.*

December 31, 2017					
Associate	Net Assets of Associate*	Proportionate Ownership Interest	Share in Net Identifiable Assets	Notional Goodwill	Carrying Values
Thu Duc Water	₱2,676,200,291	49.00%	₱1,311,338,143	₱1,413,891,653	₱2,725,229,796
Kenh Dong Water	2,524,987,459	47.35%	1,195,581,562	1,378,777,432	2,574,358,994
Saigon Water	2,164,354,732	37.99%	822,238,363	328,308,151	1,150,546,514
Cu Chi Water	1,411,844,703	24.50%	345,901,952	–	345,901,952
Total	₱8,777,387,185		₱3,675,060,020	₱3,120,977,236	₱6,796,037,256

**Attributable to common shareholders.*

The rollforward of acquisition cost follows:

	2018	2017
Balance at beginning of year	**₱4,637,970,238**	₱4,408,813,817
Acquisitions during the year	**8,871,042,180**	229,156,421
Impairment loss	**(65,406,033)**	–
Balance at end of year	**₱13,443,606,385**	₱4,637,970,238

The rollforward of accumulated equity in net earnings follow:

	2018	2017
Balance at beginning of year	**₱1,262,156,536**	₱989,992,650
Equity in net earnings	**699,142,026**	457,208,214
Dividend income	**(413,819,111)**	(185,044,328)
Balance at end of year	**₱1,547,479,451**	₱1,262,156,536

12. **Other Noncurrent Assets**

This account consists of:

	2018	2017
Deferred FCDA	**₱2,620,320,458**	₱1,329,350,908
Advances to contractors	**916,675,329**	940,654,519
Receivable from BWC - net of current portion (Note 6)	**321,014,249**	451,322,564
Deposits (Note 27)	**160,879,074**	1,470,144,649
Water banking rights	**65,795,763**	60,067,335
Receivable from Ayala Multi-Purpose Cooperative (AMPC)	**54,040,000**	53,989,674
Receivable from ZCWD - net of current portion (Notes 2 and 6)	**–**	52,016,776
Pension assets - net (Note 15)	**–**	16,111,500
Miscellaneous	**66,872,471**	56,719,872
	₱4,205,597,344	₱4,430,377,797

Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

Advances to contractors are being recouped against progress billings based on contract provisions and are advance payments for the construction of the Group's property and equipment and service concession assets.

Deposits pertain to those made for land acquisition, for leased properties, and for guaranty deposits with Manila Electric Company for electric connections and its related deferred charges. In 2018, deposit for land acquisition amounting to ₱1,299.85 million which was outstanding as of December 31, 2017 was reclassified to rehabilitation works under SCA (see Note 10).

Water banking rights pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River, and Agno River. On August 22, 2012, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows Cebu Water to use for its project. As of December 31, 2018 and 2017, Cebu Water's water banking right amounted to ₱45.00 million.

In 2018 and 2017, MWPVI incurred costs to acquire conditional water permits from the NWRB amounting to ₱5.73 million and ₱15.07 million, respectively. A conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring device and water distribution system, and environmental compliance certification by the Department of Environment and Natural Resources, among others. In 2018, the NWRB granted MWPVI the permits to use the water from the Pampanga River, Abacan River, and Pasig-Potrero River. These permits supersede the conditional water permits granted to MWPVI in 2017. As of December 31, 2018, the Group believes that the remaining requirements for the Agno River are ministerial and is certain that it will be able to comply with the conditions required.

The Group estimates the useful lives of its water banking rights to be indefinite considering that the water permits remain valid for as long as water is beneficially used. The water banking rights is assessed for impairment.

Receivable from AMPC pertains to the term loan and credit line facility agreement.

Miscellaneous noncurrent assets include Cebu Water's advances to the Carmen Development Fund for its permit to extract water at the Carmen property in Cebu amounting to ₱26.16 million and ₱28.81 million in 2018 and 2017, respectively.

13. **Accounts and Other Payables**

This account consists of:

	2018	2017
Trade payables	**₱4,636,951,587**	₱3,796,858,319
Accrued expenses:		
Salaries, wages, and employee benefits	**455,105,714**	375,047,266
Management and professional fees	**291,627,193**	218,411,769
Contractual services	**168,977,380**	84,130,960
Utilities	**164,286,216**	118,468,767
Repairs and maintenance	**162,913,118**	149,057,152
Wastewater costs	**69,873,120**	70,240,794
Occupancy costs (Note 27)	**45,724,833**	33,225,007
Collection fees	**38,776,372**	60,519,672
Water service connections	**25,611,837**	20,899,072
Rental of equipment	**14,950,815**	12,995,565
Water treatment chemicals	**4,335,003**	18,252,986
Miscellaneous	**321,458,602**	146,388,809
Interest payable (Note 14)	**435,977,783**	353,446,176
Contractors' payable	**357,234,597**	276,673,535
Contract liabilities	**17,891,680**	–
Others	**97,478,392**	147,932,432
	₱7,309,174,242	₱5,882,548,281

Trade payables and accrued expenses are non-interest bearing and are normally settled on fifteen (15) to sixty (60)-day terms.

Miscellaneous accrued expenses include accruals for communication, advertising, insurance, transportation and travel, postage, telephone and supplies.

Interest payable pertains to the unpaid portion of interest arising from the short-term and long-term debts of the Group.

Contractors' payable pertains to the accrual of expenses which requires the Group to pay the contractor based on progress billings. Contracts payable are normally settled within one (1) year.

Other payables are non-interest bearing and are normally settled within one (1) year.

14. **Short-term and Long-term Debt**

a. *Short-term debt*

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.30 billion to finance MWTC's acquisition of the shares in East Water (see Note 11). The loan bears interest of BIBOR plus margin and is guaranteed by the Parent Company.

As of December 31, 2018, the carrying value of the short-term debt amounted to ₱8,596.54 million.

b. *Long-term debt*

The composition of the Group's long-term debt follows:

	2018	2017
USD loans:		
NEXI Loan	**₱1,943,410,415**	₱2,749,959,587
MWMP Loan	**3,726,897,404**	3,097,191,169
Japanese Yen (JPY) loans:		
JP¥40.00 billion Loan	**12,931,751,997**	14,999,076,082
MTSP Loan	**562,501,053**	672,747,524
First IFC Loan	**–**	63,333,112

(Forward)

	2018	2017
Canadian Dollar (CAD) loan:		
CAD0.87 million Laguna Water Loan	**₱33,333,702**	₱32,846,880
PHP loans:		
₱5.00 billion Metrobank Loan	**4,866,865,987**	4,887,248,393
₱5.00 billion PNB Loan	**4,840,160,200**	–
Fixed Rate Corporate Notes	**4,834,255,682**	4,862,889,900
₱0.50 billion Laguna Water Loan	**132,913,863**	199,078,657
₱0.50 billion Laguna Water DBP Loan	**432,950,526**	462,259,567
₱0.83 billion Laguna Water DBP Loan	**743,134,519**	793,440,867
₱2.50 billion Laguna Water SBC Loan	**2,293,533,298**	2,483,697,720
₱0.50 billion Boracay Water DBP-SBC Loan	**371,770,818**	400,747,893
₱0.50 billion Boracay Water DBP-SBC Loan	**397,710,122**	428,696,298
₱0.65 billion Boracay Water DBP-SBC Loan	**642,725,465**	641,839,570
₱2.40 billion Boracay Water BPI Loan	**595,629,415**	–
₱1.15 billion Clark Water RCBC Loan	**1,118,652,260**	1,141,664,926
₱0.10 billion Clark Water RCBC Loan	**100,000,000**	–
₱0.75 billion Cebu Water DBP Loan	**655,809,904**	699,263,561
₱85.00 million Zamboanga Water DBP Loan	**84,709,476**	84,719,870
₱4.00 billion MWPVI Loan	**1,340,966,833**	894,422,930
₱0.45 billion Tagum Water PNB Loan	**401,244,632**	129,254,950
	43,050,927,571	39,724,379,456
Less current portion	**5,525,372,414**	4,614,057,448
	₱37,525,555,157	₱35,110,322,008

Unamortized debt discounts and issuance costs of the Group's long-term debt as of December 31, 2018 and 2017 follow:

	2018	2017
USD loans	**₱52,499,381**	₱80,039,544
JPY loans	**179,542,477**	259,654,871
PHP loans	**93,299,672**	58,671,881
	₱325,341,530	₱398,366,296

The rollforward analysis of unamortized debt discounts and issuance costs of long-term debt follows:

	2018	2017
Balance at beginning of year	**₱398,366,296**	₱240,528,905
Additions	**42,176,807**	280,390,431
Amortization (Note 17)	**(138,892,431)**	(124,780,167)
Foreign exchange adjustments	**23,690,858**	2,227,127
Balance at end of year	**₱325,341,530**	₱398,366,296

Parent Company Loans

NEXI Loan

On October 21, 2010, the Parent Company entered into a term loan agreement (NEXI Loan) amounting to US$150.00 million to partially finance capital expenditures within the Manila Concession. The loan has a tenor of ten (10) years and is financed by a syndicate of four (4) banks, namely, ING N.V Singapore, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd., and Sumitomo Mitsui Banking Corporation, and is insured by Nippon Export and Investment Insurance. The first, second, and third drawdowns of the loan amounted to US$84.00 million, US$30.00 million, and US$36.00 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to US$36.96 million and US$55.08 million, respectively.

MWMP Loan

On October 2, 2012, the Parent Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank (MWMP Loan). The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty five (25) years and was made available in United States Dollar in the aggregated principal amount of US$137.5 million, payable via semi-annual installments after the seven (7)-year grace period. The Parent Company has made four (4) drawdowns in 2015 with an aggregate amount of US$22.60 million, three (3) drawdowns in 2016 with an aggregate amount of US$17.46 million, and three (3) drawdowns in 2017 with a total amount of US$22.40 million. In 2018, the Parent Company made an additional drawdown amounting to US$8.88 million. The carrying value of the MWMP loan as of December 31, 2018 and 2017 is US$70.88 million and US$62.03 million, respectively.

Summary of financial transactions related to the MWMP Loan for the years ended December 31, 2018 and 2017 are shown below (in thousands):

	2018	2017
Balance at beginning of year	**$28**	$100
Amounts received during the year	**8,880**	22,400
Expenditures during the year	**(8,777)**	(22,472)
Balance at end of year	**$131**	$28

The US$0.13 million and US$0.03 million as at December 31, 2018 and 2017, respectively, represents the outstanding balance of the Land Bank of the Philippines designated account No. 3404-032-835, under the account name MWMP - Category 1 - MWCI, and is presented as part of "Other receivables" under the "Receivables" account (see Note 6). The proceeds of the MWMP Loan will be expended in accordance with the intended purposes as specified in the loan agreement.

JP¥40 billion Loan
On September 30, 2015, the Parent Company signed a seven (7)-year JP¥40.00 billion term loan facility, payable semi-annually, with three (3) international banks: MUFJ Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan will be used to finance the Parent Company's capital expenditures. The Parent Company made its first drawdown on March 9, 2016 amounting to JP¥13.40 billion. In 2017, the Parent Company made two (2) additional drawdowns totaling JP¥ 26.60 billion. The Parent Company has not made any drawdown in 2018. The loan's carrying value as of December 31, 2018 and 2017 is JP¥27,219.01 million and JP¥33,911.54 million, respectively.

MTSP Loan
On October 20, 2005, the Parent Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (MTSP Loan) to finance the improvement of the sewerage and sanitation conditions in the Manila Concession. The loan has a term of seventeen (17) years and was made available in Japanese Yen in the aggregate principal amount of JP¥6.59 billion payable via semi-annual installments after the five (5)-year grace period.

The Parent Company made its last drawdown on October 26, 2012. The total drawn amount from the loan is JP¥3.99 billion. As of December 31, 2018 and 2017, the outstanding balance of the MTSP loan amounted to JP¥1.18 billion and JP¥1.52 billion, respectively.

First IFC Loan
On March 28, 2003, the Parent Company entered into a loan agreement with IFC (First IFC Loan) to partially finance the Parent Company's investment program from 2002 to 2005 to expand water supply and sanitation services, for improvement of the existing facilities of the Parent Company, and for concession fee payments. The First IFC Loan was made available in Japanese Yen in the aggregate principal amount of JP¥3.59 billion equivalent to US$30.00 million and payable in twenty five (25) semi-annual installments, within twelve (12) years starting on July 15, 2006.

On July 15, 2018, the Parent Company paid the outstanding balance of the loan as scheduled. As of December 31, 2018 and 2017, the carrying value of the loan amounted to nil and JP¥143.19 million, respectively.

₱5.00 billion Metrobank Loan
On August 16, 2013, the Parent Company entered into a Credit Facility Agreement (₱5.00 billion Metrobank Loan) with Metropolitan Bank and Trust Company (Metrobank) having a fixed nominal rate of 4.42% and with a term of seven (7) years from the issue date and is payable annually. The Parent Company may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱4,866.87 million and ₱4,887.25 million, respectively.

₱5.00 billion Philippine National Bank (PNB) Loan
On May 11, 2018, the Parent Company signed a ₱5.0 billion, ten (10)-year term loan facility with the PNB. The loan will be used to finance general corporate requirements and capital investment programs in the Manila Concession as well as to refinance existing concessionaire loans. On July 31, 2018, the Parent Company made its first and only drawdown amounting to ₱5.0 billion. The carrying value of the loan as of December 31, 2018 amounted to ₱4,840.16 million.

Fixed Rate Corporate Notes
On April 8, 2011, the Parent Company issued ₱10.00 billion notes (Fixed Rate Corporate Notes) with ₱5.00 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.00 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date, both of which is payable quarterly. The Parent Company may repay the whole and not a part only of the Ten-Year FXCN Note on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter.

On April 8, 2016, the Parent Company repaid the outstanding balance of the Five-Year FXCN in bullet as scheduled. The carrying value of the fixed rate corporate notes as of December 31, 2018 and 2017 amounted to ₱4,834.26 million and ₱4,862.89 million, respectively.

Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements
On July 17, 2008, the Parent Company, together with all of its lenders, signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligations of the Parent Company to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the Parent Company in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by the Parent Company, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released the Parent Company from the assignment of its present and future fixed assets, receivables, and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where the Parent Company is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, the Parent Company agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either the Parent Company or MWSS. Currently, all lenders of the Parent Company are considered Concessionaire Lenders and are on pari passu status with one another.

In November and December 2014, the Parent Company signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing the Parent Company more operational and financial flexibility. The loan amendments include the shift to the use of the Parent Company from consolidated financial statements for the purposes of calculating the financial covenant ratios, the increase in maximum debt to equity ratio to 3:1 from 2:1 and the standardization of the definition of debt service coverage ratio at a minimum of 1.2:1 across all loan agreements.

Laguna Water Loans
On September 7, 2010, Laguna Water entered into a loan agreement with two (2) local banks for the financing of its construction, operation, maintenance, and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to Laguna Water up to ₱500.00 million, the principal payments of which will be made in thirty (30) consecutive equal quarterly installments starting August 2013. The first and second drawdowns from the loan were made in November 2010 and June 2011 amounting to ₱250.00 million each. The carrying value of this loan amounted to ₱132.91 million and ₱199.08 million as of December 31, 2018 and 2017, respectively.

On April 29, 2013, Laguna Water entered into a loan agreement with DBP to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.00 million bearing an effective interest rate of 7.29%. The first and second drawdowns were made in July and November 2013 which amounted to ₱250.00 million each. The carrying value of this loan as of December 31, 2018 and 2017 amounted to ₱432.95 million and ₱462.26 million, respectively.

On January 9, 2014, Laguna Water exercised its option to avail of the second tranche of its loan agreement with DBP, to finance its water network and supply projects, including the development of a well-field network in the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, the lender provided additional loans to Laguna Water in the aggregate principal amount of ₱833.00 million. The first and second drawdowns were made in January and May 2014, respectively, amounting to ₱416.50 million each. The carrying value of the loan amounted to ₱743.13 million and ₱793.44 million as of December 31, 2018 and 2017, respectively.

On October 23, 2015, Laguna Water entered into a loan agreement with Security Bank Corp. (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.50 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015 amounting to ₱600.00 million bearing an effective interest rate of 6.14%. The second drawdown was made in two tranches in April 2016 amounting to ₱150.00 million and ₱300.00 million bearing effective interest rates of 5.98% and 6.39%, respectively. The third drawdown was made in September 2016 amounting to ₱400.00 million bearing an effective interest rate of 5.53%. The fourth drawdown was made in three (3) tranches, the first tranche in March amounting to ₱100.00 million bearing an effective interest rate of 6.34% and the second and third tranches in April 2017 amounting to ₱50.00 million and ₱350.00 million bearing an effective interest rate of 6.50% and 6.54%, respectively. The fifth drawdown was made in two (2) tranches in September 2017 amounting to ₱150.00 million and ₱400.00 million bearing an effective interest rate of 6.31% and 6.42%, respectively. The carrying value of the loan amounted to ₱2,293.53 million and ₱2,483.70 million as of December 31, 2018 and 2017, respectively.

On March 29, 2017, Laguna Water entered into a loan agreement with Grand Challenges Canada to fund a project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CAD873,000. The project supported by the loan is the “Bundling water and sanitation services for the poor in informal urban communities.” As of December 31, 2018 and 2017, the carrying value of the loan amounted to CAD873,000 and CAD827,044, respectively.

Boracay Water Loans
On July 29, 2011, Boracay Water entered into an Omnibus Loan and Security Agreement with DBP and SBC to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for its service area under its concession agreement with TIEZA, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.00 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

Omnibus loan and security agreement - Sub-tranche 1
The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱250.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 1B, the loan in the amount of ₱125.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.00 million to be provided by SBC and funded through its internally-generated funds.

The first, second, and final loan drawdowns amounted to ₱150.00 million on August 25, 2011, ₱155.00 million on August 25, 2012, and ₱195.00 million on August 23, 2013, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱371.77 million and ₱400.75 million, respectively.

Omnibus loan and security agreement - Sub-tranche 2
The Agreement provided Boracay Water the option to borrow additional loans from the lenders. On November 14, 2012, Boracay Water entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.00 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 2B, the loan in the amount of ₱125.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 2C, the loan in the amount of ₱125.00 million to be provided by SBC and funded through its internally-generated funds.

The first, second, and final loan drawdowns amounted to ₱75.00 million on November 23, 2012, ₱200.00 million on August 26, 2014, and ₱225.00 million on November 25, 2015, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱397.71 million and ₱428.70 million, respectively.

Omnibus Loan and Security Agreement – Sub-tranche 3
On October 9, 2014, Boracay Water signed a Third Omnibus Loan and Security Agreement amounting to ₱650.00 million with SBC. The loan will be used to fund the capital expenditures which will be used to provide water and sewerage services in the concession area of Boracay Water. The first, second, and third drawdowns on this loan were made on November 25, 2016, May 25, 2017, and September 25, 2017, amounting to ₱200.00 million, ₱250.00 million, ₱200.00 million, respectively. The carrying value of loan as of December 31, 2018 and 2017 amounted to ₱642.73 million and ₱641.84 million, respectively.

Omnibus Loan and Security Agreement – Bank of the Philippine Islands (BPI)
On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The loan will be used to finance the general corporate and capital expenditures requirements of Boracay Water. The first, second, and third drawdowns on this loan were made on April 30, 2018, September 25, 2018, and December 20, 2018, amounting to ₱250.00 million, ₱250.00 million, ₱100.00 million, respectively. The carrying value of loan as of December 31, 2018 amounted to ₱595.63 million.

Clark Water Loans
On April 10, 2015, Clark Water entered into a loan agreement with Rizal Commercial Banking Corporation (RCBC), whereby RCBC extended credit to Clark Water for up to ₱1.15 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate ranging from 6.13% to 6.56%, and principal payments will be made in forty eight (48) consecutive equal quarterly installments starting December 2018.

The first and second drawdowns on the loan were made in September and December 2015, amounting to ₱800.00 million and ₱200.00 million, respectively. The third drawdown was made in August 2016 for ₱150.00 million. The carrying value of the loan amounted to ₱1,118.65 million and ₱1,141.66 million as of December 31, 2018 and 2017, respectively.

On December 13, 2018, Clark Water availed of a fifteen (15)-month term loan with RCBC amounting to ₱100.00 million to finance its working capital requirements. Under the agreement, the loan bears interest at the rate of 7.55% payable monthly. The loan's principal payment is due on March 13, 2020. The carrying value of the loan amounted to ₱100.00 million as of December 31, 2018.

Cebu Water Loan
On December 19, 2013, Cebu Water entered into an Omnibus Loan and Security Agreement with the Development Bank of the Philippines (DBP) to partially finance the construction works in relation to its bulk water supply project in Cebu. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.00 million or up to 70% of the total project cost, whichever is lower. Principal payments will be made in twenty (20) equal quarterly installments starting December 2017.

The first, second, and final drawdowns on the loan facility amounted to ₱541.13 million on December 20, 2013, ₱195.64 million on May 20, 2014, and ₱14.22 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱655.81 million and ₱699.26 million, respectively.

Zamboanga Water Loan
On June 30, 2016, Zamboanga Water signed a term loan agreement amounting to ₱85.00 million with DBP. The proceeds of the loan will be used to partially finance Zamboanga Water's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The first, second, and third loan drawdowns were made on July 29 and September 1, 2016 and September 29, 2017 amounting to ₱30.00 million for the first and second drawdowns and ₱25.00 million for the third drawdown. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱84.71 million and ₱84.72 million, respectively.

MWPVI Loan
On October 5, 2016, MWPVI signed a fifteen (15)-year fixed rate term loan facility amounting to ₱4.00 billion with SBC and Metrobank. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.00 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements.

On February 24, 2017, MWPVI made a bridge loan drawdown amounting to ₱150.00 million each from SBC and Metrobank. These bridge loans had a fixed rate of 2.75% and a 119-day term. On June 23, 2017, these bridge loans were rolled-over for additional 180 days with a rate of 2.90%, repriced monthly. On November 9, 2017, MWPVI repaid its ₱300.0 million bridge loan and made the first drawdown on its loan facility amounting to ₱450.00 million from each bank.

On October 5 and December 19, 2018, MWPVI made its subsequent drawdowns amounting to ₱50.00 million and ₱175.00 million from each bank, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱1,340.97 million and ₱894.42 million, respectively.

These loan drawdowns have a term of fourteen (14) to fifteen (15) years, with interest payable semi-annually and principal repayments starting on November 9, 2022.

Tagum Water Loan
On October 6, 2016, Tagum Water signed an Omnibus Loan and Security Agreement in the amount of ₱450.00 million with the PNB. The loan will be used to partially finance the construction works in relation to the Tagum Bulk Water Supply Project. Nominal interest is at 5.30% per annum, payable quarterly. Principal payments will be made in forty eight (48) equal quarterly installments starting December 2020. The first, second, and third drawdowns on this loan were made on September 25, 2017, April 18, 2018, and November 23, 2018, amounting to ₱130.00 million, ₱120.00 million, and ₱154.00 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱401.24 million and ₱129.25 million, respectively.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Group which include compliance with certain financial ratios such as the debt-to-equity and debt-service-coverage ratios. As of December 31, 2018 and 2017, the Group was in compliance with all the loan covenants required by the creditors and has not received any written notice of default from lenders or the trustees.

15. **Retirement Plan**

The Parent Company, Clark Water, Laguna Water, Boracay Water and MWPVI have funded and noncontributory defined benefit pension plans covering substantially all of their respective regular employees. The benefits are based on current salaries and years of service and compensation as of the last year of employment. The latest actuarial valuations were made on December 31, 2018.

RA No. 7641, the existing regulatory framework, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under law. The law does not require minimum funding for the plan.

The Parent Company's funding policies state that equivalent target funding ratio must always be at least 80% and should the ratio reach 120%, the Retirement and Welfare Plan Committee may opt to declare a funding holiday. In the event there is an extraordinary increase in defined benefit obligation, which may arise from benefit improvement, massive hiring and the other extraordinary personnel movements, the Parent Company has a maximum of three (3) years to comply with the required minimum funding ratio of 80%.

The retirement plans of Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPVI are each covered by a retirement fund administered by trustee banks, which are under the supervision of their respective Retirement and Welfare Plan Committees (the Committees). The Committees, which are composed of six (6) to seven (7) members appointed by management, defines the investment strategy of the fund and regularly reviews the strategy based on market developments and changes in the plan structure. When defining the investment strategy, the Committees take into account the plan's objectives, benefit obligations, and risk capacity. The Committees review, on a quarterly basis, the performance of the funds managed by trustee banks.

Changes in net defined benefit liability of funded funds are as follows:

	2018		
	Present value of defined benefit obligations	**Fair value of plan assets**	**Net defined benefit liabilities (assets)**
Balance at beginning of year	**₱923,796,600**	**₱898,401,840**	**₱25,394,760**
Net benefit costs in profit or loss:			
Current service cost	**77,968,300**	**–**	**77,968,300**
Net interest (Note 17)	**48,995,600**	**49,300,560**	**(304,960)**
	126,963,900	**49,300,560**	**77,663,340**
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	**–**	**(75,904,200)**	**75,904,200**
Actuarial changes arising from experience adjustments	**26,340,800**	**–**	**26,340,800**
Actuarial changes arising from changes in financial assumptions	**(47,200,100)**	**–**	**(47,200,100)**
	(20,859,300)	**(75,904,200)**	**55,044,900**
Benefits paid	**(121,290,300)**	**(121,290,300)**	**–**
Contributions	**–**	**48,711,200**	**(48,711,200)**
Balance at end of year	**₱908,610,900**	**₱799,219,100**	**₱109,391,800**

	2017		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities (assets) (Note 12)
Balance at beginning of year	₱788,361,200	₱874,544,300	(₱86,183,100)
Net benefit costs in profit or loss:			
Current service cost	71,358,400	–	71,358,400
Net interest (Note 17)	34,225,600	39,013,300	(4,787,700)
	105,584,000	39,013,300	66,570,700
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	–	21,379,500	(21,379,500)
Actuarial changes arising from experience adjustments	8,292,300	–	8,292,300
Actuarial changes arising from changes in financial assumptions	70,218,600	–	70,218,600
	78,510,900	21,379,500	57,131,400
Benefits paid	(48,659,500)	(48,659,500)	–
Contributions	–	12,124,240	(12,124,240)
Balance at end of year	923,796,600	₱898,401,840	₱25,394,760

The fair value of net plan assets by each class is as follows:

	2018	2017
Assets		
Cash and cash equivalents	**₱7,679,390**	₱8,649,560
Debt investments - domestic	**608,040,928**	652,180,773
Equity investments - domestic	**178,324,046**	233,187,517
Interest receivable	**5,832,273**	5,061,192
Other receivable	**67,212**	–
	799,943,849	899,079,042
Liabilities		
Accrued trust fees	**591,484**	677,202
Other payables	**133,265**	–
	724,749	677,202
Fair value of plan assets	**₱799,219,100**	₱898,401,840

All equity and debt investments held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in active markets.

The plan assets are invested in different financial instruments and do not have any concentration risk.

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions. The principal assumptions used in determining pension obligations for the defined benefit plans are shown below:

	2018	2017	2016
Discount rate	**8.25% to 8.50%**	4.50% to 5.75%	4.50% to 5.00%
Salary increase rate	**5.00% to 7.00%**	3.00% to 5.00%	3.00% to 6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

		Effect on Defined Benefit Obligation	
	Increase (Decrease)	**2018**	2017
Discount rate	1.00%	**(₱33,980,700)**	(₱70,079,305)
	(1.00%)	**48,292,208**	83,272,875
Salary increase rate	1.00%	**48,556,874**	82,907,441
	(1.00%)	**(34,579,187)**	(71,052,975)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than 1 year	**₱63,013,600**	₱66,894,400
More than 1 year and up to 5 years	**536,003,800**	476,233,300
More than 5 years and up to 10 years	**827,943,100**	442,875,600
	₱1,426,960,500	₱986,003,300

The average duration of the defined benefit obligation at the end of the reporting period is 12.65 years and 13.90 years as of December 31, 2018 and 2017, respectively.

The asset allocation of the plan is set and reviewed from time to time by the Committee taking into account the membership profile and the liquidity requirements of the plan. This also considers the expected benefit cash flows to be matched with asset durations.

Contributions to the plan are recommended by the Retirement and Welfare Plan Committee and approved by the Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPVI in consideration of the contribution advice from the actuary. The Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPVI are expected to contribute a total of ₱85.00 million to their respective defined benefit pension plans in 2019 based on the latest actuarial valuation report.

16. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	2018	2017
Deferred credits	**₱442,135,108**	₱425,098,105
Customers' guaranty deposits and other deposits	**334,643,538**	258,886,545
	₱776,778,646	₱683,984,650

Deferred credits pertain to the unamortized discounts of the customers' guaranty deposits. The rollforward analysis of the deferred credits follows:

	2018	2017
Balance at beginning of year	**₱425,098,105**	₱408,814,407
Additions	**29,572,605**	27,425,945
Amortization	**(12,535,602)**	(11,142,247)
Balance at end of year	**₱442,135,108**	₱425,098,105

Customers' guaranty deposits and other deposits pertain to the deposits paid by the Group's customers for the set-up of new connections which will be refunded to the customers upon termination of the customers' water service connections or at the end of the concession, whichever comes first.

17. Other Operating Income, Operating Expenses, Interest Income and Interest Expense

Other operating income consist of:

	2018	2017	2016
Supervision fees (Note 21)	**₱425,990,731**	₱396,414,261	₱362,217,939
Connection fees from water and service connections and pipeworks	**268,300,671**	330,730,225	447,766,685
Sale of packaged water	**206,099,390**	208,891,056	121,475,261
Integrated used water services	**116,693,454**	15,552,773	29,766,606
Operations and maintenance services	**99,751,722**	90,249,931	87,839,875
Reconnection fee	**49,874,392**	30,913,542	28,298,535
Septic sludge disposal and bacteriological water analysis	**37,296,665**	24,686,051	19,760,807
Performance fees	**34,349,384**	71,865,738	2,102,793
Construction revenue	**29,900,877**	7,556,184	8,129,590
Income from customer late payments	**26,576,051**	19,623,217	16,987,436
Service fees	**20,672,519**	16,196,954	17,488,117
Miscellaneous	**49,216,182**	97,171,806	65,477,910
	₱1,364,722,038	₱1,309,851,738	₱1,207,311,554

Miscellaneous includes income from rental of equipment, other customer related fees, consultancy services and sale of signages.

Operating expenses consist of:

	2018	2017	2016
Salaries, wages and employee benefits (Notes 15 and 21)	**₱1,240,073,664**	₱995,551,159	₱590,355,247
Management, technical and professional fees (Note 21)	**503,379,095**	325,376,050	491,783,874
Depreciation and amortization (Notes 9 and 10)	**446,919,369**	350,945,322	624,718,373
Taxes and licenses	**318,971,665**	216,964,372	179,932,338
Occupancy costs (Notes 21, 23 and 27)	**255,441,022**	197,075,070	142,732,658
Repairs and maintenance	**179,504,807**	112,884,907	80,304,106
Contractual services	**184,621,722**	63,928,374	30,427,064
ECL on receivables and concession financial receivables (Notes 6 and 10)	**178,212,764**	588,892,219	54,865,099
Transportation and travel	**99,274,788**	88,986,891	63,730,241

(Forward)

	2018	2017	2016
Insurance	**₱85,043,193**	₱85,733,410	₱81,085,742
Printing and communication (Note 21)	**70,197,094**	52,660,675	44,793,882
Business meetings and representation	**56,895,352**	56,128,168	43,238,981
Donations	**44,273,571**	31,844,901	26,668,746
Advertising	**33,558,084**	39,460,448	36,628,370
Other expenses	**99,195,123**	135,884,781	186,466,930
	₱3,795,561,313	₱3,342,316,747	₱2,677,731,651

Other expenses include expenses incurred for bank charges and equipment rental.

Interest income consists of:

	2018	2017	2016
Interest income on:			
Cash and cash equivalents (Note 5)	**₱255,350,212**	₱116,519,563	₱82,139,252
Finance income from concession financial receivables and contract assets (Notes 6 and 10)	**125,905,858**	181,095,164	151,389,223
Receivable from BWC (Note 6)	**28,083,490**	34,641,123	21,773,027
Others	**2,543,455**	13,481,946	1,821,960
	₱411,883,015	₱345,737,796	₱257,123,462

Interest expense consists of:

	2018	2017	2016
Interest expense on:			
Service concession obligations, deposits and others (Notes 10 and 16)	**₱789,711,898**	₱614,716,588	₱613,044,020
Long-term debt:			
Coupon interest	**853,283,533**	663,071,455	715,727,910
Amortization of debt discount, issuance costs and premium (Notes 14)	**138,892,431**	124,780,167	96,397,238
Pension liabilities (Note 15)	**1,920,740**	667,900	4,037,700
	₱1,783,808,602	₱1,403,236,110	₱1,429,206,868

Other income - net includes gain on bargain purchase amounting to ₱43.75 million and ₱54.91 million, in 2018 and 2017, respectively (nil in 2016, see Note 4). In 2018, this account also includes income from refund from a utility provider and reversal of excess accruals amounting to ₱208.25 million; and impairment loss on property, plant and equipment and investment in associates amounting to ₱136.84 million.

18. **Income Tax**

Provision for income tax consists of:

	2018	2017	2016
Current	**₱2,139,558,945**	₱1,939,963,622	₱1,973,606,199
Final	**10,268,252**	3,658,234	90,328
Deferred	**(173,469,903)**	(1,693,284)	(227,321,985)
	₱1,976,357,294	₱1,941,928,572	₱1,746,374,542

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Change in unrecognized deferred tax	**0.59**	(0.26)	0.35
Excess of 40% Optional Standard Deduction (OSD) against allowable deductions	**(22.90)**	1.45	(3.80)
Interest income subjected to final tax	**0.01**	(0.39)	(0.30)
Nontaxable equity in net earnings	**(2.44)**	(1.70)	(1.39)
Nondeductible expense	**51.72**	39.01	21.46
Income exempt from tax	**(33.44)**	(38.65)	(23.31)
Others - net	**(0.60)**	(5.43)	(1.00)
Effective income tax rate	**22.94%**	24.03%	22.01%

The net deferred tax assets of the Group pertain to the deferred income tax effects of the following:

	2018	2017
Deferred tax assets:		
Service concession obligations - net	**₱1,449,136,032**	₱1,247,529,454
Allowance for ECL	**75,697,643**	66,716,456
Provisions/accruals	**45,343,424**	2,058,447
Pension liabilities	**3,251,804**	5,412,418
Others	**5,467,978**	–
	1,578,896,881	1,321,716,775
Deferred tax liabilities:		
Difference between amortization expense of SCA per straight line method and per UOP	**(215,292,728)**	(118,984,313)
	₱1,363,604,153	₱1,202,732,462

The components of the net deferred tax liabilities of the Group as of December 31, 2018 and 2017 represent the deferred income tax effects of the following:

	2018	2017
Deferred tax liabilities:		
Concession financial receivable	**₱72,792,866**	₱76,798,816
Difference between amortization expense of SCA per straight line method and per UOP	**51,560,089**	12,149,424
Gain on bargain purchase	**21,399,859**	15,988,643
Accrued receivables	**8,495,896**	51,184,668
Others	**–**	103,037
	154,248,710	156,224,588
Deferred tax assets:		
Allowance for ECLs	**(31,485,042)**	(14,956,324)
Net Operating Loss Carryover (NOLCO)	**(11,621,941)**	(6,454,322)
Pension liabilities	**(5,363,988)**	(2,462,034)
Provisions/accruals	**(421,910)**	(13,923,419)
MCIT	**–**	(5,910,360)
Others	**(2,251,201)**	(975,195)
	(51,144,082)	(44,681,654)
	₱103,104,628	₱111,542,934

Parent Company
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the OSD for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by the Parent Company for the years ended December 31, 2018, 2017 and 2016.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. The Parent Company forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

The effective tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

Deferred taxes on allowance for ECL and pension liability were not recognized by the Parent Company. The net reduction in deferred tax assets from applying the 18% effective tax rate to the recognized deferred taxes on net service obligation and the derecognition of the deferred taxes relating to the accounts with temporary differences which are not considered in determining gross income for income tax purposes by the Parent Company amounted to ₱288.21 million and ₱212.77 million as of December 31, 2018 and 2017, respectively.

Subsidiaries
In addition to the deferred tax assets and liabilities that have not been recognized as a consequence of the OSD availment, the Parent Company's subsidiaries, namely, MWIS, EcoWater, BMDC, MW Consortium, Tagum Water, Davao Water, Calasiao Water, and Filipinas Water, have total NOLCO amounting to ₱107.49 million and ₱67.82 million as of December 31, 2018 and 2017, respectively, that are available for offset against future taxable income, for which no deferred tax assets have been recognized. As of December 31, 2018 and 2017, the unrecognized deferred tax assets on NOLCO amounted to ₱32.25 million and ₱20.34 million, respectively.

Clark Water
Clark Water as a duly registered CFZ enterprise under RA No. 9400, An Act Amending RA No. 7227 otherwise known as the Bases Conversion and Development Act of 1992, is entitled to all the rights, privileges and benefits established there under including tax and duty-free importation of capital equipment and special income tax rate of 5% of gross income earned.

Boracay Water
On January 25, 2011, Boracay Water filed an application for registration with the BOI under Executive Order (EO) No. 226, as amended, as a new operator of water supply and distribution for the Boracay Island on a non-pioneer status. The application was ratified on February 9, 2011.

On June 17, 2011, Boracay Water's application was registered with the BOI under Book 1 of EO 226. The ITH is for four (4) years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH entitlement shall be limited to the water sales schedule reflected in specific terms and condition of the registration. Further, the ITH entitlement for the wastewater or sewerage services shall be limited only to 10% of the total revenue derived from its water supply.

In June 2015, the BOI approved the bonus year under Boracay Water's Certificate of Registration No. 2011-127 from June 17, 2015 to June 16, 2016 using the indigenous raw material criterion pursuant to Article 39(1)(ii) of EO 226 subject to the following conditions:

- At the time of actual availment of the ITH incentive, the derived ratio of the cost of indigenous raw materials shall be at least 50% of the total raw materials cost; and
- The grantee shall undertake Corporate Social Responsibilities (CSR) activities which shall be completed on the actual availment of the bonus year. The CSR activity shall be aligned with the priority programs/projects of the National Anti-Poverty Commission and/or other special laws such as R.A. 7942 or the Mining Act and DOE Energy Regulation 1-94. The amount spent for the CSR activities shall be reflected in the notes to the audited financial statements. Failure to complete the CSR activity shall mean forfeiture of the approved ITH bonus year.

Beginning June 17, 2016, Boracay Water was already subject to Regular Corporate Income Tax.

Laguna Water
Laguna Water availed of the OSD and the effective tax rate of 18% for the years in which OSD is projected to be utilized. The said rate was then used in computing the deferred income taxes of Laguna Water.

Other subsidiaries
All other domestic subsidiaries are subject to the higher of Regular Corporate Income Tax rate of 30% and Minimum Corporate Income Tax rate of 2%, while foreign subsidiaries are subject to tax rates applicable in their respective countries.

NOLCO
The movements of the Group's NOLCO as of December 31, 2018, which are available for offset against future taxable income for three (3) succeeding years and for which no deferred tax assets have been recognized are as follows:

Year Incurred	Amount	Applied/Expired	Balance	Expiry Year
2015	₱9,372,271	₱9,372,271	₱–	2018
2016	34,130,009	–	34,130,009	2019
2017	24,313,723	–	24,313,723	2020
2018	49,041,811	–	49,041,811	2021
	₱116,857,814	₱9,372,271	₱107,485,543	

MCIT
The movements of the Group's MCIT as of December 31, 2018 which can be claimed against future taxable income for three (3) succeeding years are as follows:

Year Incurred	Amount	Applied/Expired	Balance	Expiry Year
2015	₱970,160	₱970,160	₱–	2018
2016	6,953,356	–	6,953,356	2019
2017	7,042,389	–	7,042,389	2020
2018	6,417,118	–	6,417,118	2021
	₱21,383,023	₱970,160	₱20,412,863	

19. **Equity**

The Parent Company's capital stock consists of:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Common stock - ₱1 per share				
Authorized	**3,100,000,000**	**₱3,100,000,000**	3,100,000,000	₱3,100,000,000
Issued and subscribed	**2,064,839,617**	**2,064,839,617**	2,053,666,576	2,053,666,576
Outstanding	**2,030,732,360**	**2,030,732,360**	2,026,067,122	2,026,067,122
Preferred stock - ₱0.10 par value, 10% cumulative, voting, participating, nonredeemable and nonconvertible				
Authorized, issued and outstanding - 4,000,000,000 shares	**4,000,000,000**	**400,000,000**	4,000,000,000	400,000,000

On March 18, 2005, the Parent Company launched its Initial Public Offering where a total of 745.33 million common shares were offered at an offering price of ₱6.50 per share. The Parent Company has 949 and 900 existing certificated shareholders as of December 31, 2018 and 2017, respectively. The Scripless shareholders are counted under PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino).

On March 1, 2018, the Board of Directors (BOD) approved the following:

a. amendment of the Parent Company's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Parent Company.

On April 16, 2018, the stockholders of the Parent Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 300.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings,
(i) for properties or assets needed for the business of the Parent Company, or (ii) for cash to acquire properties or assets needed for the business of the Parent Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The movement of the Parent Company's outstanding common stock follows:

	2018	2017
Number of shares at beginning of year	**2,026,067,122**	2,024,934,090
Additions	**4,665,238**	1,133,032
Number of shares at end of year	**2,030,732,360**	2,026,067,122

Dividends
The following table shows the cash dividends declared by the Parent Company's BOD on the outstanding capital stock for each of the three (3) years ended December 31, 2018:

		Amount Per Share		
Declaration Date	**Record Date**	**Common Shares**	**Participating Preferred Shares**	**Payment Date**
February 26, 2016	March 11, 2016	₱0.41670	₱0.04167	March 23, 2016
October 3, 2016	October 17, 2016	0.41670	0.04167	October 28, 2016
November 22, 2016	December 7, 2016	–	0.01000	December 16, 2016
March 1, 2017	March 15, 2017	0.4244	0.04244	March 31, 2017
October 3, 2017	October 17, 2017	0.4244	0.04244	November 2, 2017
November 23, 2017	December 8, 2017	–	0.01000	December 20, 2017
March 1, 2018	March 15, 2018	0.4302	0.04302	March 28, 2018
October 2, 2018	October 17, 2018	0.4283	0.04283	October 31, 2018
November 20, 2018	December 6, 2018	–	0.01000	December 20, 2018

There are no dividends in arrears for the Parent Company's participating preferred shares as of December 31, 2018, 2017, and 2016.

Retained earnings
The approved Business Plan includes planned capital expenditures on (i) service continuity, (ii) service accessibility, (iii) water security, and (iv) environmental sustainability described as follows:

- Service continuity projects are endeavored to maintain the level of service provided to its customers even in times of calamity;
- Service accessibility projects would enable the Parent Company to expand its service coverage;
- Water security projects include two components: (1) new water source development and, (2) existing water source rehabilitation and improvement; and
- Projects under the Environmental Sustainability Investment category are comprised of wastewater projects endeavored to achieve the Parent Company's wastewater coverage targets.

On November 20, 2018, November 23, 2017, and November 22, 2016, the Parent Company's BOD approved the appropriation of ₱3.75 billion, ₱7.60 billion, and ₱21.10 billion, respectively, to ensure the completion of the Parent Company's large system projects included in its approved Business Plan. The implementation of these projects are consistent with the timeline of the approved Business Plan which covers until the end of the concession period.

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates accounted for under the equity method amounting to ₱3,267.74 million and ₱2,965.80 million as of December 31, 2018 and 2017, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to ₱7.22 billion and ₱7.02 billion, respectively.

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP, and ESOWN
The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule.

For the unsubscribed shares of the ESOWN grants in 2013 and 2012, the employee still has the option to subscribe within seven (7) years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follows:

	Grant Dates			
	March 7, 2018	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	16,054,873	7,281,647	6,627,100	4,772,414
Number of unsubscribed shares	5,161,140	884,873	351,680	460,000
Fair value of each option	₱5.74	₱11.58	₱10.58	₱11.76
Weighted average share price	₱26.55	₱21.35	₱23.00	₱26.24
Exercise price	₱27.31	₱26.00	₱22.92	₱24.07
Expected volatility	24.92%	26.53%	24.90%	30.66%
Dividend yield	2.80%	2.55%	3.47%	2.56%
Risk-free interest rate	3.43%	3.79%	2.99%	4.57%
Expected life of option	45 days	4 years	4 years	4 years

To enjoy the rights provided for in the ESOWN, the grantee should be with the Parent Company at the time the holding period expires. The holding period of the ESOWN shares granted follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

For the 2013 and previous years' grants, the ESOWN grantees were allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another three (3)-year holding period. For the 2018 and 2015 grants, unsubscribed shares were forfeited.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2018	**Weighted average exercise price**	2017	Weighted average exercise price
Balance at beginning of year	**231,980**	**₱23.49**	4,923,730	₱23.49
Cancellation	**(100,380)**	**–**	(4,691,750)	–
Balance at end of year	**131,600**	**₱23.49**	231,980	₱23.49

Total expense arising from equity-settled share-based payment transactions amounted to ₱23.97 million, ₱12.17 million, and ₱33.20 million in 2018, 2017, and 2016, respectively.

On March 6, 2018, the Remuneration Committee of the Parent Company's Board of Directors approved the grants of ESOWN equivalent to 16,054,873 shares at the subscription price of ₱27.31 per share. The subscription price is equivalent to the average closing price of Parent Company's common shares at the PSE for twenty (20) consecutive trading days ending March 6, 2018.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The Parent Company's expected volatility was used as an input in the valuation of the outstanding options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

Other equity reserves
On May 9, 2012, the Parent Company sold portion of its investment in MW Consortium to Vicsal Development Corporation (VDC) which decreased its ownership by 10% without loss of control. Proceeds from the sale amounted to ₱15.00 million and the gain of ₱7.50 million was presented as part of "Other equity reserves" in the consolidated statement of financial position.

In 2016, MWPVI increased its ownership interest in MW Consortium from 51.00% to 57.22% and MW Consortium in Cebu Water from 51.00% to 70.58% arising from the issuance of redeemable preferred shares. This resulted to a corresponding increase in effective ownership of MWPVI in Cebu Water from 26.01% to 40.39%. The Group recognized gain on dilution of non-controlling interest amounting to ₱46.61 million and presented this as part of “Other equity reserves” in the consolidated statement of financial position.

20. Earnings per Share

Earnings per share amounts attributable to equity holders of the Parent Company for the years ended December 31, 2018, 2017, and 2016 were computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	**₱6,523,700,728**	₱6,146,608,317	₱6,065,220,845
Less dividends on preferred shares*	**1,094,186,642**	1,035,507,438	1,042,090,489
Net income attributable to common shareholders for basic and diluted earnings per share	**5,429,514,086**	5,111,100,879	5,023,130,356
Weighted average number of shares for basic earnings per share	**2,060,184,183**	2,053,666,576	2,053,666,576
Dilutive shares arising from stock options	**77,730**	1,179,473	3,304,994
Adjusted weighted average number of common stock for diluted earnings per share	**2,060,261,913**	2,054,846,049	2,056,971,570
Basic earnings per share	**₱2.64**	₱2.49	₱2.45
Diluted earnings per share	**₱2.64**	₱2.49	₱2.44

**Including participating preferred shares' participation in earnings.*

21. Related Party Transactions

Parties are considered to be related to the Group if it has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

In the normal course of business, the Group has transactions with related parties. The sales and investments to related parties and service agreements are based on rates agreed upon by the parties. Outstanding balances at year-end are unsecured and interest-free. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and 2017, the Group has not recognized any ECL relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties follow:

a. The Parent Company entered into an Administrative and Support Services Agreement (ASSA) with Ayala in 1997, being its sponsor as required during the privatization process. The ASSA was initially effective for ten (10) years and automatically renewable every five (5) years. Under the agreement, Ayala shall provide technical and other knowledge, experience and skills as reasonably necessary for the development, administration and operation of the concession, for which the Parent Company shall pay an annual base fee of US$1.00 million and adjusted for the effect of CPI. As a result, certain key management positions are occupied by employees of Ayala.

   On March 1, 2017, the BOD confirmed the automatic renewal of the ASSA between the Parent Company and Ayala for another five (5) years until July 30, 2022 and approved the amendment reducing the base fee to ₱1.00 per year beginning August 1, 2017.

Total management and professional fees charged to operations arising from these agreements amounted to ₱209.22 million, ₱276.20 million, and ₱253.84 million in 2018, 2017 and 2016, respectively. Total outstanding payables amounted to nil as of December 31, 2018 and 2017. ‘

b. The following tables provide the total amount of all other transactions that have been entered into with the Parent Company's shareholders and affiliates for the relevant financial year:

	Cash in Banks and Cash Equivalents (Note 5)		**Trade Receivables** (Note 6)	
	2018	2017	**2018**	2017
Shareholder:				
Ayala	**₱–**	₱–	**₱12,776**	₱9,776
Affiliates:				
ALI and subsidiaries	**–**	–	**170,860,333**	261,829,951
AC Industrial Technology Holdings, Inc. (AITHI) and subsidiaries	**–**	–	**250,987**	10,430
Globe Telecom, Inc. (Globe) and subsidiaries	**–**	–	**208,865**	59,097
BPI and subsidiaries	**3,595,126,404**	3,563,044,031	**113,859**	813,106
	3,595,126,404	3,563,044,031	**171,434,044**	262,712,584
	₱3,595,126,404	₱3,563,044,031	**₱171,446,820**	₱262,722,360

Cash in banks and cash equivalents pertain to deposits and investments with original maturities of three (3) months or less from the date of original acquisition.

Trade receivables are primarily composed of receivables for water and sewerage services rendered by the Group. These are non-interest bearing and are collectible within thirty (30) days from bill generation. No allowance for ECL was provided for receivables from related parties as of December 31, 2018 and 2017.

	Trade Payables (Note 13)		**Long-term Debt** (Note 14)	
	2018	2017	**2018**	2017
Affiliates:				
ALI and subsidiaries	**₱31,024,797**	₱2,354,124	**₱–**	₱–
BPI and subsidiaries	**687,144**	–	**595,629,415**	–
	₱31,711,941	₱2,354,124	**₱595,629,415**	–

Trade payables pertain to retentions deducted from contractors' billings and are normally paid within a year after project acceptance.

Long-term debt pertains to loans made by Boracay Water with BPI (see Note 14). There was no long-term debt with related parties as of December 31, 2017.

	Revenue		**Purchases**	
	2018	2017	**2018**	2017
Shareholder:				
Ayala	**₱6,109,967**	₱6,356,135	**₱209,220,988**	₱276,204,416
Affiliates:				
ALI and subsidiaries	**656,875,805**	546,029,588	**274,348,720**	16,239,344
BPI and subsidiaries	**99,654,361**	11,292,948	**37,042,399**	1,157,658
Globe and subsidiaries	**3,094,544**	3,502,278	**3,272,564**	24,369,425
Integrated Microelectronics, Inc. (IMI) and subsidiaries	**27,127,460**	22,771,533	**–**	–
AITHI and subsidiaries	**5,655,375**	5,790,312	**15,184,639**	255,374,307
AC Energy Holdings, Inc. (AC Energy)	**–**	–	**377,271,684**	160,805,173
HCX Technology Partners, Inc.	**–**	–	**5,679,690**	5,977,427
	792,407,545	589,386,659	**712,799,696**	463,923,334
	₱798,517,512	₱595,742,794	**₱922,020,684**	₱740,127,750

Revenue is mainly attributable to water and used water services and facilities, and supervision fees rendered by the Group to its shareholder and affiliates.

Purchases from related parties arise from the following transactions:

- Ayala for management fees;
- ALI and subsidiaries for rental of office space;
- BPI for banking transactions and financial services such as insurance;
- Globe for telecommunication services;
- AC Energy for purchase of power;
- AITHI and its subsidiaries for acquisition of transportation equipment; and
- HCX Technology Partners, Inc. for payroll management services.

c. On January 15, 2016, MWPVI entered into a MOA with ALI and its subsidiaries and affiliates (the ALI Group) whereby MWPVI shall exclusively provide water and used water services and facilities to all ALI Group property development projects in the Philippines. Revenue earned by MWPVI from the agreement, included under “Supervision fees”, amounted to ₱320.25 million and ₱371.62 million in 2018 and 2017, respectively (see Note 17).

d. On April 16, 2016, MWPVI entered into a MOA with Laguna Technopark Inc. (LTI), whereby through its division, Estate Water, MWPVI shall exclusively provide water and used water services to LTI’s Cavite Technopark located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA. For and in consideration of the construction and development of the water facilities and used water facilities and the rendition of the services by MWPVI, LTI shall pay a capacity charge. Capacity charge, included under “Supervision fees”, amounted to ₱5.12 million and ₱41.72 million in 2018 and 2017, respectively (see Note 17).

e. On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The loan will be used to finance the general corporate and capital expenditures requirements of Boracay Water. The carrying value of loan as of December 31, 2018 and 2017 amounted to ₱595.63 million and nil, respectively.

f. In September 2017, the Parent Company entered into an Open Access Contract with AC Energy which will cover a two (2)-year supply of electricity to five (5) of the Parent Company’s facilities currently enrolled under Open Access. As of December 31, 2018 and 2017, the Group has guaranty deposits with AC Energy amounting to ₱9.23 million.

g. On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, and June 30, 2015) with PGL, one of its shareholders. Concession fees paid to PGL amounted to ₱32.27 million and ₱7.34 million in 2018 and 2017, respectively (see Notes 1 and 27).

h. On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA. Concession fees paid to TIEZA amounted to ₱28.40 million and ₱29.18 million in 2018 and 2017, respectively (see Notes 1 and 27).

i. One of the trustee banks which manages the Group’s retirement fund is BPI, an affiliate. The Group’s plan assets under BPI amounted to ₱483.42 million and ₱567.14 million as of December 31, 2018 and 2017, respectively (see Note 15).

j. Compensation of key management personnel of the Group by benefit type, included as part of “Salaries, wages and employee benefits,” are as follows:

	2018	2017
Short-term employee benefits	**₱576,676,245**	₱502,864,917
Post-employment benefits	**19,899,576**	16,402,047
Share-based payment	**16,960,455**	10,349,090
	₱613,536,276	₱529,616,054

22. Significant Contracts with the West Zone Concessionaire

In relation to the Concession Agreement, the Parent Company entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires formed an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116.60 million with maturity of twenty (20) years, including five (5) years of grace period. Interest rate is 3% per annum. MWSS then entered into a MOA with the Parent Company and Maynilad for the Parent Company and Maynilad to shoulder equally the repayment of the loan, with such repayment to be part of the concession fees (see Note 10).

d. On May 12, 2015, MWSS entered into a MOA with the Parent Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

23. Assets Held in Trust

MWSS
The Parent Company is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company.

The Concession Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both the East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Parent Company on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 billion.

In 2015, the Parent Company engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by the Parent Company as of 2014, based on the asset registry as of December 31, 2013. Total reproduction cost as of December 31, 2015 amounted to ₱123.47 billion, with a sound value of ₱69.10 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. The lease was last renewed on October 27, 2006. On August 28, 2012, additional office space was leased by the Parent Company. Rent expense amounted to ₱32.25 million, ₱27.75 million, and ₱18.46 million in 2018, 2017, and 2016, respectively. These are included under "Occupancy costs" in the consolidated statements of comprehensive income.

In March 2015, the Parent Company and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by the Parent Company as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2016 to 2018 amounted to ₱16.20 million each year which is included under "Occupancy costs" in the consolidated statement of comprehensive income.

PGL
Laguna Water is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by Laguna Water, such property shall be returned to PGL in its then condition at no charge to PGL or Laguna Water.

In 2014, Laguna Water engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2,138.38 million with a sound value of ₱1,596.19 million.

TIEZA
Boracay Water is granted the right to operate, maintain in good working order, repair, decommission and refurbish all fixed and movable property (except retained assets) required to provide the water and sewerage services under its concession agreement with TIEZA. The legal title to all these assets in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of such assets as may be determined by Boracay Water, such assets shall be returned to TIEZA in its then-current condition at no charge to TIEZA or Boracay Water.

The net book value of the facilities transferred to Boracay Water on commencement date based on TIEZA's closing audit report amounted to ₱618.24 million.

In 2015, Boracay Water engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.11 billion with a sound value of ₱793.41 million.

OWD
On October 12, 2017, Obando Water is granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD
On October 23, 2017, Calasiao is granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

24. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the segment information is reported based on geographic location.

The Group's BOD and Management Committee monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the consolidated statement of financial position which is in accordance with PFRS.

The segments where the Group operates follow:

- Manila Concession and Head Office – represents the operations of the Manila Concession (East Zone) of the Parent Company in accordance with its Concession Agreement.
- Domestic Subsidiaries – represents the financial results of the Philippine businesses such as MWTS, Calasiao Water, and MWPVI (including Laguna Water, Clark Water, Boracay Water, Filipinas Water, Obando Water, Bulakan Water, MW Consortium, Cebu Water, Davao Water, Tagum Water, BMDC, Aqua Centro, MWIS, EcoWater, Leyte Water, and Zamboanga Water).
- Foreign Subsidiaries – consists of businesses outside the Philippines under MWAP (MWSAH, Asia Water, TDWH, KDWH, MWTH, MWTC, MSEA, and PTMWI).

Details of the Group's operating segments as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018			
	Manila Concession and Head Office	**Domestic Subsidiaries**	**Foreign Subsidiaries**	**Consolidated**
	(In Thousands)			
Revenue				
Sales to external customers	**₱16,189,503**	**₱3,617,782**	**₱29,007**	**₱19,836,292**
Operating expenses (excluding depreciation and amortization)	**5,202,420**	**2,594,621**	**279,047**	**8,076,088**
Other income (expenses) – net				
Equity share in net income of associates	**–**	**–**	**699,142**	**699,142**
Revenue from rehabilitation works	**8,198,599**	**1,463,378**	**–**	**9,661,977**
Cost of rehabilitation works	**(8,198,599)**	**(1,463,378)**	**–**	**(9,661,977)**
Other income - net	**222,641**	**29,010**	**(72,012)**	**179,639**
EBITDA	**11,209,724**	**1,052,171**	**377,090**	**12,638,985**
Depreciation and amortization	**2,176,661**	**478,541**	**468**	**2,655,670**
Income before interest income (expense)	**9,033,063**	**573,630**	**376,622**	**9,983,315**
Interest income	**228,651**	**175,172**	**8,060**	**411,883**
Interest expense	**(1,257,030)**	**(392,298)**	**(134,480)**	**(1,783,808)**
Income before income tax	**8,004,684**	**356,504**	**250,202**	**8,611,390**
Provision for income tax	**1,819,881**	**150,148**	**6,328**	**1,976,357**
Net income	**6,184,803**	**206,356**	**243,874**	**6,635,033**
Other comprehensive income				
Cumulative translation adjustment	**–**	**–**	**524,680**	**524,680**
Actuarial gain (loss) on pension liabilities - net	**(74,978)**	**19,933**	**–**	**(55,045)**
Income tax effect	**–**	**(4,160)**	**–**	**(4,160)**
Total comprehensive income	**₱6,109,825**	**₱222,129**	**₱768,554**	**₱7,100,508**
Total net income attributable to:				
Equity holders of the Parent Company	**₱6,184,803**	**₱95,390**	**₱243,507**	**₱6,523,700**
Non-controlling interests	**–**	**110,966**	**367**	**111,333**
	₱6,184,803	**₱206,356**	**₱243,874**	**₱6,635,033**
Total comprehensive income attributable to:				
Equity holders of the Parent Company	**₱6,109,825**	**₱109,633**	**₱768,187**	**₱6,987,645**
Non-controlling interests	**–**	**112,496**	**367**	**112,863**
	₱6,109,825	**₱222,129**	**₱768,554**	**₱7,100,508**
Other information				
Segment assets, exclusive of investments in associates and deferred tax assets	**₱93,797,598**	**₱10,560,913**	**₱816,252**	**₱105,174,763**
Investments in associates	**–**	**–**	**15,994,949**	**15,994,949**
Deferred tax assets	**1,125,584**	**238,020**	**–**	**1,363,604**
	₱94,923,182	**₱10,798,933**	**₱16,811,201**	**₱122,533,316**
Segment liabilities, exclusive of deferred tax liabilities	**₱47,080,563**	**₱12,980,508**	**₱8,748,048**	**₱68,809,119**
Deferred tax liabilities	**–**	**103,105**	**–**	**103,105**
	₱47,080,563	**₱13,083,613**	**₱8,748,048**	**₱68,912,224**
Segment additions to property, plant and equipment and SCA	**₱9,058,054**	**₱2,823,601**	**₱1,961**	**₱11,883,616**
Depreciation and amortization	**₱2,176,661**	**₱478,541**	**₱468**	**₱2,655,670**
Noncash expenses (income) other than depreciation and amortization*	**₱43,524**	**₱203,204**	**₱65,305**	**₱312,033**

	2017			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
	(In Thousands)			
Revenue				
Sales to external customers	₱15,208,495	₱3,269,962	₱37,315	₱18,515,772
Operating expenses (excluding depreciation and amortization)	4,633,994	2,562,297	164,089	7,360,380
Other income (expenses) – net				
Equity share in net income of associates	–	–	457,208	457,208
Revenue from rehabilitation works	10,154,137	1,518,000	–	11,672,137
Cost of rehabilitation works	(10,154,137)	(1,518,000)	–	(11,672,137)
Other income	29,417	54,067	289	83,773
EBITDA	10,603,918	761,732	330,723	11,696,373
Depreciation and amortization	2,247,207	309,133	659	2,556,999
Income before interest income (expense)	8,356,711	452,599	330,064	9,139,374
Interest income	147,663	195,883	2,192	345,738
Interest expense	(1,147,544)	(255,692)	–	(1,403,236)
Income before income tax	7,356,830	392,790	332,256	8,081,876
Provision for income tax	1,665,513	276,414	2	1,941,929
Net income	5,691,317	116,376	332,254	6,139,947
Other comprehensive income				
Cumulative translation adjustment	–	–	108,488	108,488
Actuarial gain (loss) on pension liabilities - net	(58,468)	1,337	–	(57,131)
Income tax effect	907	(91)	–	816
Total comprehensive income	₱5,633,756	₱117,622	₱440,742	₱6,192,120
Total net income attributable to:				
Equity holders of the Parent Company	₱5,691,317	₱125,658	₱329,633	₱6,146,608
Non-controlling interests	–	(9,283)	2,622	(6,661)
	₱5,691,317	₱116,375	₱332,255	₱6,139,947
Total comprehensive income attributable to:				
Equity holders of the Parent Company	₱5,633,756	₱125,658	₱438,121	₱6,197,535
Non-controlling interests	–	(8,037)	2,622	(5,415)
	₱5,633,756	₱117,621	₱440,743	₱6,192,120
Other information				
Segment assets, exclusive of investments in associates and deferred tax assets	₱78,106,002	₱16,853,846	₱435,819	₱95,395,667
Investments in associates	–	–	6,796,037	6,796,037
Deferred tax assets	1,095,372	107,360	–	1,202,732
	₱79,201,374	₱16,961,206	₱7,231,856	₱103,394,436
Segment liabilities, exclusive of deferred tax liabilities	₱43,970,596	₱10,571,561	₱180,039	₱54,722,196
Deferred tax liabilities	–	111,543	–	111,543
	₱43,970,596	₱10,683,104	₱180,039	₱54,833,739
Segment additions to property, plant and equipment and SCA	₱10,400,000	₱1,590,781	₱698	₱11,991,479
Depreciation and amortization	₱2,247,207	₱309,133	₱659	₱2,556,999
Noncash expenses (income) other than depreciation and amortization*	(₱16,557)	₱605,449	₱–	₱588,892

	2016			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
		(In Thousands)		
Revenue				
Sales to external customers	₱14,979,224	₱2,732,687	₱–	₱17,711,911
Operating expenses (excluding depreciation and amortization)	4,610,182	1,457,659	124,744	6,192,585
Other income (expenses) – net				
Equity share in net income of associates	–	–	368,830	368,830
Revenue from rehabilitation works	5,294,631	1,510,277	–	6,804,908
Cost of rehabilitation works	(5,294,631)	(1,510,277)	–	(6,804,908)
Other income	54,111	(3,973)	33,197	83,335
EBITDA	10,423,153	1,271,055	277,283	11,971,491
Depreciation and amortization	2,525,612	340,178	253	2,866,043
Income before interest income (expense)	7,897,541	930,877	277,030	9,105,448
Interest income	95,100	161,517	507	257,124
Interest expense	(1,229,740)	(199,467)	–	(1,429,207)
Income before income tax	6,762,901	892,927	277,537	7,933,365
Provision for income tax	1,543,817	202,558	–	1,746,375
Net income	5,219,084	690,369	277,537	6,186,990
Other comprehensive income				
Cumulative translation adjustment	–	–	288,592	288,592
Actuarial gain (loss) on pension liabilities - net	176,046	11,044	–	187,090
Income tax effect	–	(1,193)	–	(1,193)
Total comprehensive income	₱5,395,130	₱700,220	₱566,129	₱6,661,479
Total net income attributable to:				
Equity holders of the Parent Company	₱5,219,084	₱569,452	₱276,685	₱6,065,221
Non-controlling interests	–	120,917	852	121,769
	₱5,219,084	₱690,369	₱277,537	₱6,186,990
Total comprehensive income attributable to:				
Equity holders of the Parent Company	₱5,395,130	₱577,803	₱565,277	₱6,538,210
Non-controlling interests	–	122,417	852	123,269
	₱5,395,130	₱700,220	₱566,129	₱6,661,479
Other information				
Segment assets, exclusive of investments in associates and deferred tax assets	₱64,739,534	₱12,816,130	₱538,532	₱78,094,196
Investments in associates	–	–	6,199,517	6,199,517
Deferred tax assets	1,101,128	84,561	–	1,185,689
	₱65,840,662	₱12,900,691	₱6,738,049	₱85,479,402
Segment liabilities, exclusive of deferred tax liabilities	₱33,442,258	₱7,521,321	₱29,551	₱40,993,130
Deferred tax liabilities	–	104,584	–	104,584
	₱33,442,258	₱7,625,905	₱29,551	₱41,097,714
Segment additions to property, plant and equipment and SCA	₱5,364,943	₱1,666,070	₱–	₱7,031,013
Depreciation and amortization	₱2,525,612	₱340,178	₱253	₱2,866,043
Noncash expenses (income) other than depreciation and amortization*	(₱200)	₱55,065	₱–	₱54,865

The Group does not have a single customer contributing more than 10% of its total revenue.

Disaggregated revenue information

The following are the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2018:

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Revenue from contracts with customers:				
Water	₱12,966,631	₱2,264,888	₱–	₱15,231,519
Sewer	246,598	273,803	–	520,401
Environmental charges	2,691,308	28,343	–	2,719,651
Other operating income	449,396	886,318	29,007	1,364,722
	₱16,353,933	₱3,453,352	₱29,007	₱19,836,293
Timing of revenue recognition:				
Revenue recognized over time	₱16,106,434	₱3,089,330	₱–	₱19,195,764
Revenue recognized at a point in time	247,499	364,022	₱29,007	640,528
	₱16,353,933	₱3,453,352	₱29,007	₱19,836,292

25. Fair Value Measurement

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial assets and financial liabilities as of December 31, 2018 and 2017:

	2018		2017	
	Carrying Value	**Fair Value Significant Unobservable Inputs (Level 3)**	Carrying Value	Fair Value Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Financial assets at amortized cost				
Concession financial receivable	**₱1,047,042**	**₱1,422,268**	₱1,384,551	₱3,188,264
Other financial liabilities				
Short-term loan	**₱8,596,539**	**₱8,596,539**	₱–	₱–
Long-term debt	**43,050,928**	**41,811,196**	39,724,379	40,324,899
Service concession obligations	**7,928,527**	**8,645,393**	7,447,676	8,597,136
Customers' guaranty deposits and other deposits	**334,643**	**223,991**	258,887	632,220
	₱59,910,637	**₱59,277,119**	₱47,430,942	₱49,554,255

The methods and assumptions used by the Group in estimating the fair value of the long-term loans and receivables and other financial liabilities such as long-term debt, customers' guaranty deposits and other deposits, and service concession obligations are as follows:

a. The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

b. The discount rates used for PHP-denominated loans were 5.22% to 7.53% in 2018 and 2.50% to 9.58% in 2017 while the discount rates used for foreign currency-denominated loans ranged from 5.31% to 7.42% in 2018 and 2.45% to 5.87% in 2017.

Fair Value Hierarchy

There were no financial assets measured at fair value as of December 31, 2018 and 2017. During the periods ended December 31, 2018, 2017, and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

26. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise of cash and cash equivalents, concession financial receivables, short-term debt, long-term debt, and service concession obligations. The main purpose of the Group's financial instruments is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group has other various financial assets such as trade receivables and payables which arise directly from the conduct of its operations.

The Parent Company's BOD reviews and approves the policies for managing each of these risks. The Group monitors risks arising from all financial instruments and regularly report financial management activities and the results of these activities to the Parent Company's BOD.

The Group's risk management policies are summarized below:

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to its financial instruments with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

The Group's policy is to manage the interest payments using a mix of fixed and variable rate debts to minimize the Group's exposure to changes in interest rates primarily from its long-term debt. As of December 31, 2018 and 2017, the Group's mix of fixed interest and floating interest rate of long-term debt are 85.31% to 14.69% and 71.43% to 28.57%, respectively.

As of December 31, 2018, the fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.39% to 1.48% and are from 4.42% to 9.28% for Peso denominated long-term debt. As of December 31, 2017, fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.39% to 4.66% and are from 4.66% to 9.00% for Peso denominated long-term debt. Floating interest rates are based on 6-month LIBOR plus margin as of December 31, 2018 and 2017.

	2018									
	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due after 2023	Total in Original Currency (In PHP)	Total in Original Currency (In JPY)	Total in Original Currency (In USD)	Total (In PHP)
Liabilities:										
Long-Term Debt										
Fixed Rate (exposed to fair value risk)										
Fixed Rate Corporate Notes	₱25,000,000	₱25,000,000	₱4,775,000,000	₱–	₱–	₱–	₱4,825,000,000	¥–	$–	₱4,825,000,000
₱5.00 billion Metrobank Loan	₱25,000,000	₱4,850,000,000	₱–	₱–	₱–	₱–	₱4,875,000,000	¥–	$–	₱4,875,000,000
₱5.00 billion PNB Loan	₱500,000,000	₱500,000,000	₱500,000,000	₱500,000,000	₱500,000,000	₱2,375,000,000	₱4,875,000,000	¥–	$–	₱4,875,000,000
JP¥40.00 billion Loan	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥–	¥–	₱–	¥27,591,608,392	$–	₱13,108,773,147
₱1.15 billion Clark Water RCBC Loan	₱95,833,333	₱95,833,333	₱95,833,333	₱95,833,333	₱95,833,333	₱646,875,000	₱1,126,041,665	¥–	$–	₱1,126,041,665
₱0.10 billion Clark Water RCBC Loan	₱–	₱100,000,000	₱–	₱–	₱–	₱–	₱100,000,000	¥–	$–	₱100,000,000
₱0.75 billion Cebu Water DBP Loan	₱44,209,804	₱44,209,804	₱44,209,804	₱44,209,804	₱44,209,804	₱442,098,039	₱663,147,059	¥–	$–	₱663,147,059
₱0.50 Laguna Water Loan	₱66,666,667	₱66,666,666	–	₱–	₱–	₱–	₱133,333,333	¥–	$–	₱133,333,333
₱0.50 Laguna Water DBP Loan	₱29,411,765	₱29,411,765	₱29,411,765	₱29,411,765	₱29,411,765	₱286,764,704	₱433,823,529	¥–	$–	₱433,823,529
₱0.83 Laguna Water DBP Loan	₱50,484,848	₱50,484,848	₱50,484,848	₱50,484,848	₱50,484,848	₱492,227,276	₱744,651,516	¥–	$–	₱744,651,516
₱2.50 Laguna Water SBC Loan	₱192,307,692	₱192,307,692	₱192,307,692	₱192,307,692	₱192,307,692	₱1,346,153,848	₱2,307,692,308	¥–	$–	₱2,307,692,308
₱0.38 billion Boracay Water DBP-SBC Loan	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱170,955,880	₱281,250,000	¥–	$–	₱281,250,000
₱0.50 billion Boracay Water DBP-SBC Loan	₱31,473,214	₱31,473,214	₱31,473,214	₱31,473,214	₱31,473,214	₱243,917,412	₱401,283,482	¥–	$–	₱401,283,482
₱0.65 billion Boracay Water DBP-SBC Loan	13,541,667	₱54,166,667	₱54,166,667	₱54,166,667	₱54,166,667	₱419,791,665	₱650,000,000	¥–	$–	₱650,000,000
₱2.40 billion Boracay Water BPI Loan	₱–	₱–	₱–	₱–	₱30,000,000	₱570,000,000	₱600,000,000	¥–	$–	₱600,000,000
₱85.00 million Zamboanga Water DBP Loan	₱5,312,500	₱21,250,000	₱21,250,000	₱21,250,000	₱15,937,500	₱–	₱85,000,000	¥–	$–	₱85,000,000
₱0.45 billion Tagum Water PNB Loan	₱–	₱8,416,667	₱33,666,667	₱33,666,667	₱33,666,667	₱294,583,332	₱404,000,000	¥–	$–	₱404,000,000
₱4.00 billion MWPVI Loan	₱–	₱–	₱–	₱64,395,000	₱128,790,000	₱1,156,815,000	₱1,350,000,000	¥–	$–	₱1,350,000,000
Floating Rate (exposed to cash flow risk)										
NEXI Loan	$18,750,000	$18,750,000	$–	$–	$–	$–	₱–	¥–	$37,500,000	₱1,971,750,000
MTSP Loan	¥340,366,724	¥340,366,724	¥340,366,724	¥168,170,256	¥–	¥–	₱–	¥1,189,270,428	$–	₱565,022,380
MWMP Loan	$1,983,252	$3,966,504	$3,966,504	$3,966,504	$3,966,504	$53,490,732	₱–	¥–	$71,340,000	₱3,751,057,200
₱0.12 billion Boracay Water DBP-SBC Loan	₱7,352,941	₱7,352,941	₱7,352,941	₱7,352,941	₱7,352,941	₱56,985,295	₱93,750,000	¥–	$–	₱93,750,000
Total in Original Currency								¥28,780,878,820	$108,840,000	₱43,345,575,619
Total in PHP	₱5,637,709,162	₱10,731,967,719	₱9,504,676,053	₱4,712,260,511	₱1,444,252,035	₱11,314,710,140	₱23,948,972,892	₱13,673,795,527	₱5,722,807,200	₱43,345,575,619

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.
The spot exchange rates used were ₱52.58 to US$1 and ₱0.4751 to JP¥1 in 2018.

2017	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due after 2022	Total in Original Currency (In PHP)	Total in Original Currency (In JPY)	Total in Original Currency (In USD)	Total (In PHP)
Liabilities:										
Long-Term Debt										
Fixed Rate (exposed to fair value risk)										
First IFC Loan	¥22,024,000	¥–	¥–	¥–	¥–	¥–	₱–	¥22,024,000	$–	₱9,741,215
Fixed Rate Corporate Notes	₱25,000,000	₱25,000,000	₱25,000,000	₱4,775,000,000	₱–	₱–	₱4,850,000,000	¥–	$–	₱4,850,000,000
₱5.00 billion Metrobank Loan	₱25,000,000	₱25,000,000	₱4,850,000,000	₱–	₱–	₱–	₱4,900,000,000	¥–	$–	₱4,900,000,000
JP¥40.00 billion Loan	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥6,897,902,098	¥–	₱–	¥34,489,510,490	$–	₱15,254,710,490
₱1.15 billion Clark Water RCBC Loan	₱47,916,667	₱95,833,333	₱95,833,333	₱95,833,333	₱95,833,334	₱718,750,000	₱1,150,000,000	¥–	$–	₱1,150,000,000
₱0.75 billion Cebu Water DBP Loan	₱44,209,804	₱44,209,804	₱44,209,804	₱44,209,804	₱44,209,804	₱486,507,843	₱707,556,863	¥–	$–	₱707,556,863
₱0.50 Laguna Water Loan	₱66,666,667	₱66,666,667	₱66,666,666	₱–	₱–	–	₱200,000,000	¥–	$–	₱200,000,000
₱0.50 Laguna Water DBP Loan	₱29,411,765	₱29,411,765	₱29,411,765	₱29,411,765	₱29,411,765	₱316,176,469	₱463,235,294	¥–	$–	₱463,235,294
₱0.83 Laguna Water DBP Loan	₱50,484,848	₱50,484,848	₱50,484,848	₱50,484,848	₱50,484,848	₱542,712,124	₱795,136,364	¥–	$–	₱795,136,364
₱2.50 Laguna Water SBC Loan	₱192,307,692	₱192,307,692	₱192,307,692	₱192,307,692	₱192,307,692	₱1,538,461,540	₱2,500,000,000	¥–	$–	₱2,500,000,000
₱0.38 billion Boracay Water DBP-SBC Loan	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱193,014,703	₱303,308,823	¥–	$–	₱303,308,823
₱0.50 billion Boracay Water DBP-SBC Loan	₱31,473,214	₱31,473,214	₱31,473,214	₱31,473,214	₱31,473,214	₱275,390,626	₱432,756,696	¥–	$–	₱432,756,696
₱0.65 billion Boracay Water DBP-SBC Loan	₱–	₱13,541,667	₱54,166,667	₱54,166,667	₱54,166,667	₱473,958,332	₱650,000,000	¥–	$–	₱650,000,000
₱85.00 million Zamboanga Water Loan	₱–	5,312,500	₱21,250,000	₱21,250,000	₱21,250,000	₱15,937,500	₱85,000,000	¥–	$–	₱85,000,000
₱0.45 billion Tagum Water PNB Loan	₱–	₱–	₱2,708,333	₱10,833,333	₱10,833,334	₱105,625,000	₱130,000,000	¥–	$–	₱130,000,000
₱4.00 billion MWPVI Loan	₱–	₱–	₱–	₱–	₱42,930,000	₱857,070,000	₱900,000,000	¥–	$–	₱900,000,000
Floating Rate (exposed to cash flow risk)										
NEXI Loan	$18,750,000	$18,750,000	$18,750,000	$–	$–	$–	₱–	¥–	$56,250,000	₱2,808,562,500
First IFC Loan	¥121,640,000	¥–	¥–	¥–	¥–	¥–	₱–	¥121,640,000	$–	₱53,801,372
MTSP Loan	¥340,366,724	¥340,366,724	¥340,366,724	¥340,366,724	¥168,170,256	¥–	₱–	¥1,529,637,152	$–	₱676,558,513
MWMP Loan	$–	$1,736,388	$3,472,776	$3,472,776	$53,778,060	$–	₱–	¥–	$62,460,000	₱3,118,627,800
₱0.12 billion Boracay Water DBP-SBC Loan	₱7,352,941	₱7,352,941	₱7,352,941	₱7,352,941	₱7,352,941	₱64,338,236	₱101,102,941	¥–	$–	₱101,102,941
Total in Original Currency							₱18,168,096,981	¥36,162,811,642	$118,710,000	₱40,090,098,871
Total in PHP	₱4,743,098,809	₱4,833,024,908	₱9,803,993,593	₱8,709,264,427	₱6,412,774,761	₱5,587,942,373	₱18,168,096,981	₱15,994,811,590	₱5,927,190,300	₱40,090,098,871

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.
The spot exchange rates used were ₱49.93 to US$1 and ₱0.4423 to JP¥1 in 2017.

The following tables demonstrate the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates on December 31, 2018 and 2017, with all variables held constant (through the impact on floating rate borrowings).

	2018	
	Changes in Basis Points	**Effect on Income Before Income Tax**
		(In Thousands)
Floating rate borrowings	**100**	**(₱67,551)**
	(100)	**67,551**

	2017	
	Changes in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
Floating rate borrowings	100	(₱220,054)
	(100)	220,054

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against the USD and JPY. Substantially all revenues are generated in PHP and majority of capital expenditures are also in PHP. Approximately 53.81% and 44.01% of debt as of December 31, 2018 and 2017, respectively, are denominated in foreign currency.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Peso equivalents are as follows:

	2018		2017	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
	(In Thousands)		(In Thousands)	
Assets				
Cash and cash equivalents:				
USD	**USD11,368**	**₱597,751**	USD26,764	₱1,336,332
CAD	**CAD806**	**31,218**	CAD368	14,630
THB	**THB8,054**	**13,064**	–	–
IDR	**IDR1,568,250**	**5,694**	IDR527,149	1,956
VND	**VND750,698**	**1,729**	VND1,951,536	4,293
SGD	**SGD25**	**968**	SGD12	450
JP¥	**JP¥556**	**264**	JP¥556	246
MMK	**–**	**–**	MMK14,644	544
		₱650,688		₱1,358,451
Liabilities				
Accounts payable:				
JP¥	**JP¥75,861**	**₱36,042**	–	₱–
IDR	**IDR5,829,688**	**21,167**	IDR218,682	811
USD	**USD153**	**8,068**	USD1,491	74,469
THB	**THB1,597**	**2,591**	–	–
SGD	**SGD65**	**2,511**	SGD3	98
VND	**VND318,613**	**734**	–	–
RMB	**RMB6**	**47**	–	–
MYR	**–**	**3**	–	–
MMK	**–**	**–**	MMK93,873	3,489
Short-term debt:				
THB	**THB5,300,000**	**8,596,539**	–	–
Long-term debt:				
JP¥	**JP¥28,402,974**	**13,494,253**	JP¥35,575,756	15,735,157
USD	**USD107,842**	**5,670,308**	USD117,107	5,847,151
CAD	**CAD873**	**33,334**	CAD827	32,847
Service concession obligations:				
USD	**USD64,859**	**3,410,310**	USD62,839	3,137,537
JP¥	**JP¥527,061**	**250,407**	JP¥752,817	332,971
French Franc (FRF)	**FRF4**	**35**	FRF306	2,785
		₱31,526,349		₱25,167,315
Net foreign currency-denominated liabilities		**(₱30,875,661)**		(₱23,808,864)

The spot exchange rates used were ₱52.5800 to US$1, ₱0.4751 to JP¥1, ₱9.1692 to FRF1, ₱38.4706 to SGD1, ₱0.0023 to VND1, ₱0.0036 to IDR1, ₱1.6220 to THB1, ₱7.6773 to RMB1, ₱12.6558 to MYR1 and ₱38.7335 to CAD1 in 2018, and ₱49.93 to US$1, ₱0.4423 to JP¥1, ₱9.09 to FRF1, ₱37.3376 to SGD1, ₱38.095 to AUD1, ₱0.0022 to VND1, and ₱39.7200 to CAD1 in 2017.

Under their respective concession agreements, the Parent Company and Boracay Water have a natural hedge on foreign exchange risks on their loans and concession fee payments through a recovery mechanism in their respective tariffs (see Notes 1 and 12). Thus, the Group does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group has no significant concentration of credit risk. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The information about the credit risk exposure on the Group's receivables and contract assets using a provision matrix is as follows:

	December 31, 2018						
	Current	Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	Expected Credit Loss	Total
	(In thousands)						
Receivables							
Trade receivables:							
Manila (Outside East Zone)	**₱186,742**	**₱88,557**	**₱18,500**	**₱16,776**	**₱91,230**	**₱133,524**	**₱535,329**
East Zone	**139,304**	**333,175**	**90,918**	**33,514**	**231,696**	**553,977**	**1,382,584**
Boracay	**33,243**	**12,015**	**7,014**	**4,062**	**6,479**	**122,081**	**184,894**
Clark	**35,576**	**682**	**55**	**27**	**36**	**6,523**	**42,899**
Laguna	**93,102**	**20,864**	**18,705**	**11,251**	**31,860**	**329,886**	**505,668**
Others	**144,267**	**–**	**–**	**–**	**–**	**93,770**	**238,037**
BWC	**388,411**	**–**	**–**	**–**	**–**	**–**	**388,411**
Employees	**31,156**	**–**	**–**	**–**	**–**	**–**	**31,156**
Interest from banks	**23,937**	**–**	**–**	**–**	**–**	**–**	**23,937**
Others	**183,093**	**–**	**–**	**–**	**–**	**–**	**183,093**
	1,258,831	**455,293**	**135,192**	**65,630**	**361,301**	**1,239,761**	**3,516,008**
Concession financial receivables	**1,047,042**	**–**	**–**	**–**	**–**	**14,599**	**1,061,641**
Contract assets	**891,391**	**–**	**–**	**–**	**–**	**–**	**891,391**
	₱3,197,264	**₱455,293**	**₱135,192**	**₱65,630**	**₱361,301**	**₱1,254,360**	**₱ 5,469,040**

	Current	January 1, 2018 Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	91 to 120 Days	Expected Credit Loss	Total
				(In thousands)			
Receivables							
Trade receivables:							
Manila (Outside East Zone)	₱519,199	₱71,635	₱25,025	₱7,678	₱29,145	₱71,620	₱724,302
East Zone	125,653	293,190	77,843	23,919	63,933	510,668	1,095,206
Boracay	44,018	14,052	5,907	4,604	5,118	98,905	172,604
Clark	36,977	8,238	61	30	61	6,306	51,673
Laguna	248,133	–	–	–	–	316,911	565,044
Others	274,923	–	–	–	–	60,475	335,399
BWC	501,014	–	–	–	–	–	501,014
Employees	34,776	–	–	–	–	–	34,776
Interest from banks	16,406	–	–	–	–	–	16,406
Others	115,616	–	–	–	–	–	115,616
	1,916,715	387,115	108,836	36,231	98,257	1,064,885	3,612,040
Concession financial receivables	1,384,551	–	–	–	–	11,263	1,395,814
	₱3,301,267	₱387,115	₱108,836	₱36,231	₱98,257	₱1,076,148	₱5,007,854

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty limits are reviewed and approved by the BOD, and are updated when necessary.

Cash and cash equivalents are placed in various banks. Material amounts are held by banks which belong to the top five (5) banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. These are considered to be low credit risk investments.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and debentures. The Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through internal cash generation.

The Group's financial assets used for liquidity management based on their maturities are as follows:

	2018			
	Within 1 year	**1-5 years**	**More than 5 years**	**Total - Gross**
Assets:				
Cash and cash equivalents	**₱9,390,591,273**	**₱–**	**₱–**	**₱9,390,591,273**
Receivables:				
Customers	**3,141,163,607**	**–**	–	**3,141,163,607**
Employees	**31,155,782**	**–**	**–**	**31,155,782**
Interest from banks	**23,936,806**	**–**	**–**	**23,936,806**
ZCWD	**10,450,032**			**10,450,032**
Others	**183,093,834**	**–**	–	**183,093,834**
Concession financial receivable	**193,706,164**	**739,220,074**	**1,664,052,998**	**2,596,979,236**
	₱12,974,097,498	**₱739,220,074**	**₱1,664,052,998**	**₱15,377,370,570**

	2017			
	Within 1 year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱9,020,744,089	₱–	₱–	₱9,020,744,089
Receivables:				
Customers	2,831,934,313	–	–	2,831,934,313
Employees	34,775,785	–	–	34,775,785
Interest from banks	16,405,733	–	–	16,405,733
ZCWD	60,277,047	52,016,776	–	112,293,823
Others	115,616,360	–	–	115,616,360
Concession financial receivable	197,043,608	1,163,391,243	4,182,299,072	5,542,733,923
	₱12,276,796,935	₱1,215,408,019	₱4,182,299,072	₱17,674,504,026

The Group's financial liabilities based on contractual undiscounted payments:

	2018			
	Within 1 year	**1 to 5 years**	**More than 5 years**	**Total - Gross**
Liabilities:				
Accounts and other payables	**₱7,309,174,242**	**₱–**	**₱–**	**₱7,309,174,242**
Short-term debt*	**8,596,538,853**	**–**	**–**	**8,596,538,853**
Long-term debt*	**7,409,511,098**	**31,091,261,485**	**14,498,774,117**	**52,999,546,700**
Service concession obligation*	**1,109,493,873**	**3,537,891,757**	**9,086,915,451**	**13,734,301,081**
Customers' guaranty deposits and other deposits	**–**	**–**	**776,778,646**	**776,778,646**
	₱24,424,718,066	**₱34,629,153,242**	**₱24,362,468,214**	**₱83,416,339,522**

**Includes contractual interest cash flows*

	2017			
	Within 1 year	1 to 5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱5,882,548,281	₱–	₱–	₱5,882,548,281
Long-term debt*	6,133,749,778	31,638,847,169	10,919,803,831	48,692,400,778
Service concession obligation*	914,750,354	3,956,653,167	7,667,818,213	12,539,221,734
Customers' guaranty deposits and other deposits	–	–	683,984,650	683,984,650
	₱12,931,048,413	₱35,595,500,336	₱19,271,606,694	₱67,798,155,443

**Includes contractual interest cash flows*

Changes in liabilities arising from financing activities:

	2018				
	Short-term Debt	**Long-term Debt**	**Service Concession Obligations**	**Interest Payable**	**Total**
Balance at beginning of year	**₱–**	**₱39,724,379,456**	**₱7,447,675,910**	**₱353,446,175**	**₱47,525,501,541**
Cash flows	**8,864,235,143**	**1,634,931,993**	**(955,119,919)**	**(1,537,004,584)**	**8,007,042,633**
Accretion	**–**	**138,892,431**	**438,668,268**	**–**	**577,560,699**
Interest	**–**	**–**	**–**	**1,619,536,192**	**1,619,536,192**
Concession fees	**–**	**–**	**948,016,106**	**–**	**948,016,106**
Foreign exchange losses	**(267,696,290)**	**1,552,723,691**	**49,286,339**	**–**	**1,334,313,740**
	₱8,596,538,853	**₱43,050,927,571**	**₱7,928,526,704**	**₱435,977,783**	**₱60,011,970,911**

	2017			
	Long-term Debt	Service Concession Obligations	Interest Payable	Total
Balance at beginning of year	₱27,618,501,480	₱7,699,644,663	₱303,475,067	₱35,621,621,210
Cash flows	11,849,203,758	(898,964,447)	(1,557,039,464)	9,393,199,847
Accretion	124,780,167	496,036,104	–	620,816,271
Interest	–	–	1,607,010,573	1,607,010,573
Concession fees	–	91,418,802	–	91,418,802
Foreign exchange losses	131,894,051	59,540,788	–	191,434,839
	₱39,724,379,456	₱7,447,675,910	₱353,446,176	₱47,525,501,542

Capital management

The primary objective of the Group's capital management strategy is to ensure that it maintains a healthy capital structure, in order to maintain a strong credit standing while it maximizes shareholder value.

The Group closely manages its capital structure vis-à-vis a certain target gearing ratio, which is total debt (less service concession) divided by the sum of the total stockholders' equity and total debt (less service concession The Group's target gearing ratio is set at 60%. This target is to be achieved by managing the Group's level of borrowings and dividend payments to shareholders.

	2018	2017
Total liabilities	**₱68,912,223,712**	₱54,833,738,560
Less service concession obligations	**7,928,526,704**	7,447,675,910
	60,983,697,008	47,386,062,650
Total stockholders' equity	**53,621,093,192**	48,560,697,423
Total	**₱114,604,790,200**	₱95,946,760,073
Gearing ratio	**53%**	49%

For purposes of computing its net debt, the Group includes the outstanding balance of its long-term debt (including current portion), accounts and other payables, less service concession obligations and cash and cash equivalents. To compute its total capital, the Group uses the total stockholders' equity.

	2018	2017
Total liabilities	**₱68,912,223,712**	₱54,833,738,560
Less:		
Service concession obligations	**7,928,526,704**	7,447,675,910
Cash and cash equivalents	**9,390,591,273**	9,020,744,089
	17,319,117,977	16,468,419,999
Net debt	**51,593,105,735**	38,365,318,561
Total stockholders' equity	**53,621,093,192**	48,560,697,423
Total net debt and stockholders' equity	**₱105,214,198,927**	₱86,926,015,984
Total net debt to equity ratio	**49%**	44%

27. **Commitments**

Parent Company's Concession Agreement
The significant commitments of the Parent Company under the Concession Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of the Parent Company's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within thirty (30) days from the commencement of each renewal date, the Parent Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.
With a minimum of 10-day written notice period to the Parent Company, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by the Parent Company is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, the Parent Company agreed to increase its annual share in MWSS operating budget by 100% from ₱100.00 million to ₱395.00 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with the Parent Company);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, the Parent Company has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

The Parent Company is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

<u>Laguna Water's Concession Agreement</u>
The significant commitments of Laguna Water under its concession agreement with PGL are as follows:

a. To pay PGL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of raw water; and

g. To negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

On June 30, 2015, PGL and MWPVI signed an amendment to their JVA dated November 10, 2000. Simultaneously, and consequent to the amendment of the JVA of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:

a. Expansion of its concession area to cover all cities and municipalities in the PGL; and

b. Inclusion in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

<u>Laguna Water's APA with LTI</u>
On December 23, 2013, Laguna Water entered an APA with LTI to acquire and operate its water operations division in Laguna. The significant commitments of Laguna Water under the agreement follow:

a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;

b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where Laguna Water acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;

c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by Laguna Water;

d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;

e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. Laguna Water shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

Laguna Water shall make a supply of water available to current and future locators in LTI, including the areas of expansion in the future.

<u>Boracay Water's Concession Agreement</u>
The significant commitments of Boracay Water under its concession agreement with TIEZA are as follows:

a. Meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;
b.
c. Pay concession fees, subject to the following provisions:

   i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of Boracay Water as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000

   iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	Previous year, subject to annual CPI adjustment

d. Establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

e. Pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

f. Raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

g. Operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with Boracay Water);

h. Repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

i. Ensure that at all times, Boracay Water has sufficient financial, material and personnel resources available to meet its obligations under the concession agreement.

In addition, the Parent Company, as the main proponent of Boracay Water, shall post a bank security in the amount of US$2.50 million to secure the Parent Company's and Boracay Water's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by the Parent Company following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

On or before the start of each year, Boracay Water shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

With a minimum of ten (10) days written notice period to Boracay Water, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by Boracay Water is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of Boracay Water to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

Clark Water's Concession Agreement
The significant commitments of Clark Water under its concession agreement with CDC are follows:

a. Pay franchise and lease fees of CDC;

b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Clark Water; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;

d. Treat raw water and wastewater in CFZ;

e. Provide and manage all water and wastewater related services like assisting locator in relocating of pipes and assess internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of RA No. 9400 effective 2007 even if it is located within the franchise area; and,

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

On August 15, 2014, the Clark Water and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

a. Extension of the original concession period for another fifteen (15) years up to October 1, 2040;

b. Additional investment of ₱4.00 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original CA amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.00 billion;

c. Introduction of rate rebasing mechanism for every four (4) years starting 2014;

d. Reduction in tariff rates by 3.9% (from ₱25.63/m^3 to P₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   i. ₱0.41/m^3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   ii. ₱0.42/m^3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   iii. ₱0.42/m^3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   iv. ₱0.43/m^3 (from ₱25.87/m^3 to ₱26.30/m^3) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the Company's investment is now extended by another fifteen (15) years from 2025 to 2040.

<u>Cebu Water's Bulk Water Supply Agreement</u>
On December 18, 2013, Cebu Water entered into a bulk water supply agreement with MCWD. The significant commitments of Cebu Water under its agreement with MCWD are as follows:

a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years at ₱24.59 per cubic meter;

b. Ensure that the source shall be sustainable and 100% reliable at any day for the duration of the agreement; and

c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.

<u>Zamboanga Water's NRWSA</u>
On June 2, 2015, the Zamboanga Water entered into a NRWSA with ZCWD. The NRWSA sets forth the rights and obligations of the Zamboanga Water throughout the ten (10)-year period. The significant provisions under the agreement with ZCWD consist of:

a. Zamboanga Water is required to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system; and

b. Zamboanga Water has the right to restructure and maintain the facilities in the ZCWD service area but legal title to these assets remains with ZCWD. The legal title to all fixed assets contributed to the existing ZCWD system by Zamboanga Water during the project tenure remains with Zamboanga Water until the expiration date (or an early termination date) at which time all rights, titles and interest in such assets will automatically vest in ZCWD.

<u>MWPVI's MOA with ALI</u>
On January 12, 2016, MWPVI executed a MOA with ALI and twenty-four (24) of its subsidiaries ("ALI Group"). Under the MOA, MWPV will provide the water and used water services and facilities to all the property development projects of the ALI Group nationwide, with certain exceptions as provided in the MOA.

MWPVI’s MOA with the SM Group
On December 8, 2016, MWPVI entered into a MOA with SM Prime Holdings, Inc., SM Development Corporation and SM Residences Corporation. Pursuant to the MOA, MWPVI, will provide water and/or used water services and facilities to the property development projects of the SM Group identified in each MOA; the rights, duties and obligations of which has been transferred to Aqua Centro.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPVI has one (1) signed MOA with SM Group as of December 31, 2018.

Tagum Water’s Bulk Water Supply Agreement
Tagum Water will have the sole and exclusive right and responsibility during the term of the agreement to:

a. Develop raw surface water sources in Hijo River;

b. Plan, develop, design, build and test the facilities;

c. Implement the Project;

d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and

e. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by Tagum Water to implement the bulk water project will be owned by Tagum Water even after the expiration of the BWSPA.

MWPVI’s Lease Agreement with Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ. The lease agreement has a term of twenty five (25) years from signing of the contract.

MWPVI’s MOA with LTI
On April 16, 2016, the MWPVI entered into a MOA with LTI, whereby through its division, Estate Water, MWPVI shall exclusively provide water and used water services to LTI’s Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

Obando Water’s Concession Agreement
The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;

b. To upgrade existing water and sanitation facilities;

c. To operate, manage, and maintain water and sanitation facilities and services; and

d. To bill and collect tariff for water and sanitation services.

Calasiao Water’s Concession Agreement
The significant commitments of Calasiao Water under its concession agreement with CWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;

b. To upgrade existing water and sanitation facilities;

c. To operate, manage, and maintain water and sanitation facilities and services; and

d. To bill and collect tariff for water and sanitation services.

Operating Leases – as a Lessee

The Group leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period. As of December 31, 2018 and 2017, the Group's future minimum lease payments are as follows:

	2018	2017
Within one year	**₱54,394,653**	₱52,548,616
After one year but not more than five years	**101,974,116**	128,680,796
More than five years	**253,990,310**	266,646,378
	₱410,359,079	₱447,875,790

Total rent expense recognized in 2018 and 2017 amounted to ₱34.02 million and ₱33.26 million, respectively. Security deposits amounted to ₱10.32 million and ₱11.87 million as of December 31, 2018 and 2017, respectively.

28. **Provisions and Contingencies**

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed the Parent Company and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.11 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.71 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On January 26, 2011, the Supreme Court issued a Temporary Restraining Order enjoining the local government of Quezon City from levying the real properties, machineries and equipment of MWSS. Total provision for these assessments amounted to ₱416.23 million as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the remaining provision for estimated probable losses pertains to various legal proceedings and exposures arise in the ordinary course of business. Management believes that any amount the Group may have to pay in connection with any of these matters will not have a material adverse effect on the Group's financial position or operating results. The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

29. **Events after the Reporting Period**

Laguna Water JVA with the PAGWAD
On January 21, 2019, Laguna Water signed and executed a contractual JVA with the PAGWAD.

Under the agreement, Laguna Water shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna. Upon completion of conditions precedents in the agreement, Laguna Water and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035.

Notice to Proceed from the Municipality of Manaoag
On January 25, 2019, MWPVI received a Notice to Proceed from the Municipality of Manaoag, Pangasinan, granting MWPVI a franchise for the provision and improvement of the water supply operation, maintenance, management, financing and expansion, and the provision of septage management in the Municipality of Manaoag.

The franchise granted to MWPVI shall be for a term of twenty five (25) years, excluding two (2) years of construction.

Parent Company and MWPVI JVA with the Tanauan Water District
On February 4, 2019, the Parent Company and MWPVI (collectively, the "Consortium") signed and executed a JVA with the Tanauan Water District for the design, construction, rehabilitation, maintenance, operation,

financing, expansion, and management of the water supply and sanitation facilities and services of the Tanauan Water District in Tanauan City, Batangas (the Tanauan Project).
Upon completion of the conditions precedent set out in the JVA, the Consortium, through a SPV, and the Tanauan Water District shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

Parent Company Declaration of Cash Dividends
On February 26, 2019, the Parent Company's BOD approved the declaration of cash dividends of ₱0.4551 per share on outstanding common shares and ₱0.0455 per share on outstanding participating preferred shares with date of record on March 14, 2019 and payment date of March 28, 2019.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
As of December 31, 2018

Name of Issuing Entity & Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Income Received and Accrued
LOANS AND RECEIVABLES				
Cash on hand and in banks			1,440,142,718	
Cash equivalents				
Bank of the Philippine Islands			2,713,835,375	
Banco De Oro			2,437,200,000	
Metrobank			952,589,891	
Security Bank			614,813,900	255,350,212
Unionbank			377,626,624	
Philippine National Bank			339,100,000	
Mizuho			305,506,554	
Standard Chartered Bank			109,740,680	
Chinabank			50,137,778	
Vietinbank			26,307,277	
Citibank			23,590,475	
Receivables			2,276,246,943	
Concession financial receivable			1,047,041,542	
Total loans and receivables			**12,713,879,758**	
TOTAL			**12,713,879,758**	

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
As of December 31, 2018

Note: Receivables from related parties and principal stockholders represent receivables for water and used water services and facilities as well as supervision fees which arise in the ordinary course of business.

Name and Designation of Debtor	Beginning Balance	Additions	Deductions		Ending Balance (Current)
			Cash Collections	Collections Other than Cash	
OFFICERS AND EMPLOYEES					
Various	34,775,785	85,539,838	89,159,841	-	31,155,782
RELATED PARTIES - Affiliates					
Ayala Land, Inc. and subsidiaries	261,829,951	656,875,805	747,845,423	-	170,860,333
Bank of the Philippine Islands and subsidiaries	813,106	99,654,361	100,353,608	-	113,859
AC Industrical Technology Holdings, Inc. and subsidiaries	10,430	5,655,375	5,414,818	-	250,987
Globe Telecom and subsidiaries	59,097	3,094,544	2,944,776	-	208,865
Integrated Microelectronics, Inc. and subsidiaries	-	27,127,460	27,127,460	-	-
PRINCIPAL STOCKHOLDERS					
Ayala Corporation	9,776	6,109,967	6,106,967	-	12,776
TOTAL	**297,498,145**	**884,057,350**	**978,952,893**	**-**	**202,602,602**

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS
As of December 31, 2018

CURRENT

Entity Name (Creditor)	Relationship to the Reporting Company	Account Type	Beginning Balance	Movement	Ending Balance	Description of "Other Receivables" Account
Manila Water Philippine Ventures, Inc. (MWPVI) and subsidiaries	Subsidiary	Dividend receivable	-	-	-	
MWPVI and subsidiaries	Subsidiary	Interest receivable	-	-	-	
MWPVI and subsidiaries	Subsidiary	Other receivables	94,802,649	22,592,434	117,395,083	Advances and expenses paid by the Parent Company on behalf of the entity and its subsidiaries.
Manila Water Total Solutions Corp.	Subsidiary	Other receivables	287,438,648	3,934,615	291,373,263	Expenses paid by the Parent Company on behalf of the entity.
Zamboanga Water Company, Inc.	Subsidiary	Other receivables	2,221,342	8,123,244	10,344,586	Expenses paid by the Parent Company on behalf of the entity.
Calasiao Water Company, Inc.	Subsidiary	Other receivables	1,811,294	4,263,568	6,074,862	Expenses paid by the Parent Company on behalf of the entity.
Davao del Norte Water Infrastructure Company, Inc. and subsidiary	Subsidiary	Other receivables	4,247,125	(3,440,155)	806,970	Expenses paid by the Parent Company on behalf of the entity.
Manila Water Asia Pacific Pte. Ltd. and subsidiaries	Subsidiary	Other receivables	69,511,929	(11,651,084)	57,860,845	Expenses paid by the Parent Company on behalf of the entity.
TOTAL			**460,032,987**	**23,822,621**	**483,855,608**	
					483,855,608	

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
As of December 31, 2018

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Add/(Ded)	Ending Balance
Goodwill	132,755,065	3,811,410	-	-	-	136,566,475
Intangible service concession assets	74,150,945,381	10,420,658,854	2,042,038,397	-	-	82,529,565,838
TOTAL	**74,283,700,446**	**10,424,470,264**	**2,042,038,397**	**-**	**-**	**82,666,132,313**

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT (THIRD PARTIES)
As of December 31, 2018

Title of Issue and Type of Obligation	Interest Rates	Principal Amount as of December 31, 2018 (in Original Currency)	Maturity	Current Portion of Long-term Debt (in PHP)	Noncurrent Portion of Long-term Debt (in PHP)	Total Long-term Debt (in PHP)
FOREIGN CURRENCY-DENOMINATED LOANS						
USD Loans						
NEXI Loan	6M LIBOR plus margin	$ 37,500,000	21-Oct-20	965,121,899	978,288,516	1,943,410,415
MWMP Loan	6M LIBOR plus margin	$ 71,340,000	15-May-37	102,134,538	3,624,762,866	3,726,897,404
Total USD loans		**USD 108,840,000**		**1,067,256,437**	**4,603,051,382**	**5,670,307,819**
JPY Loans						
MTSP Loan	6M LIBOR plus margin	JPY 1,189,270,428	15-Apr-22	160,501,886	401,999,167	562,501,053
JPY40.00 billion Loan	1.39% to 1.48%	JPY 27,591,608,392	30-Sep-22	3,200,497,964	9,731,254,033	12,931,751,997
Total JPY loans		**JPY 28,780,878,820**		**3,360,999,850**	**10,133,253,200**	**13,494,253,050**
CAD Loan						
C$0.87 million Laguna Water Loan	Non-interest bearing	CAD 873,000	Not defined	-	33,333,702	33,333,702
Total CAD loan		**CAD 873,000**		**0**	**33,333,702**	**33,333,702**
PESO-DENOMINATED LOANS						
PHP Loans						
₱5.00 billion Metrobank Loan	4.42%	PHP 4,875,000,000	30-Aug-20	20,183,646	4,846,682,341	4,866,865,987
₱5.00 billion PNB Loan	7.30%	PHP 4,875,000,000	31-Jul-28	493,828,860	4,346,331,340	4,840,160,200
Fixed Rate Corporate Notes	6.34% to 7.33%	PHP 4,825,000,000	08-Apr-21	28,895,170	4,805,360,512	4,834,255,682
₱0.50 billion Laguna Water Loan	6.73% to 7.58%	PHP 133,333,333	15-Nov-20	33,177,374	99,736,489	132,913,863
₱0.50 billion Laguna Water DBP Loan	7.04% to 7.93%	PHP 433,823,529	31-Jul-33	33,170,340	399,780,186	432,950,526
₱0.83 billion Laguna Water DBP Loan	7.25%	PHP 744,651,516	31-Jul-33	79,625,850	663,508,669	743,134,519
₱2.50 billion Laguna Water SBC Loan	5.53% to 6.39%	PHP 2,307,692,308	09-Dec-30	190,280,549	2,103,252,749	2,293,533,298
₱0.38 billion Boracay Water DBP-SBC Loan	9.00%	PHP 281,250,000	25-Aug-31	-	-	0
₱0.12 billion Boracay Water DBP-SBC Loan	6M LIBOR plus margin	PHP 93,750,000	25-Aug-31	29,873,253	341,897,565	371,770,818
₱0.50 billion Boracay Water DBP-SBC Loan	9.00%	PHP 401,283,482	25-Aug-31	30,127,394	367,582,728	397,710,122
₱0.65 billion Boracay Water DBP-SBC Loan	6.27%	PHP 650,000,000	25-Aug-31	12,598,054	630,127,411	642,725,465
₱2.40 billion Boracay Water BPI Loan	6.81% to 7.66%	PHP 600,000,000	30-Apr-33	-	595,629,415	595,629,415
₱1.15 billion Clark Water RCBC Loan	6.13% to 6.56%	PHP 1,126,041,665	30-Apr-30	95,833,333	1,022,818,927	1,118,652,260
₱0.10 billion Clark Water RCBC Loan	7.55%	PHP 100,000,000	13-Mar-20	-	100,000,000	100,000,000
₱0.75 billion Cebu Water DBP Loan	7.32%	PHP 663,147,059	20-Dec-33	44,209,804	611,600,100	655,809,904
₱85.00 million Zamboanga Water DBP Loan	5.00%	PHP 85,000,000	29-Jul-23	5,312,500	79,396,976	84,709,476
₱4.00 billion MWPVI Loan	6.12% to 9.28%	PHP 1,350,000,000	09-Nov-32	-	1,340,966,833	1,340,966,833
₱0.45 billion Tagum Water PNB Loan	5.30% to 7.83%	PHP 404,000,000	26-Sep-32	-	401,244,632	401,244,632
Total PHP loans		**PHP 23,948,972,892**		**1,097,116,127**	**22,755,916,873**	**23,853,033,000**
TOTAL				**5,525,372,414**	**37,525,555,157**	**43,050,927,571**

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT (MWSS)
As of December 31, 2018

Note: This pertains to payables assumed by the Parent Company from MWSS.

Title of Issue and Type of Obligation	Current Portion of Service Concession Obligations (in PHP)	Noncurrent Portion of Service Concession Obligations (in PHP)
FOREIGN CURRENCY-DENOMINATED LOANS		
USD		
ADB 1379	98,428,588	108,171,220
ADB 1746	26,435,707	90,298,841
ADB 779	1,278,440	2,199,633
ADB AWTIP	-	675,874,280
Eximbank	215,975,544	2,191,648,101
JPY		
JBIC-PH110	37,580,170	18,703,372
French Loan		
Before turn-over (FRF)	34,896	-
Accrued interest payable	244,007,277	-
Total service concession obligations	**623,740,622**	**3,086,895,447**
REGULATORY FEE		
Manila Water	70,658,529	3,165,560,229
Total regulatory fee	**70,658,529**	**3,165,560,229**
TOTAL	**694,399,151**	**6,252,455,676**

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
As of December 31, 2018

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands	-	595,629,415

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
As of December 31, 2018

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which Statement is Filed	Nature of Guaranty
	The Group has no guarantees of securities of other issuers.			

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
As of December 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Issued/Subscribed	Number of Shares Reserved for Options, Warrants, Conversion and Rights	Number of Shares Held by Affiliates, Directors, Officers and Employees	Others
Preferred stock - ₱0.10 par value, 10% cumulative, voting, participating, nonredeemable and nonconvertible	4,000,000,000	4,000,000,000	-	4,000,000,000	-
					-
Common stock issued & subscribed*	3,100,000,000	2,030,732,360	-	918,358,919	1,112,373,441
Issued and subscribed on exercise of share options	-	34,107,257	-	-	34,107,257
Total capital stock	**3,100,000,000**	**2,064,839,617**	**-**	**918,358,919**	**1,146,480,698**
TOTAL	**7,100,000,000**	**6,064,839,617**	**-**	**4,918,358,919**	**1,146,480,698**

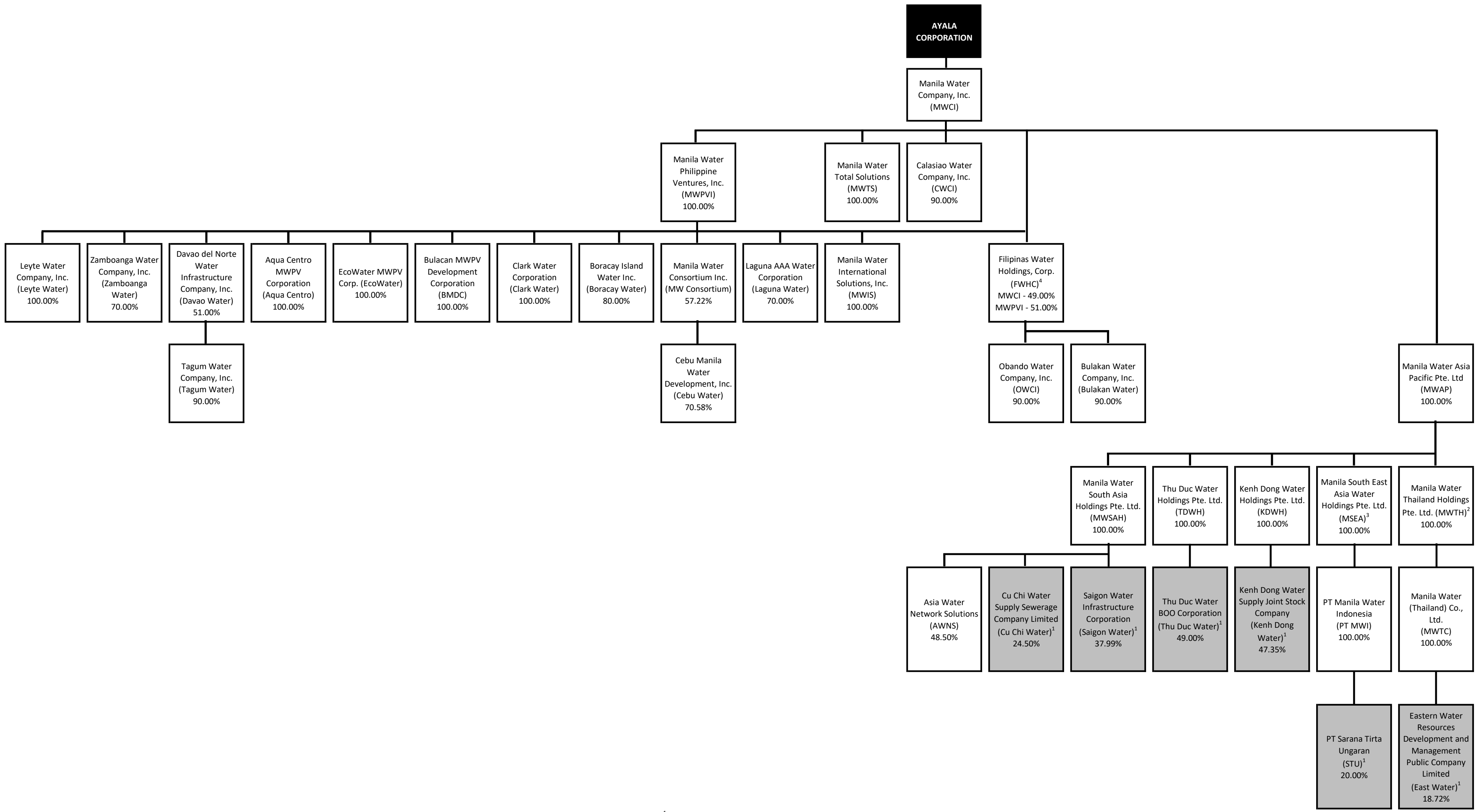
**Please refer to Note 19 of the 2018 Audited Consolidated Financial Statements for further details.*

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE I - RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2018

Unappropriated retained earnings, beginning	11,426,282,242
Adjustments:	
Equity in net earnings of subsidiaries and associates	(2,766,719,423)
Deferred tax asset recognized	(1,366,398,429)
Accretion of receivable from Bonifacio Water Corporation	(120,591,565)
Mark-to-market gain on receivables from Bonifacio Water Corporation	(113,488,598)
Accretion of deferred credits	(42,797,799)
Unappropriated retained earnings, adjusted to available for dividend distribution, beginning	7,016,286,428
Add (Less):	
Net income during the period closed to retained earnings	6,333,092,497
Deferred tax benefit during the period	(223,026,351)
Amortization of deferred credits	(12,535,602)
Total	13,113,816,972
Less: Dividend declarations during the period	(2,151,378,328)
Less: Appropriations during the period	(3,746,000,000)
Unappropriated retained earnings available for dividend distribution, ending*	7,216,438,644

***As disclosed in Note 19 to the consolidated financial statements, excess retained earnings will be utilized for capital expenditures under the approved Business Plan in compliance with the Parent Company's service obligations under the Concession Agreement.*

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE J - ORGANIZATION CHART
As of December 31, 2018



[1] Associates
[2] Previously, Manila Water Indonesia Holdings Pte. Ltd. (MWIH)
[3] Previously, North West Saigon Water Holdings
[4] Previously, Obando Water Consortium Holdings Corp.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
SCHEDULE K - FINANCIAL RATIOS
As of December 31, 2018

	2018	2017
Liquidity ratio	**0.41**	0.77
Solvency ratio	**0.14**	0.17
Debt-to-equity ratio	**1.16**	1.00
Assets-to-equity ratio	**2.29**	2.13
Interest rate coverage ratio	**6.06**	8.83
Return on equity	**0.13**	0.14
Return on assets	**0.05**	0.06

Ratio	Formula
Liquidity ratio =	Cash and Cash Equivalents plus Short-term Cash Investments / Total Current Liabilities
Solvency ratio =	Net Income plus Depreciation and Amortization plus Allowance for Bad Debts / Total Liabilities
Debt-to-equity ratio =	Total Liabilities less Service Concession Obligations / Total Stockholders' Equity (excluding noncontrolling interests)
Assets-to-equity ratio =	Total Assets / Total Stockholders' Equity (including noncontrolling interests)
Interest rate coverage ratio =	EBIT / Interest Expense
Return on equity =	Net Income (attributable to equity holders of the Parent) / Total Stockholders' Equity (average SHE; excluding noncontrolling interests)
Return on assets =	Net Income (attributable to equity holders of the Parent) / Total Assets

SCHEDULE L – BENEFICIAL OWNERSHIP OF SHARES

(1) **Ayala Corporation**

Ayala Corporation is a publicly listed Philippine company. The following table lists the record of beneficial owners of more than five percent (5%) of the issued and outstanding shares of Ayala Corporation as of December 31, 2018:

Name of Stockholder	Number of Shares	Percentage	Nationality
Mermac, Inc.	296,625,706	47.04%	Filipino
PCD Nominee Corporation (Non-Filipino)	179,454,401	28.46%	Various
PCD Nominee Corporation (Filipino)	85,933,536	13.63%	Filipino
Mitsubishi Corporation	37,771,896	5.99%	Japanese

(2) **Philwater Holdings Company, Inc.**

The stockholders of record of Philwater Holdings Company, Inc. as of December 31, 2018 are as follows:

Name	Number of Shares*	Percentage	Nationality
Ayala Corporation	333,383,328	100.00%	Filipino
John Eric T. Francia	1	0.00%	Filipino
Jose Teodoro K. Limcaoco	1	0.00%	Filipino
Solomon M. Hermosura	1	0.00%	Filipino
Aditas Vivian L. Santamaria	1	0.00%	Filipino
Ma. Cecilia T. Cruzabra	1	0.00%	Filipino

**Common Shares only. Exclusive of the Philwater Holdings Company, Inc.'s 222,255,555 Preferred Shares held in Treasury*

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) IN COMPLIANCE WITH SRC RULE 68, AS AMENDED (2011)

DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-12	Service Concession Arrangements	✓		
Philippine Interpretation IFRIC-14	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance – No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases – Incentives			✓
Philippine Interpretation SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures	✓		
Philippine Interpretation SIC-32	Intangible Assets – Web Site Costs			✓

COVER SHEET

A 1 9 9 6 1 1 5 9 3

S.E.C. Registration Number

M A N I L A W A T E R C O M P A N Y I N C

(Company's Full Name)

M W S S A D M I N I S T R A T I O N B U I L D I N G

4 8 9 K A T I P U N A N R O A D B A L A R A 1 1 0 5

Q U E Z O N C I T Y M E T R O M A N I L A

(Business Address: No. Street City / Town / Province)

Atty. Gerardo M. Loboll

Contact Person

981-8122

Company Telephone Number

1 2	3 1
Month	*Day*

Fiscal Year

GFFS

S T O C K

FORM TYPE

0 4	Any
Month	*Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Control No.: ___________
Form Type: *GFFS (rev 2006)*

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (+632) 917-5900 FAX NO.:
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES PSIC: 4100

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheets

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)	95,047,711	87,551,721
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	8,689,538	8,146,007
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	6,749,936	6,188,372
A.1.1.1 On hand	1,264	1,171
A.1.1.2 In domestic banks/entities	6,736,083	6,169,056
A.1.1.3 In foreign banks/entities	12,589	18,145
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	1,473,758	1,308,576
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	1,473,758	1,308,576
A.1.2.1.1 Due from customers (trade)	1,380,138	1,220,384
A.1.2.1.2 Due from related parties	483,856	453,861
A.1.2.1.3 Others, specify (A.1.2.1.3.1+A.1.2.1.3.2)	221,730	202,772
A.1.2.1.3.1 Receivable from Bonifacio Water Corporation (BWC) - current portion	67,396	49,692
A.1.2.1.3.3 Other receivables	154,334	153,080
A.1.2.1.4 Allowance for doubtful accounts (negative entry)	(611,966)	(568,441)
A.1.2.2 Due from foreign entities, specify	0	0
A.1.2.2.1	0	0
A.1.2.2.2	0	0
A.1.2.2.3	0	0
A.1.2.2.4 Allowance for doubtful accounts (negative entry)	0	0
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	76,370	35,230
A.1.3.1 Raw materials and supplies	76,370	35,230
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)	0	0
A.1.3.3 Finished goods	0	0
A.1.3.4 Merchandise/Goods in transit	0	0
A.1.3.5 Unbilled Services (in case of service providers)	0	0
A.1.3.6 Others, specify (A.1.3.6.1+A.1.3.6.2)	0	0
A.1.3.6.1	0	0
A.1.3.6.2	0	0
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4+A.1.4.5+A.1.4.6)	0	0
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities (A.1.4.1.1 + A.1.4.1.2 + A.1.4.1.3 + A.1.4.1.4 + A.1.4.1.5)	0	0
A.1.4.1.1 National Government	0	0
A.1.4.1.2 Public Financial Institutions	0	0
A.1.4.1.3 Public Non-Financial Institutions	0	0
A.1.4.1.4 Private Financial Institutions	0	0
A.1.4.1.5 Private Non-Financial Institutions	0	0
A.1.4.2 Held to Maturity Investments - issued by domestic entities	0	0
A.1.4.2.1 National Government	0	0
A.1.4.2.2 Public Financial Institutions	0	0
A.1.4.2.3 Public Non-Financial Institutions	0	0
A.1.4.2.4 Private Financial Institutions	0	0
A.1.4.2.5 Private Non-Financial Institutions	0	0

NOTE:

This general form is applicable to companies engaged in Agriculture, Fishery, Forestry, Mining, and Quarrying, Manufacturing, Electricity, Gas and Water, Construction, Wholesale and Retail Trade, Transportation, Storage and Communications, Hotels and Restaurants, Real Estate, Community, Social and Personal Services, other forms of production, and general business operations. This form is also applicable to other companies that do not have industry-specific Special Forms. Special forms shall be used by publicly-held companies and those engaged in non-bank financial intermediation activities, credit granting, and activities auxiliary to financial intermediation, which require secondary license from SEC.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.: ___
Form Type: GFFS (rev 2006)

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (+632) 917-5900 FAX NO.:
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES PSIC: 4100

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheets

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities:	0	0
A.1.4.3.1 National Government	0	0
A.1.4.3.2 Public Financial Institutions	0	0
A.1.4.3.3 Public Non-Financial Institutions	0	0
A.1.4.3.4 Private Financial Institutions	0	0
A.1.4.3.5 Private Non-Financial Institutions	0	0
A.1.4.4 Available-for-sale financial assets - issued by domestic entities:	0	0
A.1.4.4.1 National Government	0	0
A.1.4.4.2 Public Financial Institutions	0	0
A.1.4.4.3 Public Non-Financial Institutions	0	0
A.1.4.4.4 Private Financial Institutions	0	0
A.1.4.4.5 Private Non-Financial Institutions	0	0
A.1.4.5 Financial Assets issued by foreign entities: (A.1.4.5.1+A.1.4.5.2+A.1.4.5.3+A.1.4.5.4)	0	0
A.1.4.5.1 Financial Assets at fair value through profit or loss	0	0
A.1.4.5.2 Held-to-maturity investments	0	0
A.1.4.5.3 Loans and Receivables	0	0
A.1.4.5.4 Available-for-sale financial assets	0	0
A.1.4.6 Allowance for decline in market value (negative entry)	0	0
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3 + A.1.5.4)	389,474	613,829
A.1.5.1 Advances to contractors	0	0
A.1.5.2 Prepaid expenses	384,963	608,967
A.1.5.3 Input vat - net	0	0
A.1.5.4 Others	4,511	4,862
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+A.2.8)	930,298	953,730
A.2.1 Land	203,360	203,332
A.2.2 Leasehold improvements	339,851	278,004
A.2.3 Machinery and equipment (on hand and in transit)	1,050,979	973,223
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and delivery equipment	779,166	787,079
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	2,029,767	1,934,948
A.2.5.1 Furniture and fixtures	2,029,767	1,934,948
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4)	0	0
A.2.6.1	0	0
A.2.6.2	0	0
A.2.6.3	0	0
A.2.6.4	0	0
A.2.7 Accumulated Depreciation (negative entry)	(3,472,825)	(3,222,856)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)	0	0
A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3)	0	0
A.3.1 Equity in domestic subsidiaries/affiliates	0	0
A.3.2 Equity in foreign branches/subsidiaries/affiliates	0	0
A.3.3 Others, specify (A.3.1.1 + A.3.2.1 + A.3.3.1 + A.3.3.4)	0	0
A.3.3.1	0	0
A.3.3.2	0	0
A.3.3.3	0	0
A.3.3.4	0	0
A.4 Investment Property	0	0
A.5 Biological Assets	0	0
A.6 Intangible Assets (A.6.1 + A.6.2)	72,431,154	65,530,854
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2 + A.6.1.3 + A.6.1.4)	72,431,154	65,530,854
A.6.1.1 Service concession assets	72,431,154	65,530,854
A.6.1.2	0	0
A.6.1.3	0	0
A.6.1.4	0	0
A.6.2 Others, specify (A.6.2.1 + A.6.2.2 + A.6.2.3 + A.6.2.4)	0	0
A.6.2.1	0	0
A.6.2.2	0	0
A.6.2.3	0	0
A.6.2.4	0	0
A.7 Assets Classified as Held for Sale	0	0
A.8 Assets included in Disposal Groups Classified as Held for Sale	0	0

Control No.:
Form Type: *GFFS (rev 2006)*

GENERAL FORM FOR FINANCIAL STATEMENTS		
NAME OF CORPORATION: Manila Water Company, Inc.		
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City		
TEL. NO.: (+632) 917-5900 FAX NO.:		
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES	PSIC:	4100
If these are based on consolidated financial statements, please so indicate in the caption.		
Table 1. Balance Sheets		
FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	375,054	505,313
A.9.1. From domestic entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3 + A.9.1.4)	375,054	505,313
A.9.1.1 Receivable from BWC - net of current portion	321,014	451,323
A.9.1.2 Receivable from Ayala Multi-Purpose Cooperative	54,040	53,990
A.9.1.3	0	0
A.9.1.4	0	0
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3 + A.9.2.4)	0	0
A.9.2.1	0	0
A.9.2.2	0	0
A.9.2.3	0	0
A.9.2.4	0	0
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)	0	0
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4+A.10.5)	12,621,667	12,415,817
A.10.1 Deferred charges - net of amortization	2,420,087	1,200,238
A.10.2 Deferred Tax Assets	1,193,985	1,091,804
A.10.3 Advance/Miscellaneous deposits	771,728	2,161,493
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4)	8,235,867	7,962,282
A.10.4.1 Available-for-sale financial assets	0	0
A.10.4.2 Miscellaneous	33,341	34,114
A.10.4.3 Pension assets - net	0	16,112
A.10.4.4 Investments in subsidiaries	8,202,526	7,912,056
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)	0	0
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	47,204,986	43,914,729
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	10,913,929	9,460,509
B.1.1 Trade and Other Payables to Domestic Entities	4,797,622	4,282,485
B.1.1.1 Loans/Notes Payables	0	0
B.1.1.2 Trade Payables	3,069,149	2,742,138
B.1.1.3 Payables to Related Parties, specify (B.1.1.3.1 + B.1.1.3.2 + B.1.1.3.3)	0	0
B.1.1.3.1	0	0
B.1.1.4 Others, specify (B.1.1.4.1 + B.1.1.4.2 + B.1.1.4.3 + B.1.1.4.4)	1,728,473	1,540,347
B.1.1.4.1 Accrued expenses	1,290,104	1,104,244
B.1.1.4.2 Interest payable	364,439	305,117
B.1.1.4.3 Contracts payable	72,067	74,953
B.1.1.4.4 Others	1,863	56,033
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1+B.1.2.2+B.1.2.3+B.1.2.4)	0	0
B.1.2.1	0	0
B.1.2.2	0	0
B.1.2.3	0	0
B.1.2.4	0	0
B.1.3 Provisions	0	0
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions)	0	0
B.1.4.1	0	0
B.1.4.2	0	0
B.1.4.3	0	0
B.1.4.4	0	0
B.1.5 Liabilities for Current Tax	450,744	332,755
B.1.6 Deferred Tax Liabilities	0	0
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions)	5,665,563	4,845,269
B.1.7.1 Dividends declared and not paid at balance sheet date	0	0
B.1.7.2 Acceptances Payable	0	0
B.1.7.3 Liabilities under Trust Receipts	0	0
B.1.7.4 Portion of Long-term Debt Due within one year	4,971,164	4,126,034
B.1.7.5 Deferred Income	0	0
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabiilities, specify:	694,399	719,235
B.1.7.6.1 Service concession obligation - current portion	694,399	719,235
B.1.7.6.2	0	0
B.1.7.6.3	0	0
B.1.7.6.4	0	0

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GENERAL FORM FOR FINANCIAL STATEMENTS		
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TEL. NO.: (+632) 917-5900 FAX NO.:		
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES	PSIC:	4100
If these are based on consolidated financial statements, please so indicate in the caption.		
Table 1. Balance Sheets		
FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)	28,734,679	27,206,412
B.2.1 Domestic Public Financial Institutions	0	0
B.2.2 Domestic Public Non-Financial Institutions	0	0
B.2.3 Domestic Private Financial Institutions	13,998,374	9,701,122
B.2.4 Domestic Private Non-Financial Institutions	0	0
B.2.5 Foreign Financial Institutions	14,736,305	17,505,290
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)	0	0
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale	0	0
B.5 Other Liabilities (B.5.1 + B.5.2)	7,556,378	7,247,808
B.5.1 Deferred Income Tax	0	0
B.5.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4)	7,556,378	7,247,808
B.5.2.1 Service concession obligation - net of current portion	6,252,456	6,110,227
B.5.2.2 Pension liabilities - net	57,994	-
B.5.2.3 Provisions	569,893	501,099
B.5.2.4 Other noncurrent liabilities	676,035	636,482
C. EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)	47,842,725	43,636,992
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details)	3,500,000	3,500,000
C.1.1 Common shares (P1 par value; 3,100,000,000 shares in 2018 and 2017)	3,100,000	3,100,000
C.1.2 Preferred Shares (P0.10 par value; 4,000,000,000 shares in 2018 and 2017)	400,000	400,000
C.1.3 Others	0	0
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)	34,107	27,599
C.2.1 Common shares (P1 par value; 28,732,486 shares in 2017 and 2016)	34,107	27,599
C.2.2 Preferred Shares	0	0
C.2.3 Others	0	0
C.3 Paid-up Capital Stock (C.3.1 + C.3.2)	2,464,840	2,453,667
C.3.1 Common shares (P1 par value; 2,053,666,576 shares in 2017 and 2016)	2,064,840	2,053,667
C.3.2 Preferred Shares (P0.10 par value; 4,000,000,000 shares in 2017 and 2016)	400,000	400,000
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus	4,518,048	4,230,508
C.5 Minority Interest	0	0
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3 + C.6.4 + C.6.5)	(480,361)	(205,666)
C.6.1 Common stock options outstanding	51,743	28,701
C.6.2 Subscriptions receivable	(458,453)	(235,694)
C.6.3 Remeasurement gain (loss) on defined benefit plans	(73,651)	1,327
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus	0	0
C.8 Retained Earnings (C.8.1 + C.8.2)	41,340,198	37,158,483
C.8.1 Appropriated	32,444,000	28,698,000
C.8.2 Unappropriated	8,896,198	8,460,483
C.9 Head / Home Office Account (for Foreign Branches only)	0	0
C.10 Cost of Stocks Held in Treasury (negative entry)	0	0
D. TOTAL LIABILITIES AND EQUITY (B + C)	95,047,711	87,551,721

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TEL. NO.: (+632) 917-5900 FAX NO.:		
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES	PSIC:	4100
If these are based on consolidated financial statements, please so indicate in the caption.		

Table 2. Income Statements

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3 + A.4)	16,815,617	15,417,406
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)	16,352,121	15,244,677
A.2 Share in the Profit or Loss of Associates and Joint Ventures accounted for using the Equity Method	0	0
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	199,982	12,864
A.3.1 Rental Income from Land and Buildings	0	0
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)	0	0
A.3.3 Sale of Real Estate or other Property and Equipment	16,315	1,722
A.3.4 Royalties, Franchise Fees, Copyrights (books, films, records, etc.)	0	0
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7)	183,667	11,142
A.3.5.1 Revenue from rehabilitation works	8,198,599	9,878,154
A.3.5.2 Cost of rehabilitation works	(8,198,599)	(9,878,154)
A.3.5.3 Amortization of deferred credits	12,536	11,142
A.3.5.4 Other income (expense) - net	171,131	0
A.3.5.5	0	0
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	263,514	159,865
A.4.1 Interest Income	228,651	158,412
A.4.2 Dividend Income	0	0
A.4.3 Gain / (Loss) from selling of Assets, specify	0	0
A.4.3.1	0	0
A.4.3.2	0	0
A.4.3.3	0	0
A.4.3.4	0	0
A.4.4 Gain / (Loss) on Foreign Exchange (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	34,863	1,453
A.4.4.1 Foreign currency differentials - net	1,766,783	140,084
A.4.4.2 Foreign exchange gains (losses) - net	(1,731,920)	(138,631)
A.4.4.3	0	0
A.4.4.4	0	0
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)	0	0
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)	0	0
B.1.1 Direct Material Used	0	0
B.1.2 Direct Labor	0	0
B.1.3 Other Manufacturing Cost / Overhead	0	0
B.1.4 Goods in Process, Beginning	0	0
B.1.5 Goods in Process, End (negative entry)	0	0
B.2 Finished Goods, Beginning	0	0
B.3 Finished Goods, End (negative entry)	0	0
C. COST OF SALES (C.1 + C.2 + C.3)	0	0
C.1 Purchases	0	0
C.2 Merchandise Inventory, Beginning	0	0
C.3 Merchandise Inventory, End (negative entry)	0	0
D. COST OF SERVICES, SPECIFY (D.1 + D.2 + D.3 + D.4 + D.5 + D.6)	5,092,899	5,023,149
D.1 Depreciation and amortization	1,918,128	2,007,176
D.2 Salaries, wages and employee benefits	932,822	923,162
D.3 Power, light and water	776,719	711,350
D.4 Repairs and maintenance	281,455	290,950
D.5 Contractual services	173,657	172,897
D.6 Other cost of services	1,010,118	917,614

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TEL. NO.: (+632) 917-5900 FAX NO.:		
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES	PSIC:	4100

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statements

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
E. OTHER DIRECT COSTS, SPECIFY (E.1 + E.2 + E.3 + E.4 + E.5 + E.6)	0	0
E.1	0	0
E.2	0	0
E.3	0	0
E.4	0	0
E.5	0	0
E.6	0	0
F. GROSS PROFIT (A - B - C - D - E) *	11,722,718	10,394,257
G. OPERATING EXPENSES (G.1 + G.2 + G.3 + G.4)	2,286,055	1,879,652
G.1 Selling or Marketing Expenses	0	0
G.2 Administrative Expenses	0	0
G.3 General Expenses	2,286,055	1,858,568
G.4 Other Expenses, specify (G.4.1 + G.4.2 + G.4.3 + G.4.4 + G.4.5 + G.4.6)	0	21,084
G.4.1 Others	0	21,084
G.4.2	0	0
G.4.3	0	0
G.4.4	0	0
G.4.5	0	0
G.4.6	0	0
H. FINANCE COSTS	1,257,030	1,147,545
I. NET INCOME (LOSS) BEFORE TAX (F - G - H)	8,179,633	7,367,060
J. INCOME TAX EXPENSE (negative entry)	(1,846,540)	(1,636,602)
K. INCOME AFTER TAX	6,333,093	5,730,458
L. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the Discontinued Operation (if any)	0	0
L.1	0	0
L.2	0	0
M. Profit or Loss Attributable to Minority Interest	0	0
N. Profit or Loss Attributable to Equity Holders of the Parent	6,333,093	5,730,458

**Difference in the gross profjt per audited financial statements was due to grouping presentation in the GFFS form.*

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If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA			2018 (in P'000)	2017 (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) Before Tax and Extraordinary Items			8,179,633	7,367,060
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation and amortization			2,176,661	2,236,975
Others, specify:	Interest expense		1,257,030	1,147,545
	Interest income		(228,651)	(158,412)
	Share-based payments		23,968	12,171
	Pension expense, net of contribution and benefit payment - net		18,883	57,749
	Amortization of deferred credits		(12,536)	(11,142)
	Gain on disposal of investment in subsidiary, property and equipment		(26,706)	(2,334)
Write-down of Property, Plant, and Equipment			0	0
Changes in Assets and Liabilities:				
Decrease (Increase) in:				
	Receivables		(145,961)	(243,043)
	Inventories		(41,140)	36,265
	Other Current Assets		99,279	(244,925)
	Others, specify:	Service concession assets	(6,167,245)	(9,339,019)
Increase (Decrease) in:				
	Accounts and other payables		546,946	788,085
	Others, specify:			
Income taxes paid			(1,705,655)	(1,642,897)
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)			3,974,506	4,078
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received			189,675	145,301
Additions of:				
Investments in subsidiaries			(280,078)	(671,342)
Property and equipment			(370,090)	(521,847)
Others, specify (negative entry):				
Proceeds from sale of property and equipment			20,841	3,186
Decrease (increase) in other noncurrent assets			716,643	(1,021,130)
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)			276,991	(2,065,832)
CASH FLOWS FROM FINANCING ACTIVITIES				
Long term debt:				
Availments			5,423,698	12,861,375
Payments			(4,740,342)	(3,340,725)
Service concession obligation:				
Drawdowns by MWSS			0	0
Payments of service concession obligation:			(875,351)	(834,802)
Others, specify:	Payments of dividends		(2,151,378)	(2,122,909)
Collection of subscriptions receivable			75,028	83,533
Interest paid			(1,473,677)	(965,146)
Decrease (increase) in noncurrent liabilities			52,089	8,030
Others, specify (negative entry):				
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)			(3,689,933)	5,689,356
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)			561,564	3,627,602
Cash and Cash Equivalents				
Beginning of year			6,188,372	2,560,770
End of year			6,749,936	6,188,372

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If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

(Amount in P'000)

FINANCIAL DATA	Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Common Stock Options Outstanding	Retained Earnings - Unappropriated	Retained Earnings - Appropriated	Remeasurement Gain (Loss) on Defined Benefit Plans	TOTAL
A. Balance, *2016*	2,453,667	4,221,713	(319,227)	25,325	12,450,934	21,100,000	51,331	39,983,743
A.1 Correction of Error(s)								
A.2 Changes in Accounting Policy								
B. Restated Balance	2,453,667	4,221,713	(319,227)	25,325	12,450,934	21,100,000	51,331	39,983,743
C. Surplus		8,795	83,533	3,376			(50,004)	45,700
C.1 Surplus (Deficit) on Revaluation of Properties								
C.2 Surplus (Deficit) on Revaluation of Investments								
C.3 Currency Translation Differences								
C.4 Other Surplus (specify)		8,795	83,533	3,376			(50,004)	45,700
C.4.1 Collections from subscriptions receivable			83,533					83,533
C.4.2 Exercised common stock outstanding		8,795		(8,795)				
C.4.3 Cost of share-based payments				12,171				12,171
C.4.4 Remeasurement gain (loss) on defined benefit plans - net of income tax effect							(50,004)	(50,004)
C.4.5 Additions to subscriptions receivable								
D. Net Income (Loss) for the Period					5,730,458			5,730,458
E. Dividends (negative entry)					(2,122,909)			(2,122,909)
F. Appropriation for (specify)					(7,598,000)	7,598,000		
F.1 Capital expenditures					(7,598,000)	7,598,000		
G. Issuance of Capital Stock								
G.1 Common Stock								
G.2 Preferred Stock								
G.3 Others								
H. Balance, *2017*	2,453,667	4,230,508	(235,694)	28,701	8,460,483	28,698,000	1,327	43,636,992
H.1 Correction of Error (s)								
H.2 Changes in Accounting Policy								
I. Restated Balance	2,453,667	4,230,508	(235,694)	28,701	8,460,483	28,698,000	1,327	43,636,992
J. Surplus		287,540	75,028	23,042			(74,978)	310,632
J.1 Surplus (Deficit) on Revaluation of Properties								
J.2 Surplus (Deficit) on Revaluation of Investments								
J.3 Currency Translation Differences								
J.4 Other Surplus (specify)		287,540	75,028	23,042			(74,978)	310,632
J.4.1 Collections from subscriptions receivable			75,028					75,028
J.4.2 Exercised common stock outstanding		287,540		(926)				286,614
J.4.3 Cost of share-based payments				23,968				23,968
J.4.4 Remeasurement gain (loss) on defined benefit plans - net of income tax effect							(74,978)	(74,978)
K. Net Income (Loss) for the Period					6,333,093			6,333,093
L. Dividends (negative entry)					(2,151,378)			(2,151,378)
M. Appropriation for (specify)					(3,746,000)	3,746,000		
M.1 Capital expenditures					(3,746,000)	3,746,000		
N. Issuance of Capital Stock	11,173		(297,787)					(286,614)
N.1 Common Stock	11,173							11,173
N.2 Preferred Stock								
N.3 Others			(297,787)					(297,787)
O. Balance, *2018*	2,464,840	4,518,048	(458,453)	51,743	8,896,198	32,444,000	(73,651)	47,842,725

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TEL. NO.: (+632) 917-5900 FAX NO.:
COMPANY TYPE : WATER, SEWERAGE & SANITATION, & DISTRIBUTION SERVICES PSIC: 4100

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Income and Expenses, by source

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	16,815,617	15,417,406
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity) (A.1.1 +A.1.2)	16,352,121	15,244,677
A.1.1 Domestic	16,352,121	15,244,677
A.1.2 Foreign	0	0
A.2 Other Revenue (A.2.1 +A.2.2)	463,496	172,729
A.2.1 Domestic	463,496	172,729
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)	0	0
A.2.2.1	0	0
A.2.2.2	0	0
A.2.2.3	0	0
A.2.2.4	0	0
A.2.2.5	0	0
A.2.2.6	0	0
A.2.2.7	0	0
A.2.2.8	0	0
A.2.2.9	0	0
A.2.2.10	0	0
B. EXPENSES (B.1 + B.2)	10,482,524	9,686,948
B.1 Domestic	10,482,524	9,686,948
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.10)	0	0
B.2.1	0	0
B.2.2	0	0
B.2.3	0	0
B.2.4	0	0
B.2.5	0	0
B.2.6	0	0
B.2.7	0	0
B.2.8	0	0
B.2.9	0	0
B.2.10	0	0

Control No.:
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GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Consolidated Balance Sheet

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)	122,533,317	103,394,436
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	13,448,543	12,758,764
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	9,390,592	9,020,743
A.1.1.1 On hand	5,815	11,437
A.1.1.2 In domestic banks/entities	8,813,034	7,701,690
A.1.1.3 In foreign banks/entities	571,743	1,307,616
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	1,955,234	2,043,815
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	1,955,234	2,043,815
A.1.2.1.1 Due from customers (trade)	2,878,961	2,831,933
A.1.2.1.2 Due from related parties	0	0
A.1.2.1.3 Others, specify (A.1.2.1.3.1+A.1.2.1.3.2)	316,034	276,767
A.1.2.1.3.1 Receivable from Bonifacio Water Corporation (BWC) - current portion	67,396	49,692
A.1.2.1.3.2 Receivable from Zamboanga City Water District (ZCWD) - current portion	10,450	60,277
A.1.2.1.3.3 Receivable from employees	31,156	34,776
A.1.2.1.3.4 Interest receivable	23,937	16,406
A.1.2.1.3.5 Other current receivables	183,095	115,616
A.1.2.1.4 Allowance for expected credit losses (negative entry)	(1,239,761)	(1,064,885)
A.1.2.2 Due from foreign entities, specify	0	0
A.1.2.2.1	0	0
A.1.2.2.2	0	0
A.1.2.2.3	0	0
A.1.2.2.4 Allowance for doubtful accounts (negative entry)	0	0
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	205,923	210,750
A.1.3.1 Raw materials and supplies	204,107	207,172
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)	0	0
A.1.3.3 Finished goods	1,816	3,578
A.1.3.4 Merchandise/Goods in transit	0	0
A.1.3.5 Unbilled Services (in case of service providers)	0	0
A.1.3.6 Others, specify (A.1.3.6.1+A.1.3.6.2)	0	0
A.1.3.6.1	0	0
A.1.3.6.2	0	0
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 +A.1.4.6)	0	0
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities (A.1.4.1.1 + A.1.4.1.2 + A.1.4.1.3 + A.1.4.1.4 + A.1.4.1.5)	0	0
A.1.4.1.1 National Government	0	0
A.1.4.1.2 Public Financial Institutions	0	0
A.1.4.1.3 Public Non-Financial Institutions	0	0
A.1.4.1.4 Private Financial Institutions	0	0
A.1.4.1.5 Private Non-Financial Institutions	0	0
A.1.4.2 Held to Maturity Investments - issued by domestic entities	0	0
A.1.4.2.1 National Government	0	0
A.1.4.2.2 Public Financial Institutions	0	0
A.1.4.2.3 Public Non-Financial Institutions	0	0
A.1.4.2.4 Private Financial Institutions	0	0
A.1.4.2.5 Private Non-Financial Institutions	0	0

NOTE:

This general form is applicable to companies engaged in Agriculture, Fishery, Forestry, Mining, and Quarrying, Manufacturing, Electricity, Gas and Water, Construction, Wholesale and Retail Trade, Transportation, Storage and Communications, Hotels and Restaurants, Real Estate, Community, Social and Personal Services, other forms of production, and general business operations. This form is also applicable to other companies that do not have industry-specific Special Forms. Special forms shall be used by publicly-held companies and those engaged in non-bank financial intermediation activities, credit granting, and activities auxiliary to financial intermediation, which require secondary license from SEC.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: GFFS (rev 2006)

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Consolidated Balance Sheet

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities:	0	0
A.1.4.3.1 National Government	0	0
A.1.4.3.2 Public Financial Institutions	0	0
A.1.4.3.3 Public Non-Financial Institutions	0	0
A.1.4.3.4 Private Financial Institutions	0	0
A.1.4.3.5 Private Non-Financial Institutions	0	0
A.1.4.4 Available-for-sale financial assets - issued by domestic entities:	0	0
A.1.4.4.1 National Government	0	0
A.1.4.4.2 Public Financial Institutions	0	0
A.1.4.4.3 Public Non-Financial Institutions	0	0
A.1.4.4.4 Private Financial Institutions	0	0
A.1.4.4.5 Private Non-Financial Institutions	0	0
A.1.4.5 Financial Assets issued by foreign entities: (A.1.4.5.1+A.1.4.5.2+A.1.4.5.3+A.1.4.5.4)	0	0
A.1.4.5.1 Financial Assets at fair value through profit or loss	0	0
A.1.4.5.2 Held-to-maturity investments	0	0
A.1.4.5.3 Loans and Receivables	0	0
A.1.4.5.4 Available-for-sale financial assets	0	0
A.1.4.6 Allowance for decline in market value (negative entry)	0	0
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3)	1,896,794	1,483,456
A.1.5.1 Concession financial receivable - current portion	193,706	197,044
A.1.5.2 Contract assets - current portion	398,448	0
A.1.5.3 Input VAT - net	875,217	912,196
A.1.5.4 Prepaid expenses	385,566	337,394
A.1.5.5 Guaranty deposits	33,613	23,586
A.1.5.6 Security bonds	10,244	13,236
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+A.2.8)	3,508,215	2,735,315
A.2.1 Land	226,341	226,341
A.2.2 Building and improvements including leasehold improvement	719,967	389,089
A.2.3 Machinery and equipment (on hand and in transit)	2,179,124	1,868,872
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and delivery equipment	1,105,895	995,530
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	3,402,417	2,842,893
A.2.5.1 Office furniture and equipment	2,225,530	2,112,899
A.2.5.2 Construction in progress	1,176,887	729,994
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4)	0	0
A.2.6.1	0	0
A.2.6.2	0	0
A.2.6.3	0	0
A.2.6.4	0	0
A.2.7 Accumulated Depreciation (negative entry)	(4,054,099)	(3,587,410)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)	(71,430)	0
A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3)	15,994,949	6,796,037
A.3.1 Equity in domestic subsidiaries/affiliates	0	0
A.3.2 Equity in foreign branches/subsidiaries/affiliates	15,994,949	6,796,037
A.3.3 Others, specify (A.3.1.1 + A.3.2.1 + A.3.3.1 + A.3.3.4)	0	0
A.3.3.1	0	0
A.3.3.2	0	0
A.3.3.3	0	0
A.3.3.4	0	0
A.4 Investment Property	0	0
A.5 Biological Assets	0	0
A.6 Intangible Assets (A.6.1 + A.6.2)	82,666,132	74,283,700
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2 + A.6.1.3 + A.6.1.4)	82,666,132	74,283,700
A.6.1.1 Service concession assets - net of accumulated amortization	82,529,566	74,150,945
A.6.1.2 Goodwill	136,566	132,755
A.6.1.3	0	0
A.6.1.4	0	0
A.6.2 Others, specify (A.6.2.1 + A.6.2.2 + A.6.2.3 + A.6.2.4)	0	0
A.6.2.1	0	0
A.6.2.2	0	0
A.6.2.3	0	0
A.6.2.4	0	0

Control No.: ______
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GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
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TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Consolidated Balance Sheet

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A.7 Assets Classified as Held for Sale	0	0
A.8 Assets included in Disposal Groups Classified as Held for Sale	0	0
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	1,228,389	1,744,838
A.9.1. From domestic entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3 + A.9.1.4)	1,228,389	1,744,838
A.9.1.1 Receivable from BWC - net of current portion	321,014	451,323
A.9.1.2 Receivable from Ayala Multi-Purpose Cooperative (AMPC)	54,040	53,990
A.9.1.3 Concession financial receivable - net of current portion	853,335	1,187,508
A.9.1.4 Receivable from ZCWD - net of current portion	0	52,017
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3 + A.9.2.4)	0	0
A.9.2.1	0	0
A.9.2.2	0	0
A.9.2.3	0	0
A.9.2.4	0	0
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)	0	0
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4+A.10.5)	5,687,089	5,075,782
A.10.1 Deferred charges - net of amortization	2,620,320	1,329,351
A.10.2 Deferred Income Tax	1,363,604	1,202,732
A.10.3 Advance/Miscellaneous deposits	1,077,554	2,410,800
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4)	625,611	132,899
A.10.4.1 Contract assets	492,943	0
A.10.4.2 Water banking rights	65,796	60,067
A.10.4.3 Pension assets - net (Note 15)	0	16,112
A.10.4.4 Miscellaneous	66,872	56,720
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)	0	0
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	68,912,223	54,833,739
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	22,708,379	11,738,569
B.1.1 Trade and Other Payables to Domestic Entities	7,309,175	5,882,548
B.1.1.1 Loans/Notes Payables	0	0
B.1.1.2 Trade Payables	4,636,952	3,796,858
B.1.1.3 Payables to Related Parties, specify (B.1.1.3.1 + B.1.1.3.2 + B.1.1.3.3)	0	0
B.1.1.3.1	0	0
B.1.1.4 Others, specify (B.1.1.4.1 + B.1.1.4.2 + B.1.1.4.3)	2,672,223	2,085,690
B.1.1.4.1 Accrued expenses	1,763,640	1,307,638
B.1.1.4.2 Interest payable	435,978	353,446
B.1.1.4.3 Contractors' payable	357,235	276,674
B.1.1.4.4 Contract liabilities	17,892	0
B.1.1.4.5 Other current payables	97,478	147,932
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1+B.1.2.2+B.1.2.3+B.1.2.4)	8,596,539	0
B.1.2.1 Loans/Notes Payables	8,596,539	0
B.1.2.2	0	0
B.1.2.3	0	0
B.1.2.4	0	0
B.1.3 Provisions	0	0
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions)	0	0
B.1.4.1	0	0
B.1.4.2	0	0
B.1.4.3	0	0
B.1.4.4	0	0
B.1.5 Liabilities for Current Tax	467,888	441,002
B.1.6 Deferred Tax Liabilities	0	0
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions)	6,334,777	5,415,019
B.1.7.1 Dividends declared and not paid at balance sheet date	0	0
B.1.7.2 Acceptances payable	0	0
B.1.7.3 Liabilities under trust receipts	0	0
B.1.7.4 Portion of long-term debt due within one year	5,525,372	4,614,057
B.1.7.5 Deferred Income	0	0
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabiilities, specify:	809,405	800,962
B.1.7.6.1 Service concession obligations - current portion	809,405	800,962
B.1.7.6.2	0	0
B.1.7.6.3	0	0
B.1.7.6.4	0	0

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COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Consolidated Balance Sheet

F I N A N C I A L D A T A	2018 (in P'000)	2017 (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)	37,525,555	35,110,322
B.2.1 Domestic Public Financial Institutions	0	0
B.2.2 Domestic Public Non-Financial Institutions	0	0
B.2.3 Domestic Private Financial Institutions	22,755,917	17,616,395
B.2.4 Domestic Private Non-Financial Institutions	0	0
B.2.5 Foreign Financial Institutions	14,769,638	17,493,927
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)	0	0
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale	0	0
B.5 Other Liabilities (B.5.1 + B.5.2)	8,678,289	7,984,848
B.5.1 Deferred Income Tax	103,105	111,543
B.5.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4)	8,575,184	7,873,305
B.5.2.1 Service concession obligations - net of current portion	7,119,121	6,646,714
B.5.2.2 Pension liabilities - net	109,392	41,506
B.5.2.3 Provisions	569,893	501,099
B.5.2.4 Other noncurrent liabilities	776,778	683,986
C. EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)	53,621,094	48,560,697
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details)	3,500,000	3,500,000
C.1.1 Common shares (Php1 par value; 3,100,000,000 shares in 2018 and 2017)	3,100,000	3,100,000
C.1.2 Preferred Shares (Php0.10 par value; 4,000,000,000 shares in 2018 and 2017)	400,000	400,000
C.1.3 Others	0	0
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)	34,107	27,599
C.2.1 Common shares (Php1 par value; 34,107,257 and 27,599,454 shares in 2018 and 2017, respectively)	34,107	27,599
C.2.2 Preferred Shares	0	0
C.2.3 Others	0	0
C.3 Paid-up Capital Stock (C.3.1 + C.3.2)	2,464,840	2,453,667
C.3.1 Common shares (Php1 par value; 2,064,839,617 and 2,053,666,576 shares in 2018 and 2017, respectively)	2,064,840	2,053,667
C.3.2 Preferred Shares (Php0.10 par value; 4,000,000,000 shares in 2018 and 2017)	400,000	400,000
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus	4,518,048	4,230,508
C.5 Minority Interest	1,131,097	1,005,964
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3 + C.6.4 + C.6.5)	1,010,504	746,276
C.6.1 Common stock options outstanding	51,743	28,701
C.6.2 Subscription receivable	(458,453)	(235,694)
C.6.3 Remeasurement gain (loss) on defined benefit plans	(57,483)	3,252
C.6.4 Other equity reserves	54,107	54,107
C.6.5 Cumulative translation adjustment	1,420,590	895,910
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus	0	0
C.8 Retained Earnings (C.8.1 + C.8.2)	44,496,605	40,124,282
C.8.1 Appropriated	32,444,000	28,698,000
C.8.2 Unappropriated	12,052,605	11,426,282
C.9 Head / Home Office Account (for Foreign Branches only)	0	0
C.10 Cost of Stocks Held in Treasury (negative entry)	0	0
D. TOTAL LIABILITIES AND EQUITY (B + C)	122,533,317	103,394,436

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COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Consolidated Income Statement

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3)	21,126,957	19,402,491
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)	19,836,292	18,515,772
A.2 Share in the Profit or Loss of Associates and Joint Ventures accounted for using the Equity Method	699,142	457,208
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	127,708	66,214
A.3.1 Rental Income from Land and Buildings	0	0
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)	0	0
A.3.3 Sale of Real Estate or other Property and Equipment	0	0
A.3.4 Royalties, Franchise Fees, Copyrights (books, films, records, etc.)	0	0
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7)	127,708	66,214
A.3.5.1 Revenue from rehabilitation works	9,661,977	11,672,137
A.3.5.2 Cost of rehabilitation works	(9,661,977)	(11,672,137)
A.3.5.3 Amortization of deferred credits	12,536	11,142
A.3.5.4 Others	115,172	55,072
A.3.5.5	0	0
A.3.5.6	0	0
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	463,815	363,297
A.4.1 Interest Income	411,883	345,738
A.4.2 Dividend Income	0	0
A.4.3 Gain / (Loss) from selling of Assets, specify	18,643	16,000
A.4.3.1 Gain on disposal of property and equipment	18,643	16,000
A.4.3.2	0	0
A.4.3.3	0	0
A.4.3.4	0	0
A.4.4 Gain / (Loss) on Foreign Exchange (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	33,289	1,559
A.4.4.1 Foreign currency differentials - net	1,787,218	152,454
A.4.4.2 Foreign exchange gains (losses) - net	(1,753,929)	(150,895)
A.4.4.3	0	0
A.4.4.4	0	0
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)	0	0
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)	0	0
B.1.1 Direct Material Used	0	0
B.1.2 Direct Labor	0	0
B.1.3 Other Manufacturing Cost / Overhead	0	0
B.1.4 Goods in Process, Beginning	0	0
B.1.5 Goods in Process, End (negative entry)	0	0
B.2 Finished Goods, Beginning	0	0
B.3 Finished Goods, End (negative entry)	0	0
C. COST OF SALES (C.1 + C.2 + C.3)	0	0
C.1 Purchases	0	0
C.2 Merchandise Inventory, Beginning	0	0
C.3 Merchandise Inventory, End (negative entry)	0	0
D. COST OF SERVICES, SPECIFY (D.1 + D.2 + D.3 + D.4 + D.5 + D.6)	6,936,197	6,575,061
D.1 Depreciation and amortization	2,208,750	2,206,054
D.2 Power, light and water	1,319,151	1,183,197
D.3 Salaries, wages and employee benefits	1,083,008	1,063,652
D.4 Repairs and maintenance	375,657	379,544
D.5 Contractual services	291,299	316,447
D.6 Management, technical and professional fees	254,676	285,636
D.7 Water treatment chemicals	235,096	107,109
D.8 Regulatory costs	215,436	191,815
D.9 Wastewater costs	199,370	162,923
D.10 Amortization of water service connections	178,663	190,849
D.11 Collection fees	138,568	110,573
D.12 Cost of packaged water	127,895	111,341
D.13 Occupancy costs	35,989	43,488
D.14 Other expenses	272,639	222,433

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Table 2. Consolidated Income Statement

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
E. OTHER DIRECT COSTS, SPECIFY (E.1 + E.2 + E.3 + E.4 + E.5 + E.6)	0	0
E.1	0	0
E.2	0	0
E.3	0	0
E.4	0	0
E.5	0	0
E.6	0	0
F. GROSS PROFIT (A - B - C - D - E)	14,190,760	12,827,430
G. OPERATING EXPENSES (G.1 + G.2 + G.3 + G.4)	3,795,561	3,342,317
G.1 Selling or Marketing Expenses	0	0
G.2 Administrative Expenses	0	0
G.3 General Expenses	3,795,561	3,342,317
G.4 Other Expenses, specify (G.4.1 + G.4.2 + G.4.3 + G.4.4 + G.4.5 + G.4.6)	0	0
G.4.1 Other charges	0	0
G.4.2	0	0
G.4.3	0	0
G.4.4	0	0
G.4.5	0	0
G.4.6	0	0
H. FINANCE COSTS	1,783,809	1,403,236
I. NET INCOME (LOSS) BEFORE TAX (F - G - H)	8,611,390	8,081,877
J. INCOME TAX EXPENSE (negative entry)	(1,976,357)	(1,941,929)
K. INCOME AFTER TAX	6,635,033	6,139,948
L. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the Discontinued Operation (if any)	0	0
L.1	0	0
L.2	0	0
M. Profit or Loss Attributable to Minority Interest	111,332	(6,661)
N. Profit or Loss Attributable to Equity Holders of the Parent	6,523,701	6,146,609

Control No.:
Form Type: *GFFS (rev 2006)*

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Consolidated Cash Flow Statements

FINANCIAL DATA			2018 (in P'000)	2017 (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss) Before Tax and Extraordinary Items			8,611,390	8,081,876
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities				
Depreciation			2,655,670	2,556,999
Amortization, specify:	Interest expense		1,783,809	1,403,236
Others, specify:	Equity share in net income of associates		(699,142)	(457,208)
	Interest income		(411,883)	(345,738)
	Gain on bargain purchase		(43,754)	(54,908)
	Pension expense, contribution and benefit - net		29,257	59,730
	Share-based payments		23,968	12,171
	Gain on disposal of property and equipment - net		(18,643)	(16,000)
	Amortization of deferred credits		(12,536)	(11,142)
Write-down of Property, Plant, and Equipment			136,836	0
Changes in Assets and Liabilities:				
Decrease (Increase) in:				
Receivables			(99,349)	332,923
Inventories			4,826	(44,180)
Other current assets			(197,211)	181,655
Others, specify:		Service concession assets	(7,127,729)	(10,692,179)
		Concession financial receivable	197,044	2,358
		Contract assets	(377,539)	0
Increase (Decrease) in:				
Accounts and other payables			786,531	915,374
Income taxes paid			(1,943,956)	(2,082,542)
Others, specify:			0	0
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)			3,297,589	(157,575)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from:				
Sale of property and equipment			21,161	3,183
Others, specify:	Interest received		275,903	150,589
	Dividends received from associates		413,819	185,044
Acquisitions of:				
Investment in associates			(8,871,042)	(229,156)
Property, plant and equipment			(1,353,557)	(1,299,300)
Consideration paid for business combination			(45,134)	(74,244)
Others, specify (negative entry):				
Decrease (increase) in:				
	Other noncurrent assets		699,841	(1,107,196)
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)			(8,859,009)	(2,371,080)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of short-term debt			8,864,235	0
Availments of long-term debt			6,843,198	15,428,965
Issuance of Securities			0	0
Others, specify:	Collection of subscription receivable		75,028	83,533
Payments of:				
Long-term debt			(5,208,266)	(3,579,762)
Service concession obligation			(955,120)	(778,819)
Dividends			(2,151,378)	(2,122,909)
Interest			(1,641,493)	(1,557,039)
Others, specify (negative entry):			0	0
Increase (decrease) in other noncurrent liabilities			92,794	(4,365)
Additions to noncontrolling interest			12,271	14,094
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)			5,931,269	7,483,698
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)			369,849	4,955,043
Cash and cash equivalents				
Beginning of year			9,020,743	4,065,700
End of year			9,390,592	9,020,743

Control No.:
Form Type: GFFS (rev 2006)

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc.
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Consolidated Statement of Changes in Equity

FINANCIAL DATA	(Amount in P'000)									
	Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Common Stock Options Outstanding	Cumulative Translation Differences	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans	Other Equity Reserves	Non-controlling Interests	TOTAL
A. Balance, *2016*	2,453,667	4,221,713	(319,227)	25,325	787,422	36,100,583	60,813	54,107	997,285	44,381,688
A.1 Correction of Error(s)										
A.2 Changes in Accounting Policy										
B. Restated Balance	2,453,667	4,221,713	(319,227)	25,325	787,422	36,100,583	60,813	54,107	997,285	44,381,688
C. Surplus		8,795	83,533	3,376	108,488		(57,561)		15,340	161,971
C.1 Surplus (Deficit) on Revaluation of Properties										
C.2 Surplus (Deficit) on Revaluation of Investments										
C.3 Currency Translation Differences					108,488					108,488
C.4 Other Surplus (specify)		8,795	83,533	3,376			(57,561)		15,340	53,483
C.4.1 Collections from subscriptions receivable			83,533							83,533
C.4.2 Exercised common stock outstanding		8,795		(8,795)						
C.4.3 Cost of share-based payments				12,171						12,171
C.4.4 Remeasurement gain (loss) on defined benefit plans - net of income tax							(57,561)		1,246	(56,315)
C.4.5 Additions to non-controlling interests									14,094	14,094
C.4.6 Gain on dilution of non-controlling interests										
D. Net Income (Loss) for the Period						6,146,609			(6,661)	6,139,948
E. Dividends (negative entry)						(2,122,910)				(2,122,910)
F. Appropriation for (specify)										
F.1 Capital expenditures						(7,598,000)				(7,598,000)
F.2										
F.3										
F.4										
F.5										
G. Issuance of Capital Stock										
G.1 Common Stock										
G.2 Preferred Stock										
G.3 Others										
H. Balance, *2017*	2,453,667	4,230,508	(235,694)	28,701	895,910	40,124,282	3,252	54,107	1,005,964	48,560,697
H.1 Correction of Error (s)										
H.2 Changes in Accounting Policy										
I. Restated Balance	2,453,667	4,230,508	(235,694)	28,701	895,910	40,124,282	3,252	54,107	1,005,964	48,560,697
J. Surplus		926	(222,759)	23,042	524,680		(60,735)		13,801	278,955
J.1 Surplus (Deficit) on Revaluation of Properties										
J.2 Surplus (Deficit) on Revaluation of Investments										
J.3 Currency Translation Differences					524,680					524,680
J.4 Other Surplus (specify)		926	(222,759)	23,042			(60,735)		13,801	(245,725)
J.4.1 Collections of subscriptions receivable			75,028							75,028
J.4.2 Additions to subscriptions receivable			(297,787)							
J.4.3 Exercised common stock outstanding		926		(926)						
J.4.4 Cost of share-based payments				23,968						23,968
J.4.5 Remeasurement gain (loss) on defined benefit plans - net of income tax							(60,735)		1,530	(59,205)
J.4.6 Additions to non-controlling interests									12,271	12,271
J.4.7 Gain on dilution of non-controlling interests										
K. Net Income (Loss) for the Period						6,523,701			111,332	6,635,033
L. Dividends (negative entry)						(2,151,378)				(2,151,378)
M. Appropriation for (specify)										
M.1 Capital expenditures						(3,746,000)				(3,746,000)
M.2										
M.3										
M.4										
M.5										
N. Issuance of Capital Stock	11,173	286,614								297,787
N.1 Common Stock	11,173	286,614								297,787
N.2 Preferred Stock										
N.3 Others										
O. Balance, *2018*	2,464,840	4,518,048	(458,453)	51,743	1,420,590	44,496,605	(57,483)	54,107	1,131,097	53,621,094

Control No.: ____
Form Type: *GFFS (rev. 2006)*

GENERAL FORM FOR FINANCIAL STATEMENTS

NAME OF CORPORATION: Manila Water Company, Inc. and Subsidiaries
CURRENT ADDRESS: MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City
TEL. NO.: (632) 917-5900 FAX NO.:
COMPANY TYPE : Water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management management services PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Consolidated Income and Expenses, by source
(applicable to corporations transacting with foreign corporations/entities)

F I N A N C I A L D A T A	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	21,126,957	19,402,491
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity) (A.1.1 +A.1.2)	19,836,292	18,515,772
A.1.1 Domestic	19,807,285	18,478,457
A.1.2 Foreign	29,007	37,315
A.2 Other Revenue (A.2.1 +A.2.2)	1,290,665	886,719
A.2.1 Domestic	655,474	427,030
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)	635,191	459,689
A.2.2.1 Equity share in net income of associates	699,142	457,208
A.2.2.2 Other income (expense) - net	(72,011)	289
A.2.2.3 Interest income	8,060	2,192
A.2.2.4	0	0
A.2.2.5	0	0
A.2.2.6	0	0
A.2.2.7	0	0
A.2.2.8	0	0
A.2.2.9	0	0
A.2.2.10	0	0
B. EXPENSES (B.1 + B.2)	14,491,923	13,262,543
B.1 Domestic	14,071,600	13,097,794
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.10)	420,323	164,749
B.2.1 Operating expenses	420,323.00	164,749.00
B.2.2	0	0
B.2.3	0	0
B.2.4	0	0
B.2.5	0	0
B.2.6	0	0
B.2.7	0	0
B.2.8	0	0
B.2.9	0	0
B.2.10	0	0

REPUBLIC OF THE PHILIPPINES)
QUEZON CITY, METRO MANILA) S.S.

TREASURER'S CERTIFICATION

I, **MA. CECILIA T. CRUZABRA**, of legal age, Filipino and with office address at 2nd Floor, MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City, after being sworn in accordance with law, hereby certify that:

1. I am the Chief Finance Officer, Treasurer, Compliance Officer, and Group Director for Corporate Finance and Strategy of MANILA WATER COMPANY, INC. (the "Company"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines under Securities and Exchange Commission (SEC) Certificate of Registration No. A1996-11593, with principal address at MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City.

2. The General Form for Financial Statements (GFFS) compact disk submitted contains the exact data stated in the hard copies of the GFFS of the Company.

3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the SEC.

WITNESS MY HAND on this ____ of April 2019 at Quezon City.

MA. CECILIA T. CRUZABRA
Chief Finance Officer/
Treasurer/Compliance Officer/
Group Director for Corporate Finance and Strategy

SUBSCRIBED AND SWORN to before me this 12 of April 2019, affiant exhibiting to me her Passport with Serial No. valid until

Doc. No. 523;
Page No. 116;
Book No. 8;
Series of 2019.

ATTY. JOVENCIO P. FULGUERAS
Notary Public
Expires Dec. 31, 2019
Roll of Attorney No. 30906
IBP No. 016520/10.26.2017/Pasig City
PTR No. 3882687-C/1.16.2017/Q.C.
MCLE Compliance No. V - 0006760
ADD: MWSS Bldg. Katipunan Rd. Balara, Q.C

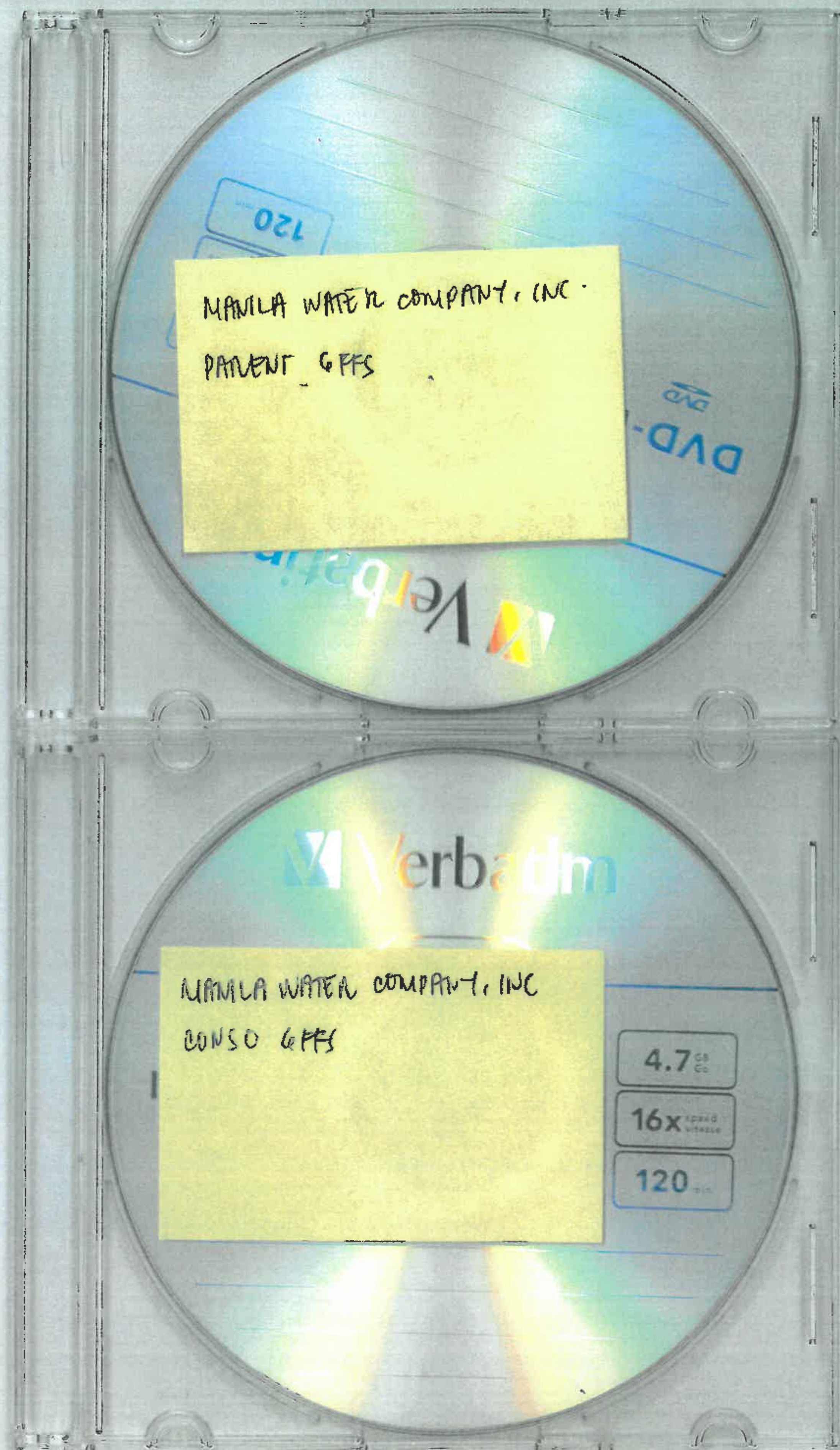
MANILA WATER COMPANY, INC.
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Exhibit 1.D

List of Top 20 Stockholders as of December 31, 2018

Rank	Name	Number of shares	Percentage*
1	Philwater Holdings Company, Inc.	3,999,999,999	65.95%
2	Ayala Corporation**	844,537,196	13.93%
3	PCD Nominee Corporation (Non-filipino)	792,599,406	13.07%
4	PCD Nominee Corporation (Filipino)***	347,160,311	5.72%
5	Antonino T. Aquino	12,048,600	0.20%
6	ESOWN Administrator 2018	10,893,617	0.18%
7	ESOWN Administrator 2014	6,159,191	0.10%
8	ESOWN Administrator 2013	5,410,251	0.09%
9	Janine T. Carreon as MWCI ESOP	4,644,924	0.08%
10	ESOWN Administrator 2012	3,857,533	0.06%
11	ESOWN Administrator 2011	3,641,741	0.06%
12	ESOWN Administrator 2009	3,103,492	0.05%
13	Ernesto O. Chua Chiaco and/or Margaret Sy Chua	2,240,000	0.04%
14	Sherisa P. Nuesa	1,900,000	0.03%
15	Genevieve Sy Chuachiaco	1,507,000	0.02%
16	ESOWN Administrator 2008	1,345,324	0.02%
17	Ernesson Sy Chua Chiaco	1,274,500	0.02%
18	Margaret Sy Chua Chiaco	1,106,000	0.02%
19	Lozano A. Tan	950,000	0.02%
20	Virginia Z. Jugo	700,000	0.01%

** based on the 6,064,839,617 total issued and outstanding common and preferred shares*

*** exclusive of 22,409,000 shares held through PCD Nominee Corporation (Filipino)*

**** inclusive of 22,409,000 shares of Ayala Corporation*