COVER SHEET

A1996-11593
S.E.C. Registration Number

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

(Company's Full Name)

MWSS ADMINISTRATION BUILDING, 489 KATIPUNAN ROAD, BALARA, QUEZON CITY, METRO MANILA

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

MA. CECILIA T. CRUZABRA
Contact Person

(632) 981-8122
Company Telephone Number

06 30
Month *Day*
Fiscal Year

SEC FORM 17- Q

STOCK
FORM TYPE

04 22
Month *Day*
Annual Meeting

N/A
Secondary License Type, If Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

946
Total No. of Stockholders

Total Amount of Borrowings

Domestic	Foreign
–	–

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **June 30, 2019**

2. Commission Identification No.: **A1996-11593**

3. BIR Tax Identification No.: **005-038-428**

4. Exact name of issuer as specified in its charter: **MANILA WATER COMPANY, INC.**

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

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of issuer's principal office: **MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City** Postal Code: **1105**

8. Issuer's telephone number, including area code: **(632) 917-5900 / (632) 981-8122**

9. Former name, former address and former fiscal year, if changed since last report: **Not Applicable**

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

Title of each class	Number of shares outstanding
Authorized capital stock	
Common shares (₱1.00 par value)	3,100,000,000
Number of shares outstanding	
Common shares (₱1.00 par value)	2,064,839,617

Amount of debt outstanding as of June 30, 2019: **None**

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

11. Are any of Registrant's securities listed on a Stock Exchange? **Yes [X] No [ ]**

12. Indicate by check mark whether the registrant:

a. Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes [X] No [ ]

b. Has been subject to such filing requirements for the past ninety (90) days.
Yes [X] No [ ]

PART I – FINANCIAL INFORMATION

I. Financial Statements

II. Management's Discussion and Analysis of Results of Operations and Financial Condition

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	June 30, 2019 Unaudited	December 31, 2018 Audited
ASSETS		
Current Assets		
Cash and cash equivalents	₱6,306,620	₱9,390,591
Receivables	2,443,013	1,955,233
Concession financial receivable - current portion	106,600	193,706
Contract assets - current portion	697,949	398,448
Inventories	264,648	205,923
Other current assets	1,517,587	1,304,640
Total Current Assets	11,336,417	13,448,541
Noncurrent Assets		
Property, plant and equipment	3,937,059	3,508,215
Service concession assets	85,882,731	82,529,566
Right-of-use assets	236,147	–
Concession financial receivable - net of current portion	924,988	853,335
Contract assets - net of current portion	549,676	492,943
Investments in associates	16,276,657	15,994,949
Goodwill	136,566	136,566
Deferred tax assets - net	1,260,790	1,363,604
Other noncurrent assets	3,939,066	4,205,597
Total Noncurrent Assets	113,143,680	109,084,775
	₱124,480,097	₱122,533,316
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables	₱8,396,137	₱7,291,282
Short-term debt	–	8,596,539
Current portion of:		
Long-term debt	5,715,436	5,525,372
Service concession obligations	655,925	809,405
Contract liabilities	2,962	17,892
Lease liabilities	12,704	–
Income tax payable	354,170	467,888
Total Current Liabilities	15,137,334	22,708,378
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt	44,517,357	37,525,555
Service concession obligations	7,820,233	7,119,121
Pension liabilities - net	81,892	109,392
Deferred tax liabilities - net	134,785	103,105
Provisions	452,982	569,893
Contract liabilities - net of current portion	26,451	–
Lease liabilities - net of current portion	222,275	–
Other noncurrent liabilities	796,005	776,778
Total Noncurrent Liabilities	54,051,980	46,203,844
Total Liabilities	₱69,189,314	₱68,912,222

(Forward)

	June 30, 2019 Unaudited	December 31, 2018 Audited
Equity		
Attributable to equity holders of Manila Water Company, Inc.:		
Capital stock:		
Common stock	₱2,064,840	₱2,064,840
Preferred stock	400,000	400,000
	2,464,840	2,464,840
Additional paid-in capital	4,518,048	4,518,048
Subscriptions receivable	(412,339)	(458,453)
Total paid-up capital	6,570,549	6,524,435
Common stock options outstanding	61,983	51,743
Retained earnings:		
Appropriated	32,444,000	32,444,000
Unappropriated	13,838,454	12,052,605
Remeasurement loss on defined benefit plans	(57,483)	(57,483)
Other equity reserves	54,107	54,107
Share in other comprehensive loss of an associate	(1,346)	–
Cumulative translation adjustment	1,167,929	1,420,590
	54,078,193	52,489,997
Noncontrolling interests	1,212,590	1,131,097
Total Equity	55,290,783	53,621,094
	₱124,480,097	₱122,533,316

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands Except Earnings per Share Figures)

	Quarters Ended June 30		Periods Ended June 30	
	2019	2018	2019	2018
REVENUE				
Water	₱4,185,632	₱3,951,650	₱7,904,189	₱7,587,768
Environmental charges	741,534	680,925	1,481,669	1,302,442
Sewer	142,828	140,129	279,723	276,826
Other operating income	392,854	322,539	876,031	640,785
	5,462,848	5,095,243	10,541,612	9,807,821
COSTS OF SERVICES				
Depreciation and amortization	635,928	493,979	1,214,139	1,027,429
Power, light and water	341,505	410,867	690,974	717,878
Salaries, wages and employee benefits	340,285	245,070	605,030	521,041
Repairs and maintenance	252,529	133,065	403,769	261,265
Contractual services	190,348	200,205	333,928	311,101
Regulatory costs	77,692	67,470	136,729	138,224
Management, technical and professional fees	57,953	53,573	114,338	110,134
Water treatment chemicals	67,965	43,968	112,051	69,819
Wastewater costs	73,677	45,491	107,279	88,875
Collection fees	31,589	33,636	60,504	68,178
Cost of water service connections	15,322	42,630	41,144	87,481
Occupancy costs	12,655	7,968	14,921	18,347
Other expenses	62,040	19,854	111,244	42,675
	2,159,488	1,797,776	3,946,050	3,462,447
GROSS PROFIT	3,303,360	3,297,467	6,595,562	6,345,374
OPERATING EXPENSES	645,921	786,794	1,977,912	1,498,753
INCOME BEFORE OTHER INCOME (EXPENSES)	2,657,439	2,510,673	4,617,650	4,846,621
OTHER INCOME (EXPENSES)				
Revenue from rehabilitation works	2,233,779	1,702,204	3,653,690	4,788,505
Cost of rehabilitation works	(2,233,779)	(1,702,204)	(3,653,690)	(4,788,505)
Foreign currency differentials	(238,993)	(102,781)	(174,074)	2,218,861
Foreign exchange gains (losses)	225,681	123,565	172,176	(2,154,739)
Equity share in net income of associates	168,685	230,153	375,790	339,421
Interest income	102,753	98,016	265,158	203,428
Interest expense	(522,511)	(415,911)	(1,055,567)	(820,295)
Gain (loss) on disposal of property and equipment - net	147	1,316	6,001	1,292
Other income (expenses) - net	38,546	(4,645)	38,546	(4,617)
	(225,492)	(70,287)	(371,990)	(216,649)
INCOME BEFORE INCOME TAX	2,431,947	2,440,386	4,245,660	4,629,972
PROVISION FOR INCOME TAX	707,432	528,350	1,247,850	988,884
NET INCOME	1,724,515	1,912,036	2,997,810	3,641,088

(Forward)

	Quarters Ended June 30		Periods Ended June 30	
	2019	2018	2019	2018
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Share in other comprehensive loss of an associate	(₱1,346)	₱–	(₱1,346)	₱–
Cumulative translation adjustment	(180,200)	167,614	(252,662)	473,283
TOTAL COMPREHENSIVE INCOME	₱1,542,969	₱2,079,650	₱2,743,802	₱4,114,371
Net income attributable to:				
Equity holders of Manila Water Company, Inc.	₱1,683,116	₱1,865,169	₱2,916,318	₱3,554,961
Noncontrolling interests	41,399	46,867	81,492	86,127
	₱1,724,515	₱1,912,036	₱2,997,810	₱3,641,088
Total comprehensive income attributable to:				
Equity holders of Manila Water Company, Inc.	₱1,501,569	₱2,032,783	₱2,662,310	₱4,028,244
Noncontrolling interests	41,400	46,867	81,492	86,127
	₱1,542,969	₱2,079,650	₱2,743,802	₱4,114,371
Earnings per Share				
Net income attributable to common equity holders of Manila Water Company, Inc.:				
Basic	₱0.68	₱0.76	₱1.17	₱1.43
Diluted	₱0.68	₱0.76	₱1.17	₱1.43

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts In Thousands Except Par Value and Number of Shares Figures)

	Periods Ended June 30	
	2019	2018
CAPITAL STOCK		
Common stock - ₱1 par value		
Authorized - 3,100,000,000 shares		
Issued and outstanding - 2,035,571,541 shares in 2019 and 2,026,067,122 shares in 2018	₱2,035,572	₱2,026,067
Subscribed common stock - 29,268,076 shares in 2019 and 27,599,454 shares in 2018	29,268	27,599
	2,064,840	2,053,666
Preferred stock - ₱0.10 par value, 10% cumulative, voting participating, nonredeemable and nonconvertible		
Authorized, issued and outstanding - 4,000,000,000 shares	400,000	400,000
	2,464,840	2,453,666
ADDITIONAL PAID-IN CAPITAL	4,518,048	4,230,509
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of period	(458,453)	(235,694)
Collections	46,114	10,330
Balance at end of period	(412,339)	(225,364)
COMMON STOCK OPTIONS OUTSTANDING		
Balance at beginning of period	51,743	28,701
Cost of share-based payments	10,240	7,949
Balance at end of period	61,983	36,650
RETAINED EARNINGS		
Appropriated	32,444,000	28,698,000
Unappropriated:		
Balance at beginning of period	12,052,605	11,426,282
Impact of PFRS 16	(8,760)	–
Balance at beginning of period, as restated	12,043,845	11,426,282
Net income	2,916,318	3,554,961
Dividends declared	(1,121,709)	(1,055,688)
Balance at end of period	13,838,454	13,925,555
	46,282,454	42,623,555
REMEASUREMENT GAIN (LOSS) ON DEFINED BENEFIT PLANS	(57,483)	3,252
SHARE IN OTHER COMPREHENSIVE LOSS OF AN ASSOCIATE	(1,346)	–
OTHER EQUITY RESERVES	54,107	54,107
CUMULATIVE TRANSLATION ADJUSTMENT		
Balance at beginning of period	1,420,590	895,910
Other comprehensive income (loss)	(252,661)	473,283
Balance at end of period	1,167,929	1,369,193
NONCONTROLLING INTERESTS		
Balance at beginning of period	1,131,097	1,005,964
Share in net income	81,493	86,127
Balance at end of period	1,212,590	1,092,091
	₱55,290,783	₱51,637,659

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts In Thousands)

	Periods Ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱4,245,660	₱4,629,972
Adjustments for:		
Depreciation and amortization	1,383,011	1,228,027
Interest expense	1,055,587	820,295
MWSS penalty	534,050	–
Equity share in net income of associates	(375,790)	(339,421)
Interest income	(265,158)	(203,428)
Pension expense, net of contribution and benefit payment	(29,764)	39,368
Share-based payments	10,240	7,949
Gain on sale of property and equipment	(6,001)	(1,292)
Operating income before changes in operating assets and liabilities	6,551,835	6,181,470
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(745,993)	(171,820)
Inventories	(58,725)	(405,312)
Contract assets	(356,234)	–
Other current assets	(278,109)	(874,324)
Concession financial receivable	111,816	(1,599)
Service concession assets	(3,310,632)	(4,112,601)
Increase in:		
Accounts and other payables	(295,391)	1,616,705
Contract liabilities	11,522	–
Net cash provided by operations	1,630,089	2,232,519
Income tax paid	(1,161,876)	(884,875)
Net cash provided by operating activities	468,213	1,347,644
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments	–	(365,998)
Investments in associates	–	(8,886,802)
Property and equipment	(1,253)	(408,299)
Interest received	173,766	93,306
Dividends received from associates	138,894	–
Proceeds from sale of property and equipment	9,420	4,258
Decrease (increase) in other noncurrent asset	(270,426)	1,376,344
Net cash used in investing activities	50,401	(8,187,191)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Short-term debt	–	8,964,235
Long-term debt	9,992,472	828,461
Payments of:		
Service concession obligations	(358,567)	(224,306)
Long-term debt	(11,584,135)	(2,561,567)
Dividends paid	(1,121,709)	(1,055,688)
Interest paid	(815,910)	(666,279)
Collection of subscriptions receivable	46,115	10,330
Increase in other noncurrent liabilities	239,149	76,389
Net cash provided by (used in) financing activities	(3,602,585)	5,371,575
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,083,971)	(1,467,972)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,390,591	9,020,744
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱6,306,620	₱7,552,772

1. Corporate Information

Manila Water Company, Inc. (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.

On August 7, 2019, the Audit Committee approved and authorized the release of the unaudited interim condensed financial statements.

Additional information about the Group, including the annual and quarterly reports can be found on the corporate website at www.manilawater.com.

The unaudited interim condensed 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 2019	2018
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)	Thailand	100.0	100.0
Manila South East Asia Water Holdings Pte. Ltd. (MSEA)[3]	Singapore	100.0	100.0
PT Manila Water Indonesia (PTMWI)[4]	Indonesia	100.0	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)[5]	-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	90.0
Metro Ilagan Water Company, Inc. (Ilagan Water)	-do-	90.0	–
MWPV South Luzon Water Corp. (South Luzon Water)	-do-	100.0	–
Manila Water Consortium, Inc. (MW Consortium)	-do-	57.2	57.2
Cebu Manila Water Development, Inc. (Cebu Water)[6]	-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)[7]	-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	100.0
Leyte Water Company, Inc. (Leyte Water)	-do-	100.0	100.0
Zamboanga Water Company, Inc. (Zamboanga Water)	-do-	70.0	70.0
Calbayog Water Company, Inc. (Calbayog Water)	-do-	60.0	–

[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 June 30, 2019 and December 31, 2018 by virtue of its 37.99% ownership interest in Saigon Water.

[2]Previously named Manila Water Indonesia Holdings Pte. Ltd.
[3]Previously named North-West of Saigon Holdings Pte. Ltd.
[4]PTMWI is 95.00% owned by MSEA and 5.00% owned by a director of PTMWI whose ownership has been pledged to MSEA.
[5]Previously named Obando Water Consortium Holdings Corp. Filipinas Water is 49.00% owned by the Parent Company and 51.00% owned by MWPVI.
[6]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.
[7]Tagum Water Company is 90.00% owned by the Davao Water. Manila Water'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 subsidiaries.

2. Basis of Preparation and Summary of Changes to Significant Accounting Policies

Basis of Preparation
The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the December 31, 2018 audited annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as of and for the year ended December 31, 2018.

Statement of Compliance
The unaudited interim condensed consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The preparation of the financial statements, in compliance with PFRS, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the unaudited interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited interim condensed consolidated financial statements. Actual results could differ from such estimates.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those of the previous periods except for the PFRS, amended PFRS and improvements to PFRS which were adopted as of January 1, 2019. Unless otherwise stated, the new standards and amendments did not have any material impact to the Group.

a. Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

   Under PFRS 9, a debt instrument can be measured at amortized cost or fair value through other comprehensive income (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 do have any significant impact on the Group's 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.

The Group adopted PFRS 16 using the modified retrospective approach with date of initial application as of January 1, 2019. Under the modified retrospective approach, the Group recognized the cumulative effect of initially applying PFRS 16 as an adjustment to the beginning balance of retained earnings at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of twelve (12) months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting PFRS 16 in the consolidated statements of financial position, statements of income, and statements of cash flows as of June 30, 2019 are as follows:

	Increase (Decrease) (In Thousands)
Statement of financial position:	
Prepaid expenses	(₱10,800)
Right-of-use assets	236,147
Deferred tax assets	7,552
Total noncurrent assets	243,699
Total assets	₱232,899
Lease liabilities – current portion	₱12,704
Lease liabilities – net of current portion	26,451
Total liabilities	₱39,155
Statement of income:	
Occupancy costs	(₱8,100)
Depreciation and amortization	6,621
Interest expense	2,352
Benefit from deferred income tax	(7,552)
Net income	(6,679)

There adoption of PFRS 16 did not have a material impact on the Group's statements of other comprehensive income.

Summarized below are the new accounting policies of the Group upon adoption of PFRS 16:

- *Right-of-use assets*

  The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*

  At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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 do have any significant impact on the Group's consolidated financial statements since the Group has no future plan amendments, curtailments, or settlements as of January 1, 2019.

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*.

   Since the Group does not have such long-term interests in its associates and joint ventures, the amendments did 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 the periods ended June 30, 2019.

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.

  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.

  The amendments had no impact to the Group's consolidated financial statements since the Group's current practice is in line with these amendments.

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, 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

c. 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.

3. 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 Group is providing and its geographic location.

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, MWPVI (including Laguna Water, Clark Water, Boracay Water, Filipinas Water, Obando Water, Bulakan Water, Ilagan Water, MWPV South Luzon Water, MW Consortium, Cebu Water, Davao Water, Tagum Water, BMDC, Aqua Centro, MWIS, EcoWater, Zamboanga Water, and Calbayog 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 June 30, 2019 and 2018 are as follows:

	June 30, 2019				
	Manila Concession and Head Office	**Domestic Subsidiaries**	**Foreign Subsidiaries**	**Eliminations**	**Consolidated**
			(In Thousands)		
Total revenue	**₱8,255,298**	**₱2,469,134**	**₱13,147**	**(₱195,967)**	**₱10,541,612**
Segment profit before income tax	**₱3,480,295**	**₱636,380**	**₱351,118**	**(₱222,133)**	**₱4,245,660**
Segment provision for income tax	**1,031,394**	**216,104**	**352**	**–**	**1,247,850**
Segment profit after income tax	**₱2,448,901**	**₱420,276**	**₱350,766**	**(₱222,133)**	**₱2,997,810**
Net income attributable to equity holders of the Parent Company	**₱2,448,901**	**₱420,276**	**₱350,766**	**(₱303,625)**	**₱2,916,318**

	June 30, 2018				
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Eliminations	Consolidated
			(In Thousands)		
Total revenue	₱7,993,380	₱2,012,451	₱9,024	(₱207,034)	₱9,807,821
Segment profit before income tax	₱4,097,531	₱556,694	₱185,012	(₱209,265)	₱4,629,972
Segment provision for income tax	883,128	117,700	293	(12,237)	988,884
Segment profit after income tax	₱3,214,403	₱438,994	₱184,719	(₱197,028)	₱3,641,088
Net income attributable to equity holders of the Parent Company	₱3,214,403	₱438,994	₱184,719	(₱283,155)	₱3,554,961

4. Notes to the Unaudited Interim Condensed Consolidated Financial Statements

a. The Group does not have any significant seasonality or cyclicality in its interim operations, except for the usually higher demand during the months of April and May.

b. On April 24, 2019, MWSS imposed a financial penalty of ₱534.05 million on the Parent Company for its failure to meet its service obligation to provide 24/7 water supply to its customers. While the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS, the Parent Company has abided by the decision of MWSS to pay the financial penalty of ₱534.05 million and set aside capital of ₱600 million to invest in new water sources. The ₱534.05 million financial penalty will be distributed to the Parent Company's customers through rebates wherein all connections as of March 31, 2019 will receive a minimum rebate equivalent to their first 10 cubic meters or ₱153.93 while identified severely affected accounts will receive an additional rebate of ₱2,197.94.

   There were no other known trends, demands, commitments, events or uncertainties that have material impact on the Group's liquidity.

   Other than the items disclosed in the unaudited interim condensed consolidated financial statements, the Group did not acquire assets nor incur liabilities that are material in amount for the period ended June 30, 2019.

c. There were no off-balance sheet transactions, arrangements and obligations created during the reporting period.

d. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recorded in the consolidated financial statements as they become reasonably determinable. There were no material changes in estimates of amounts reported in the prior interim period of the prior financial year.

e. The Group has not been subjected and is not subject to any bankruptcy, receivership, or similar proceedings. It has not made any material reclassification, purchase, or sale of any significant amount of assets which are not in the ordinary course of business.

f. 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

   As of June 30, 2019 and December 31, 2018, the Group's provisions for estimated probable losses pertains to various legal proceedings and exposures that arise in the ordinary course of business. 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.

g. The Group has various contingent liabilities arising from the ordinary conduct of business which are either pending decision by the courts or are being contested, the outcomes of which are not presently determinable.

   In 2009, OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) filed a complaint before the Pollution Adjudication Board (PAB) against the Parent Company, Maynilad Water Services, Inc. (Maynilad) and the MWSS for alleged violation of R.A. No. 9275 (Philippine Clean 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 Parent 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 Parent 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 Parent Company and Maynilad.

On October 7, 2009, the PAB issued an Order which found the Parent Company, Maynilad and MWSS to have violated the Clean Water Act. The Parent Company filed its Motion for Reconsideration dated October 22, 2009 which the PAB denied in an Order dated December 2, 2009. Hence, the Parent Company filed its Petition for Review dated December 21, 2009 with the Court of Appeals. The Parent 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 Parent Company's Petition for Review and on September 26, 2012, the Parent Company filed a Motion for Reconsideration of the Court of Appeals' Decision.

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

The Parent 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 Parent 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.

According to media reports, the Supreme Court ordered MWSS and the Parent Company on August 6, 2019 to jointly and severally pay ₱921.46 million in fines for its non-compliance with the Clean Water Act. In addition to said amount, MWSS and the Parent Company are to jointly and severally pay a fine in the initial amount ₱322,102.00 per day subject to further 10 percent increase every 2 years until compliance with Section 8 of the Clean Water Act. As of date of this report, the Parent Company has not received a copy of the Supreme Court decision for it to make an informed assessment and evaluation of the court order.

As part of the mandate of the Parent Company as a concessionaire, it has invested more than ₱33 billion for the past 21 years and will continue to invest ₱38.4 billion more until 2022 as part of the government-approved business plan to further improve sewerage and sanitation services in the East Zone.

To date, sewer coverage is more than 15% of the Parent Company's water-served population and 22% in terms of facility acceptance/capacity, a 700% increase from only 3% when it took over in 1997.

h. There were no adjusting or non-adjusting events after the interim period reporting date up to the date of authorization for issuance of the unaudited interim condensed financial statements.

5. Significant Events and Transactions

a. Parent Company Amendment of Articles of Incorporation
On February 26, 2019, the BOD approved the amendment of the second article of incorporation to include the authority to enter into contracts of guarantee and/or suretyships. This amendment was later ratified by the stockholders during the annual stockholders meeting held on April 22, 2019.

b. Parent Company Declaration of Dividends
On February 26, 2019, the BOD approved the declaration of cash dividends for the first semester of 2019, amounting to ₱0.4551 and ₱0.0455 per share on the outstanding common shares and participating preferred shares, respectively, payable on March 28, 2019 to stockholders of record as of March 14, 2019.

c. MWTC's Term Loan Facility
On February 27, 2019, MWTC signed a THB5.30 billion, five (5)-year term loan facility with Mizuho Bank Ltd. – Bangkok Branch and Bank of Ayudhya Public Company Limited to take out the previous bridge loan used to finance the acquisition of an 18.72% equity stake in East Water.

d. Clark Water's Term Loan Facility
Clark Water signed a term loan agreement amounting to ₱535.00 million with the Development Bank of the Philippines last March 11, 2019. The proceeds of the loan will be used to partially finance Clark Water's capital expenditure programs.

e. Parent Company Voluntary Bill Waiver for East Zone Customers
On March 26, 2019, the Parent Company announced a one-time voluntary bill waiver for March 2019 consumption, which was reflected in the April 2019 billing to help ease the inconvenience of the water shortage to all customers of the Parent Company in the East Zone.

f. Parent Company Foreign Currency Differential Adjustment (FCDA)
Effective April 1, 2019, a foreign currency differential of ₱0.52 per cubic meter was implemented to the East Zone customers. This adjustment was based on the exchange rate of USD1 to ₱52.77 and JPY1 to ₱0.468. The FCDA of the water bill will be adjusted to 1.81% of the basic charge.

g. Bulakan Water's Concession Agreement with the Bulacan Water District (BWD)
On June 14, 2019, Bulakan Water and the BWD signed and executed a Concession Agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of water facilities and the provision of water and sanitation services in the Municipality of Bulakan for a period of twenty-five (25) years from the Commencement Date.

h. Laguna Water's Term Loan Facility
On June 28, 2019, Laguna Water signed a ten (10)-year term loan facility amounting to ₱2.50 billion with the Bank of the Philippine Islands. The loan will be used to partially finance Laguna Water's capital expenditure program.

i. Parent Company's Joint Venture Agreement with the Lambunao Water District (LWD)
On July 3, 2019, the Parent Company signed and executed a joint venture agreement with the LWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water system of LWD in the Municipality of Lambunao in the Province of Iloilo.

j. Parent Company's Joint Venture Agreement with the Calbayog City Water District (CCWD)
On July 3, 2019, the Parent Company signed and executed a joint venture agreement with the CCWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater system of CCWD in the City of Calbayog.

k. MWTS's Integrated Waste Management Facility with the City of Marikina
On July 31, 2019, MWTS entered into a joint venture agreement with the City of Marikina to build and operate an Integrated Waste Management Facility to treat and process the city solid waste of Marikina City.

l. Raw Water Supply Offtake Agreement among the Parent Company, MWSS, and WawaJVCo, Inc.
On August 6, 2019, the Parent Company signed an Offtake Agreement with the MWSS and WawaJVCo, Inc. for a term of 30 years. This will involve the supply of raw water from the Wawa and Tayabasan rivers. The first phase will involve the supply of 80 million liters per day (MLD) of raw water by December 31, 2021 while the second phase will involve the supply of an additional 438 MLD of raw water by December 31, 2025. This is among the medium-term water supply augmentation measures identified to provide water security and sustainability to the consumers of in the East Service Area.

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 unaudited consolidated 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 the 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, Pililla, 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), Metro Ilagan Water Company, Inc. (Ilagan Water), MWPV South Luzon Water Corp. (South Luzon 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), Calbayog Water Company, Inc. (Calbayog Water), 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 Joint Stock Company (Asia Water). Apart from its operations in Vietnam, MWAP has associates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (East Water), a fully integrated water supply and distribution company listed in the Stock Exchange of Thailand (SET), and an industrial water supply operation in Indonesia through 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 including pipe-laying, integrated used water services, and the sale of Healthy Family Purified Water in five-gallon, 500-ml and 350-ml bottles in selected areas in Metro Manila.

CONSOLIDATED FINANCIAL PERFORMANCE

Quarter-on-quarter, group net income improved by 36% to ₱1,683 million in the second quarter, as the Bill Waiver and penalty due to the water shortage were already recognized during the first quarter of the year. However, core net income in the second quarter dropped by 13% from the first quarter of 2019 to ₱1,789 million, mainly due to lower earnings from the business units during the period.

Year-to-date, group net income decreased 18% to ₱2,916 million from the previous year, even as domestic subsidiaries provided higher income contribution and foreign operations remained steady. The decline is still largely driven by the impact of the water shortage in the Manila Concession early this year.

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

	For the periods ended June 30 (In thousand Pesos)			
	2019	2018	**Increase/ (Decrease)**	**%**
Total operating revenues	**10,541,612**	9,807,821	733,790	7%
Total cost and expenses (excluding depreciation and amortization)	**4,558,340**	3,733,173	825,167	22%
Other income (expense) - net	**418,440**	400,219	18,222	5%
Equity share in net income of associates	**375,790**	339,421	36,369	11%
Others	**42,650**	60,798	(18,147)	-30%
EBITDA	**6,401,712**	6,474,867	(73,155)	-1%
Depreciation and amortization	**1,365,623**	1,228,027	137,596	11%
Income before other income/expenses	**5,036,089**	5,246,840	(210,751)	-4%
Interest income (expense) - net	**(790,429)**	(616,867)	(173,562)	28%
Income before income tax	**4,245,660**	4,629,972	(384,312)	-8%
Provision for income tax	**1,247,850**	988,884	258,966	26%
Net income	**2,997,811**	3,641,088	(643,277)	-18%
Non-controlling interest	**81,492**	86,127	(4,635)	-5%
Net income attributable to MWC	**2,916,318**	3,554,961	(638,643)	-18%

Consolidated operating revenues grew by 7% to ₱10,542 million in the first half of 2019 from ₱9,808 million the previous year, on account of higher billed volume and average effective tariff in several key business units, despite the downward impact of the voluntary, one-time Bill Waiver Program to help alleviate the inconvenience of all customers and to those severely affected by the water shortage in the Manila Concession during the first quarter of 2019.

A breakdown of the revenue drivers is shown below:

	For the periods ended June 30 (In thousand Pesos)			
	2019	2018	**Increase/ (Decrease)**	**%**
Water	**8,257,590**	7,587,768	669,822	9%
Bill Waiver	***(353,402)***	-	*(353,402)*	*(100%)*
Sewer	**279,723**	276,826	2,897	1%
Environmental charges	**1,481,669**	1,302,442	179,227	14%
Other operating income	**876,031**	640,785	235,246	37%
Total operating revenues	**10,541,612**	9,807,821	733,790	7%

The Group derived 75% of its operating revenues from the sale of water (net of Bill Waiver), while 17% came from environmental and sewer charges. Other revenues, which accounted for the balance of 8%, were from supervision fees, after-the-meter services, connection fees, and septic sludge disposal, among others.

Consolidated costs and expenses (excluding depreciation and amortization) increased by 22% to ₱4,558 million in the first half of 2019, led by a 104% growth in overhead costs to ₱1,218 million. This increase was primarily due to the penalty amounting to ₱534 million imposed by MWSS in relation to the recent water supply shortage in the Manila Concession. Without the penalty, the increase in overhead costs would be at 14%.

In addition, direct costs rose 14% to ₱1,822 million, as a result of increased repairs and maintenance expense of the Manila Concession due to additional network improvement for valving during the water supply shortage, increased power cost due to higher consumption and higher power rates, increased cost of water treatment chemicals usage of the Manila Concession, and increased contractual services. New business development costs stood at ₱93 million, 28% lower than the same period last year.

Below is a summary of the consolidated costs and expenses incurred during the period:

	For the periods ended June 30 (In thousand Pesos)			
	2019	2018	**Increase/ (Decrease)**	**%**
Salaries, wages and employee benefits	**1,102,709**	1,116,116	(13,407)	-1%
Non-personnel costs	**3,235,239**	2,381,884	853,355	36%
Direct costs	**1,822,259**	1,598,628	223,631	14%
Overhead	**1,217,859**	598,025	619,834	104%
Premises	**195,121**	185,231	9,890	5%
Other expenses	**220,393**	235,173	(14,780)	-6%
Total cost and expenses (excluding depreciation and amortization)	**4,558,340**	3,733,173	825,167	22%

Meanwhile, other income (net of expense) grew by 5% to ₱418 million in the first half of 2019 from ₱400 million the previous year, driven by the higher equity share in net income of associates coming from the full impact this year of the East Water acquisition which was acquired last March 2018. These were slightly offset by the lower foreign exchange gain recognized on cash and cash equivalents during the period by the Manila Concession.

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 ₱6,402 million in the first half of 2019. This EBITDA level is 1% lower than the same period last year. EBITDA margin was recorded at 61%. Depreciation and amortization rose by 11% to ₱1,366 million mainly attributable to the significant capital expenditures made by the subsidiaries, on top of the higher used water flow of the Manila Concession and start of operations of the Rizal Province Water Supply Improvement Project (RPWSIP/Cardona Treatment Plant) in May 2019.

Meanwhile, net interest expense was higher by 28% to ₱790 million due to incremental interest expense from the loans of the Manila Concession and subsidiaries and lower capitalized borrowing cost of the Manila Concession. Provision for income tax increased by 26% to ₱1,248 million mainly due to higher provision for deferred income tax of the Manila Concession arising from the difference in amortization expense of service concession assets per straight-line and units of production methods. Also contributory to the increase is the higher provision for income tax from the Manila Concession and its subsidiaries.

These developments resulted in a reported net income of ₱2,916 million in the first half of 2019; a decline of 18% from the same period in 2018.

BUSINESS UNITS' FINANCIAL AND OPERATING PERFORMANCE

Manila Concession

	For the periods ended June 30			
	2019	2018	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	244.9	250.0	-5.1	-2%
Domestic	158.0	162.0	-3.9	-2.4%
Semi-Business	31.1	31.3	-0.3	-1%
Commercial	43.8	45.2	-1.4	-3%
Industrial	12.0	11.5	0.5	4%
Number of billed connections	995,984	975,931	20,053	2%
Non-revenue water	7.5%	12.1%	4.6% ppt	
Financial Highlights (in thousand Pesos)				
Revenues	8,141,803	7,916,272	225,531	3%
Cost and expenses	2,956,058	2,171,617	784,441	36%
EBITDA	5,201,503	5,803,684	(602,180)	-10%
Net Income	2,499,425	3,310,904	(811,479)	-25%

Net income of the Manila Concession stood at ₱2,499 million for the first half of 2019, a decline of 25% from the same period last year. Excluding the effect of the recent water supply shortage, core net income improved by 8%. The company continues to improve its operations recovery for its customers. From a low of 70% water availability during the water supply shortage last quarter, 99% percent of customers have been restored to 24-hour water service availability.

The Manila Concession was adversely affected by the water supply shortage which saw average dam levels decline significantly during the first half of 2019. The Manila Concession exerted much effort to restore water service to customers and manage the crisis, noting a significant 4.6 percentage point efficiency improvement of the company's Non-Revenue Water, an all-time low of 7.5%. Still, the water supply shortage affected Manila Concession's operations, resulting to a 5.1 mcm decline in billed volume as average consumption decreased by 4% to 41.13 cubic meter per connection.

In response to the water supply shortage, the Manila Concession voluntarily implemented a one-time Bill Waiver Program in March 2019 to help alleviate the inconvenience of all customers and assist severely affected areas. In line with the said waiver, the company recognized a ₱353 million reduction in total revenues in the first half of 2019. Despite these challenges, revenues improved by 3% to ₱8,142 million mainly driven by higher average tariff.

Meanwhile, cost and expenses rose by ₱784 million to ₱2,956 million driven primarily by the ₱534 million penalty imposed by MWSS in relation to the water supply shortage. Said penalty was recognized by the Parent Company in the first quarter of 2019. Even as Manila Water abides by the MWSS decision to impose the penalty, it assumes no liability on the penalty's basis as it was not the root cause of the water supply shortage. While clearly the water supply shortage stemmed from the inadequacy of allocated raw water supply, the Manila Concession undertook its own initiatives to address prevailing challenges and restore water service to customers. The Cardona Plant is now producing well over its original committed capacity of 50 million liters per day (MLD), with a current production of 62 MLD and an outlook of 100 MLD in August. The recommissioning and development of new deep wells is progressing steadily, with a total current yield of over 50 MLD. These initiatives, along with a more deliberate and proactive network management/optimization program, has restored water availability to regulatory levels for 99% of Manila Concession customers. This has been achieved even in the face of a still significantly reduced raw water supply allocation.

Other relevant contributing factors to the cost increase were higher water treatment chemicals to address the increased turbidity of raw water, additional repairs and maintenance costs to optimize and improve the water distribution network, as well as higher power, light and water costs. In all, additional costs incurred to address the water supply shortage totaled approximately ₱126 million.

With these, EBITDA ended at ₱5,202 million, while EBITDA margin stood at 64% from 73% the same period last year. Net income ended at ₱2,499 million, with Net Income Margin ending at 31% from 42% the previous 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 periods ended June 30			
	2019	2018	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	45.5	44.3	1.2	3%
Financial Highlights (in thousand Pesos)				
Revenues	2,248,524	1,726,540	521,984	30%
Cost and expenses	1,269,021	1,087,010	182,011	17%
EBITDA	979,503	639,530	339,973	53%
Net income attributable to MWC/MWPV	302,733	231,579	71,154	31%

On a consolidated MWPV level, revenues grew by 30% to ₱2,249 million in the first half of 2019. Significant contributor to this increase was the higher revenues of Estate Water coming mostly from the supervision fees arising from provision of design and project management services in the development of water and used water facilities and from the provision of water and used water services. In addition, portions of the increase in revenues are due to higher average tariff of Boracay Water and Laguna Water, as well as income coming from new subsidiaries.

Cost and expenses rose by 17% year-on-year to ₱1,269 million, due to increase in direct costs particularly higher power and light expenses. This increase in direct costs was attributable to the combined effects of the following: additional facilities which Estate Water took over in the second half of 2018, increase in power rates for some subsidiaries, and additional contribution from the new operating subsidiaries. New business development costs for the period stood at ₱61 million, 28% lower than the previous year.

Net income attributable to MWPV ended at ₱303 million in the first half of 2019, which significantly increased by 31% from the previous year due to higher net income of Estate Water and Laguna Water but was partially offset by lower income levels of Clark Water, Boracay Water, and higher costs to build new businesses.

	For the periods ended June 30			
	2019	2018	Increase/ (Decrease)	%
Clark Water				
Billed volume (in million cubic meters)	7.1	7.2	(0)	-1%
Net income (in thousand Pesos)	26,182	42,508	(16,326)	-38%
Laguna Water				
Billed volume (in million cubic meters)	21.8	22.3	(1)	-2%
Net income (in thousand Pesos)	200,162	167,025	33,137	20%
Boracay Water				
Billed volume (in million cubic meters)	2.3	2.6	(0)	-10%
Net income (in thousand Pesos)	57,398	68,050	(10,652)	-16%
Estate Water				
Billed volume (in million cubic meters)	5.2	4.4	1	18%
Net income (in thousand Pesos)	185,618	69,891	115,728	166%

Clark Water registered lower billed volume at 7.1 mcm in the first half of 2019, 1% down from 7.2 mcm in 2018 due to lower consumption of several key locators which were affected by the US-China trade war. With lower billed volume, Clark Water's revenues dropped by 2% to ₱229 million in the first half of 2019. Despite the drop in its topline, Clark Water was able to keep its cost and expenses at the same level as last year. Higher interest expense, however, dampened Clark Water's net income which registered at ₱26 million, a 38% decline versus the same period last year. Clark Water invested ₱34 million in capital expenditures, mostly going to network expansion projects.

Laguna Water's billed volume dropped by 2% to 21.8 mcm in the first half of 2019, brought about lower consumption of several of its LTI locators similarly affected by the US-China trade war. Its NRW declined by 1.0%-points as it reached 20.9% at the end of second quarter of 2019 from 19.9% the previous year. Laguna Water invested ₱216 million in capital expenditures during the period, mostly for the expansion of water and used water networks. Revenues grew by 13% year-on-year to ₱810 million, on the back of a 23% improvement in average effective tariff to ₱32.99 per cubic meter. Meanwhile, cost and expenses increased by 7% from 2018 to ₱410 million due to higher personnel costs and direct costs related to meter reading services, partly offset by lower systems costs and concession fees. These movements resulted in a 32% growth in EBITDA to ₱439 million and a 20% increase in net income to ₱200 million in the first half of 2019.

Boracay Water's billed volume declined by 10% to 2.3 mcm in the first half of 2019 due to a 2% decline in the number of billed connections and decline in average consumption across all accounts. The decline in billed volume coupled by a 15% increase in effective tariff brought about Boracay Water's 2% increase in revenues to ₱328 million. Total cost and expenses decreased by 5% versus last year mainly due to lower provision for expected credit losses. This resulted to an 8% better than last year EBITDA for Boracay Water. Despite the EBITDA growth, net income was at ₱57 million, 16% lower than last year due to a 41% increase in interest expense from loan drawdowns made by Boracay Water starting April 2018. Investments in capital expenditures was at ₱151 million in the first two quarters of 2019, mainly for pipelaying and expansion of used water services. As of end period, Boracay Water's NRW was at 7.4%.

Estate Water, a division of MWPV, posted billed volume growth of 18% to 5.2 mcm in the first half of 2019, mainly on the back of a 7% increase in billed connections. Total revenues of Estate Water almost doubled compared to the same period last year mainly due to a significant increase in supervision fees from ₱113 million to ₱397 million and the said increase in billed volume. On the other hand, cost and expenses rose 61% to ₱326 million mainly due to an increase in direct costs, particularly power costs, bulk water costs, desludging costs, and contractual services for manpower augmentation during repair and rehabilitation works. The significant increase in revenues outgrew the increase in cost and expenses which resulted to a 159% increase in EBITDA to ₱324 million. Estate Water posted net income of ₱186 million in the first half of 2019, increasing by 166% from the previous year.

New business development efforts of MWPV have yielded notable gains in domestic market expansion. Particularly, a joint venture with the Calbayog City Water District in Samar was recently signed and executed for design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of its water and wastewater system. Furthermore, a similar agreement was reached last month with the Municipality of Lambunao in Iloilo for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of its water system.

Manila Water Asia Pacific (MWAP)

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

	For the periods ended June 30			
	2019	2018	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	334.3	283.8	50.6	18%
Financial Highlights (in thousand Pesos)				
Equity Share in Net Income of Associates	375,790	339,422	36,369	11%
Cost and expenses	61,664	104,348	(42,684)	-41%
EBITDA	307,990	238,970	69,020	29%
Net income attributable to MWC	195,858	192,145	3,713	2%

On a consolidated MWAP level, equity share in net income of associates increased by 11% to ₱376 million, primarily due to the full recognition this year of the share in net income from Thailand's East Water. Cost and expenses decreased by 41% to ₱62 million, due to lower personnel and management and professional costs during the period because of higher consultancy fees from the acquisition of East Water, as well as payments for personnel income tax in 2018.

	For the periods ended June 30			
	2019	2018	Increase/ (Decrease)	%
Thu Duc Water				
Billed volume (in million cubic meters)	54.0	54.0	0	0.03%
Net income - VAS (in million VND)	50,467	53,693	(3,226)	-6%
Net income at 49.00% contribution - PFRS (in thousand Pesos)	122,145	128,101	(5,956)	-5%
Kenh Dong Water				
Billed volume (in million cubic meters)	29.6	29.4	0.12	0.41%
Net income - VAS (in million VND)	24,829	36,718	(11,888)	-32%
Net income at 47.35% contribution - PFRS (in thousand Pesos)	61,627	76,272	(14,645)	-19%
Saigon Water				
Billed volume (in million cubic meters)	56.0	41.4	15	35%
Net income - VAS (in million VND)	5,007	58,043	(53,036)	-91%
Net income at 37.99% contribution - PFRS (in thousand Pesos)	4,323	26,018	(21,695)	-83%
East Water				
Billed volume (in million cubic meters)	192.3	156.5	36	23%
Net income (in million THB)	605	581	24	4%
Net income at 18.72% contribution - PFRS (in thousand Pesos)	186,974	108,221	78,753	73%
PT STU				
Billed volume (in million cubic meters)	2.5	2.4	0.01	0.50%
Net income (in million IDR)	1,158	1,547	(389)	-25%
Net income at 20% contribution - PFRS (in thousand Pesos)	721	809	(88)	-11%

Thu Duc Water sold a total of 54.0 mcm in the first half of 2019, at par with its billed volume level the previous year. Using Vietnamese Accounting Standards ("VAS"), revenues slightly increased by 0.19% to VND164 billion. Meanwhile, Thu Duc Water's cost and expenses increased by 6% to VND55 billion. This led to a 3% decline in EBITDA to VND109 billion. Further, net income decreased by 6% equivalent to VND50 billion. In peso terms, the PFRS-translated income reflected in the consolidated financial statements as equity share in net income of associates amounted to ₱122 million in the first half of 2019, equivalent to MWAP's 49% stake in Thu Duc Water. New business development costs stood at ₱32 million, 30% lower than the same period last year.

For Kenh Dong Water, billed volume slightly increased by 0.41% in the first half of 2019 to 29.6 mcm from the 29.4 mcm registered in the same period in 2018. Using Vietnamese Accounting Standards (VAS), Kenh Dong Water posted revenues of VND116 billion and an EBITDA of VND61 billion. With higher direct costs, Kenh Dong's net income declined to VND25 billion, down 32% from the same period in 2018. 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 MWAP's 47.35% stake in Kenh Dong Water amounted to ₱62 million in the first half of 2019.

MWAP's investment in Saigon Water, a listed water holding company in Vietnam with seven (7) subsidiaries (3 bulk water, 2 distribution, and 2 service companies) and one (1) equity investment (bulk water), have sold a consolidated total volume of 56.0 mcm in the first half of 2019, a 35% increase in the billed volume level of 41.4 mcm from previous year. Saigon Water posted total revenues of VND95 billion, down by 33% from the same period in 2018 despite the significant increase in billed volume. This is due to the 90% decline in the revenue from services to VND7 billion from VND66 billion last year. Cost and expenses of Saigon Water also decreased by 22% to VND101 billion. As a result, EBITDA also decreased by 139% to a loss of VND5 billion. Saigon Water also recorded other income from the amortization of the Government Grant for Project Cu Chi and investment in associate (Tan Hiep), net of depreciation and interest expense amounting to VND14 billion. Net income registered at VND5 billion, a 91% decrease from VND58 billion in 2018. In peso terms, the PFRS-translated income of Manila Water's 37.99% stake in Saigon Water amounted to ₱4 million in the first half of 2019.

Meanwhile, East Water sold a total of 192.3 mcm in the first half of 2019, an increase of 23% in the billed volume level of 156.5 mcm from the previous year. Total revenues increased by 18% to THB1.74 billion. East Water's cost and expenses are up by 25% to THB637 million leading to an increase in EBITDA by 12% to THB927 million. Further, net income increased by 4% equivalent to THB605 million. In peso terms, the income reflected in the consolidated financial statements as equity share in net income of associates amounted to ₱187 million in the first half of 2019, equivalent to Manila Water's 18.72% stake in East Water.

For PT STU, the 2.5 mcm billed volume is at par in the first half of 2019 from the same period in 2018. PT STU posted revenues of IDR9 billion and an EBITDA of IDR1.9 billion. With higher direct costs, net income declined to IDR1 billion, down by 25% from the same period in 2018. Income from PT STU reported as equity share in net income of associates in the consolidated financial statements amounted to ₱721 thousand representing 20% stake of Manila Water.

BALANCE SHEET

The consolidated statement of financial position in the first half of 2019 saw the Group maintain a healthy balance sheet, with total assets held steady at ₱124.48 billion, while Liabilities increased slightly by 0.4% to ₱69.19 billion. Cash and cash equivalents stood at ₱6.31 billion.

With respect to the Group's leverage ratios, bank debt to equity ratio stood at 0.93x, excluding service concession obligations. Current ratio improved to 0.75x from 0.59x from the same period last year due to the refinancing of short-term debt used for the East Water acquisition, partly offset by the lower receivables due to the implementation of the Bill Waiver and application of the MWSS penalty. The annualized Return-on-Equity of the Group stood at 11% on account of improved net income.

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 February 26, 2019, the Company declared cash dividends for the first half of 2019, set at ₱0.4551 per common share and ₱0.04551 per preferred share, amounting to ₱1.12 billion.

CAPITAL EXPENDITURES

The Group ended the first half of 2019 with total capital expenditures of ₱3,650 million. The Manila Concession spent a total of ₱2,920 million (inclusive of concession fee payments) for capital expenditures in the first half of 2019. Of the total amount, majority was spent on wastewater expansion, network reliability, and water supply projects, while the balance was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries amounted to ₱728 million. Of the total amount, ₱216 million was spent by Laguna Water for its water network expansion, while Boracay Water and Tagum Water disbursed ₱151 million and ₱38 million, respectively. Estate Water spent ₱255 million for its greenfield and brownfield projects, with the balance being taken on by the remaining subsidiaries for its various projects.

ANALYSIS OF MATERIAL CHANGES (+/- 5% OR MORE) IN THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Income Statement Items – For the period ended June 30, 2019 (Unaudited) vs. June 30, 2018 (Unaudited)
(Amounts in Thousands)

Revenue

	For the Six Months Ended June 30			
	2019	2018	Increase (Decrease)	%
Water, environmental charges, and sewer revenue	**₱9,665,581**	₱9,167,036	₱498,545	5%
Other operating income	**876,031**	640,785	235,246	37%
	₱10,541,612	₱9,807,821	₱733,791	7%

Revenue – 7% Increase
Increase in revenues of ₱733.79 million is on account of higher billed volume and average tariff in several key business units which was offset by the voluntary, one-time Bill Waiver Program implemented by the Manila Concession.

Costs of Services

	For the Six Months Ended June 30			
	2019	2018	Increase (Decrease)	%
Depreciation and amortization	**₱1,214,139**	₱1,027,429	₱186,710	18%
Power, light and water	**690,974**	717,878	(26,904)	(4%)
Salaries, wages and employee benefits	**605,030**	521,041	83,989	16%
Contractual services	**333,928**	311,101	22,827	7%
Repairs and maintenance	**403,769**	261,265	142,504	55%
Regulatory costs	**136,729**	138,224	(1,495)	(1%)
Management, technical and professional fees	**114,338**	110,134	4,204	4%
Wastewater costs	**107,279**	88,875	18,404	21%
Water treatment chemicals	**112,051**	69,819	42,232	60%
Collection fees	**60,504**	68,178	(7,674)	(11%)
Cost of water service connections	**41,144**	87,481	(46,337)	(53%)
Occupancy costs	**14,921**	18,347	(3,426)	(19%)
Other expenses	**111,244**	42,675	68,569	161%
	₱3,946,050	₱3,462,447	₱483,603	14%

Depreciation and amortization – 18% increase
Increase of ₱186.71 million was on account higher depreciation of used water assets of the Manila Concession, as well as newly completed projects in line with the Group's capital expenditure plan.

Salaries, wages and employee benefits – 16% increase
Increase of ₱83.99 million was due to additional manpower of the domestic subsidiaries during the period to support its expansion outside of Metro Manila.

Contractual services – 7% increase
Increase of ₱22.83 million was due to additional costs incurred for the operation of the deepwell facilities of the Manila Concession, as well as manpower augmentation of Estate Water and higher expense recognized by Laguna Water.

Repairs and maintenance – 55% increase
Increase of ₱142.50 million was due to the Parent Company's point repair leaks for additional network improvements and costs for hardware and software maintenance.

Wastewater costs – 21% increase
Increase of ₱18.40 million was mostly due to increased septic sludge activities by Estate Water.

Water treatment chemicals – 60% increase
Increase of ₱42.23 million was due to increased usage of water treatment chemicals due to higher turbidity from low water supply levels in the Manila Concession.

Collection fees – 11% decrease
Decrease of ₱7.67 million was due to lower rates in the Manila Concession, and lower fees recognized by Laguna Water.

Cost of water service connections – 53% decrease
Decrease of ₱46.34 million was due to amortization of water connection costs of Laguna Water, and suspension of new water connections for the Manila Concession.

Occupancy costs – 19% decrease
Decrease of ₱3.43 million was due to the adoption of PFRS 16 in which rental fees for long-term leases are not recognized in the income statement for long-term lease contracts.

Other expenses –161% increase
Increase of ₱68.57 million was due to bulk water costs, and water tankering services incurred by Estate Water for developments without available water resource, as well as additional expenses incurred by the Parent Company related to the water supply shortage.

Operating expenses – 32% increase
Increase of ₱479.16 million was mainly due to the MWSS-imposed penalty amounting to ₱534.05 million in relation to the water supply shortage in the East Zone as well as higher taxes and licenses during the period. This was countered by lower advertising expenses, and management and professional fees.

Other Income (Expenses)

	For the Six Months Ended June 30			
	2019	2018	Increase (Decrease)	%
Revenue from rehabilitation works	**₱3,653,690**	₱4,788,505	(1,134,815)	(24%)
Cost of rehabilitation works	**(3,653,690)**	(4,788,505)	1,134,815	(24%)
Foreign currency differentials	**(174,074)**	2,218,861	(2,392,935)	(108%)
Foreign exchange (losses)	**172,176**	(2,154,739)	2,326,915	(108%)
Equity share in net income of associates	**375,790**	339,421	36,369	11%
Interest income	**265,158**	203,428	61,730	30%
Interest expense	**(1,055,587)**	(820,295)	(235,292)	29%
Gain on disposal of property and equipment	**6,001**	1,292	4,709	364%
Other income	**38,546**	(4,617)	43,163	(935%)
	(₱371,990)	(₱216,649)	(₱155,341)	72%

Revenue from and cost of rehabilitation works – 24% decrease
Decrease of ₱1,134.82 million was mainly due to lower capital expenditures of the Group during the period.

Foreign currency differentials and foreign exchange (losses) - net – 103% decrease
Net decrease of ₱66.02 million from net foreign exchange in 2018 to net foreign exchange loss in 2019 was due to the lower foreign exchange gains arising from the depreciation of US dollar against the Peso during the period.

Equity share in net income of associates – 11% increase
Increase in equity share in net income from associates was mainly due to the full impact in 2019 of the East Water acquisition in March 2018.

Interest income – 30% increase
Increase of ₱61.73 million was on account of higher interest income from the Peso and US Dollar investments of the Parent Company coming from the increased volume of cash equivalents as well as higher finance income by Tagum Water in relation to its contract assets from its Bulk Water Sales and Purchase Agreement.

Interest expense – 29% increase
Increase of ₱235.29 million was on account of the incremental expense arising from additional loan drawdowns made by the Group for its operational and capital expenditures.

Gain on disposal of property and equipment – 364% increase
Increase of ₱4.71 million was due to the high value assets disposed during the period by the Parent Company.

Other income – 935% increase
Increase of ₱43.16 million was on account of the reversal of long-outstanding accruals by Laguna Water.

Provision for income tax – 26% increase
Increase of ₱258.97 million was due to higher taxable income of the Group and the higher provision for deferred income tax of the Parent Company arising from the difference in amortization expense of service concession assets per straight-line and units of production methods.

Balance Sheet Items – As of June 30, 2019 (Unaudited) vs. December 31, 2018 (Audited)
(Amounts in Thousands)

	June 30, 2019	December 31, 2018	Increase (Decrease)	%
ASSETS				
Current Assets				
Cash and cash equivalents	₱6,306,620	₱9,390,591	(3,083,971)	(33%)
Receivables - net	2,443,013	1,955,233	487,780	25%
Concession financial receivable - current portion	106,600	193,706	(87,106)	(45%)
Contract assets - current portion	697,949	398,448	299,501	75%
Inventories	264,648	205,923	58,725	29%
Other current assets	1,517,587	1,304,640	212,947	16%
Total Current Assets	11,336,417	13,448,541	(2,112,124)	(16%)
Noncurrent Assets				
Property, plant and equipment	3,937,059	3,508,215	428,844	12%
Right-of-use assets	236,147	–	236,147	100%
Service concession assets	85,882,731	82,529,566	3,353,165	4%
Concession financial receivable - net of current portion	924,988	853,335	71,653	8%
Contract assets - net of current portion	549,676	492,943	56,733	12%
Investments in associates	16,276,657	15,994,949	281,708	2%
Goodwill	136,566	136,566	–	–
Deferred tax assets - net	1,260,790	1,363,604	(102,814)	(8%)
Other noncurrent assets	3,939,066	4,205,597	(266,531)	(6%)
Total Noncurrent Assets	113,143,680	109,084,775	4,058,905	4%
	₱124,480,097	₱122,533,316	₱1,946,781	2%

	June 30, 2019	December 31, 2018	Increase (Decrease)	%
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts and other payables	₱8,396,137	₱7,291,282	₱1,104,855	15%
Short-term debt	–	8,596,539	(8,596,539)	(100%)
Current portion of:				
Long-term debt	5,715,436	5,525,372	190,064	3%
Service concession obligations	655,925	809,405	(153,480)	(19%)
Contract liabilities	2,962	17,892	(14,930)	(83%)
Lease liabilities	12,704	–	12,704	100%
Income tax payable	354,170	467,888	(113,718)	(24%)
Total Current Liabilities	15,137,334	22,708,378	(7,571,044)	(33%)
Noncurrent Liabilities				
Noncurrent portion of:				
Long-term debt	44,517,357	37,525,555	6,991,802	19%
Service concession obligations	7,820,233	7,119,121	701,112	10%
Pension liabilities - net	81,892	109,392	(27,500)	(25%)
Deferred tax liabilities - net	134,785	103,105	31,680	31%
Provisions	452,982	569,893	(116,911)	(21%)
Contract liabilities - net of current portion	26,451	–	26,451	100%
Lease liabilities - net of current portion	222,275	–	222,275	100%
Other noncurrent liabilities	796,005	776,778	19,227	2%
Total Noncurrent Liabilities	54,051,980	46,203,844	7,848,136	17%
Total Liabilities	₱69,189,314	₱68,912,222	₱277,092	0%

	June 30, 2019	December 31, 2018	Increase (Decrease)	%
Equity				
Attributable to equity holders of Manila Water Company,				
Capital stock:				
Common stock	₱2,064,840	₱2,064,840	₱–	0%
Preferred stock	400,000	400,000	–	0%
	2,464,840	2,464,840	–	0%
Additional paid-in capital	4,518,048	4,518,048	–	0%
Subscriptions receivable	(412,339)	(458,453)	46,114	(10%)
Total paid-up capital	6,570,549	6,524,435	46,114	1%
Common stock options outstanding	61,983	51,743	10,240	20%
Retained earnings:				
Appropriated	32,444,000	32,444,000	–	0%
Unappropriated	13,838,454	12,052,605	1,785,849	15%
Remeasurement loss on defined benefit plans	(57,483)	(57,483)	–	0%
Other equity reserves	54,107	54,107	–	0%
Share in other comprehensive loss of an associate	(1,346)	–	(1,346)	(100%)
Cumulative translation adjustment	1,167,929	1,420,590	(252,661)	(18%)
	54,078,193	52,489,997	1,588,196	3%
Noncontrolling interests	1,212,590	1,131,097	81,493	7%
Total Equity	55,290,783	53,621,094	1,669,689	3%
	₱124,480,097	₱122,533,316	₱1,946,781	2%

Cash and cash equivalents – 33% decrease
Decrease of ₱3,083.97 million was mainly attributable to the lower operating cash flows from operations due to the water supply shortage in the Manila Concession, as well as higher income tax, loan principal and interest and dividend payments.

Receivables - net – 25% increase
Increase of ₱487.78 million was mainly attributable to higher revenues of the Group as of the period. This was countered by the one-time voluntary bill waiver implemented by the Parent Company, as well as collection of existing receivables by the Group.

Concession financial receivable - current portion – 45% decrease
Decrease of ₱87.11 million was mainly due to Cebu Water's collections of its concession financial receivable from the Metropolitan Cebu Water District.

Contract assets – current portion – 75% increase
Increase of ₱299.50 million was mainly due to higher unbilled receivables from completion of project milestones of Estate Water, Zamboanga Water, Tagum Water and MWTS in accordance with PFRS 15.

Inventories – 29% increase
Increase of ₱58.73 million was mainly due to higher purchase of chemicals inventory of the Manila Concession to treat source water due to higher turbidity from low water supply levels.

Other current assets – 16% increase
Increase of ₱212.95 million was mainly due to higher input VAT and additional prepaid expenses, such as for business permits and real property taxes, made during the period.

Property, plant and equipment – 12% increase
Increase of ₱428.84 million was due to additional capital expenditures by the domestic subsidiaries during the period, offset by the corresponding depreciation and amortization expense.

Right-of-use assets – 100% increase
Increase of ₱236.15 million was mainly due to implementation of PFRS 16 to the Group's long-term lease contracts representing the right to control the use of the identified asset for a period.

Contract assets - net of current portion – 12% increase
Increase of ₱56.73 million was mainly due to higher unbilled receivables of Tagum Water and Zamboanga Water. This account is recognized in compliance with PFRS 15.

Deferred tax asset – 8% decrease
Decrease of ₱102.81 million was mainly due to higher deferred tax expense due to the difference between the straight-line and units-of-production amortization methods for service concession assets of the Group.

Other noncurrent asset – 6% decrease
Decrease of ₱266.53 million was mainly due to lower deferred FCDA during the period from collections and foreign exchange movements.

Accounts and other payables – 15% increase
Increase of ₱1,104.85 million due to additional trade payables during the period brought about by the operational and capital expenditure projects of the Group.

Short-term debt – 100% decrease
Decrease of ₱8,596.54 million pertains to the availment of a five (5)-year term loan by MWTC, which replaced the short-term bridge loan used to finance the acquisition of East Water last year.

Service concession obligations - current – 19% decrease
Decrease of ₱153.48 million mainly driven by payments made during the period.

Contract liabilities - current and noncurrent – 64% increase
Increase of ₱11.52 million was due to higher deferred revenues arising from advances from customers of the Group, specifically Laguna Water, in accordance with PFRS 15.

Lease liabilities – current and noncurrent - 100% increase
Increase of ₱234.98 million was due to the adoption of PFRS 16 to the Group's long-term lease contracts.

Income tax payable – 24% decrease
Decrease of ₱113.72 million mainly driven by the payments made to the Bureau of Internal Revenue for 2018 income tax due and 2019 1st quarter income taxes, offset by current provisions for income tax.

Long-term debt – net of current portion – 19% increase
Increase of ₱6,991.80 million was mainly driven by the refinancing of the MWTC bridge loan used to finance the East Water acquisition.

Service concession obligations - noncurrent – 10% increase
Increase of ₱701.11 million was mainly driven by the recognition of service concession obligations by Bulakan Water.

Pension liabilities - net - 25% decrease
Decrease of ₱27.50 million was due to contributions to plan assets made by the Parent Company during the period.

Deferred tax liabilities - net – 31% increase
Increase of ₱31.68 million was due to higher provision for deferred taxes coming from the concession financial receivables of Tagum Water and Cebu Water.

Provisions – 21% decrease
Decrease of ₱116.91 million mainly due to the income tax settlements of the Parent Company during the period.

Cumulative translation adjustment – 18% decrease
Decrease of ₱252.66 million due to exchange differences arising from the conversion of MWAP's books from US Dollar driven by movements in exchange rates where the Peso was stronger against the US Dollar during the period.

SUMMARY OF APPENDICES

A. Board of Directors and Senior Management Team
B. Financial Risk Management Objectives and Policies
C. Manila Water Stock and Dividends Information
D. Summary of Corporate Disclosures During the 1st Quarter of 2019
E. Performance Indicators and Business Efficiency Measures
F. Average Tariff

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Signature and Title:

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

August 14, 2019

PART II – OTHER INFORMATION

APPENDIX A

BOARD OF DIRECTORS AND SENIOR MANAGEMENT TEAM

The Board of Directors (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 Parent Company's By-laws.

The following are the members of the Board and corporate secretarial officers as of June 30, 2019:

Name	Position/Board Committee Membership
Fernando Zobel de Ayala	Chairman of the Board of Directors Member of the Remuneration Committee
Jaime Augusto Zobel de Ayala	Vice Chairman of the Board of Directors
Ferdinand M. dela Cruz	President, Chief Executive Officer and Chief Sustainability Officer Member of the Board of Directors Member of the Executive Committee
Oscar S. Reyes	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
Gerardo C. Ablaza, Jr.	Member of the Board of Directors Vice Chairman of the Executive Committee Member of the Audit Committee Member of the Board Risk Oversight Committee
Antonino T. Aquino	Member of the Board of Directors Member of the Executive Committee
Delfin L. Lazaro	Member of the Board of Directors
Jose Rene Gregory D. Almendras	Member of the Board of Directors Chairman of the Executive Committee
Jaime C. Laya	Independent Director Chairman of Board Risk Oversight Committee Member of the Corporate Governance Committee Member of the Audit Committee Member of the Nomination Committee Member of the Related Party Transactions Committee
Sherisa P. Nuesa	Independent Director Chair of the Corporate Governance Committee Chair of the Related Party Transactions Committee Member of the Remuneration Committee
Jose L. Cuisia, Jr.	Independent Director Chairman of the Nomination Committee Chairman of the Remuneration Committee Member of the Corporate Governance Committee Member of the Audit Committee Member of the Board Risk Oversight Committee Member of the Related Party Transactions Committee

Name	Position/Board Committee Membership
Solomon M. Hermosura	Corporate Secretary
Gerardo M. Lobo II	Assistant Corporate Secretary

Below are the Parent Company's key executive officers as of June 30, 2019:

Name	Position
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
Abelardo P. Basilio	Acting Chief Operating Officer for Manila Water Operations, and Group Director for Strategic Asset Management
Janine T. Carreon	Group Director for Corporate Human Resources
Esmeralda R. Quines	Group Director for East Zone Business Operations
Liwayway T. Sevalla	Chief Information Officer, Data Protection Officer, and Group Director for Business and Technology Services
Maidy Lynne B. Quinto	Group Director for Corporate Project Management
Arnold Jether A. Mortera	Acting Group Director for Corporate Operations
Robert Michael N. Baffrey	Acting Group Director for Subsidiary Operations
Jocelyn Frances P. Sison	Chief Risk Officer
Xerxes Noel O. Ordanez	Chief Audit Executive

For more information about each of the members of the Board and the key officers, please visit the Parent Company's website at www.manilawater.com.

APPENDIX B

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 liabilities as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	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	₱1,031,588	₱1,084,097	₱1,047,041	₱1,422,268
Other financial liabilities				
Short-term debt	₱–	₱–	₱8,596,539	₱8,596,539
Long-term debt	50,232,793	50,195,170	43,050,927	41,811,196
Service concession obligations	8,476,158	9,220,491	7,928,527	8,645,393
Customers' guaranty deposits and other deposits	370,208	157,570	334,643	223,991
	₱59,079,159	₱59,573,231	₱59,910,636	₱59,277,119

The methods and assumptions used by the Group in estimating the fair value of the long-term financial assets at amortized cost and other financial liabilities such as short-term debt, long-term debt, customers' guaranty deposits and other deposits, and service concession obligations are as follows:

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.

The discount rates used for PHP-denominated loans were 4.22% to 7.58% in 2019 and 5.22% to 7.53% in 2018 while the discount rates used for foreign currency-denominated loans ranged from 4.47% to 7.10% in 2019 and 5.31% to 7.42% in 2018.

Fair Value Hierarchy

There were no financial assets measured at fair value as of June 30, 2019 and December 31, 2018. During the periods ended June 30, 2019 and December 31, 2018, 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.

APPENDIX C

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 Board of Directors (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 June 30, 2019, and December 31, 2018, the Group's mix of fixed interest and floating interest rate of long-term debt are 70.12% and 29.88% and 85.31% to 14.69%, respectively.

As of June 30, 2019, fixed interest rates of the Group's foreign currency denominated long-term debt is 1.39% to 1.48% 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 June 30, 2019 and December 31, 2018.

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against the USD. Substantially all revenues are generated in PHP and majority of capital expenditures are also in PHP. Approximately 52.47% and 53.81% of debt as of June 30, 2019 and December 31, 2018, respectively, are denominated in foreign currency.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Philippine Peso equivalents are as follows:

	June 30, 2019		December 31, 2018	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
	(In Thousands)		(In Thousands)	
Assets				
Cash and cash equivalents:				
USD	USD7,001	₱358,715	USD11,368	₱597,751
THB	THB87,509	145,881	THB8,054	13,064
VND	VND15,429,851	34,277	VND750,698	1,729
CAD	CAD837	32,847	CAD806	31,218
IDR	IDR765,053	2,772	IDR1,568,250	5,694
JPY	JP¥556	265	JP¥556	264
SGD	SGD–	–	SGD25	968
		₱574,757		₱650,688
Liabilities				
Accounts payable:				
THB	THB44,349	₱73,932	THB1,597	₱2,591
USD	USD666	34,135	USD153	8,068
VND	VND403,002	895	VND318,613	734
SGD	SGD22	833	SGD65	2,511
IDR	IDR77,934	282	IDR5,829,688	21,167

(Forward)

	June 30, 2019		December 31, 2018	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
JPY	JP¥–	₱–	JP¥75,861	₱36,042
RMB	–	–	RMB6	47
MYR	–	–	–	3
Short-term debt:				
THB	–	–	THB5,300,000	8,596,539
Long-term debt:				
JPY	JP¥24,870,786	11,850,929	JP¥28,402,974	13,494,253
THB	THB5,291,971	8,821,961	–	–
USD	USD110,325	5,653,061	USD107,842	5,670,308
CAD	CAD837	32,847	CAD873	33,334
Service concession obligations:				
USD	USD67,738	3,470,912	USD64,859	3,410,310
JPY	JP¥528,959	252,049	JP¥527,061	250,407
French Franc (FRF)	FRF4	34	FRF4	35
		₱30,191,870		₱31,526,349
Net foreign currency-denominated liabilities		(₱29,617,113)		(₱30,875,661)

The spot exchange rates used were ₱51.2400 to US$1, ₱0.4765 to JP¥1, ₱8.8832 to FRF1, ₱37.9614 to SGD1, ₱0.0022 to VND1, ₱0.0036 to IDR1, ₱1.6670 to THB1 and ₱39.2436 to CAD1 in 2019, and ₱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.

Under their respective concession agreements, however, 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 tariffs. Thus, the Group does not expect any movement of the USD, JPY, VND, SGD, AUD, FRF, IDR, MMK, RMB, MYR, CAD and THB 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 shown in the next page.

	Current	June 30, 2019					
		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)	₱103,978	₱115,472	₱41,823	₱34,065	₱154,839	₱122,279	₱572,456
East Zone	109,399	417,729	95,811	31,909	236,829	591,336	1,483,013
Boracay	32,080	23,913	7,135	3,873	10,524	123,257	200,782
Clark	39,729	648	252	2	–	6,896	47,527
Laguna	66,621	43,690	22,096	14,103	67,329	340,314	554,153
Others	158,387	–	–	–	–	3,608	161,995
BWC	282,486	–	–	–	–	–	282,486
Employees	42,070	–	–	–	–	423	42,493
Interest from banks	18,866	–	–	–	–	–	18,866
Others	434,273	–	–	–	–	64,417	498,690
	1,287,889	601,452	167,117	83,952	469,521	1,252,530	3,862,461
Concession financial receivables	1,016,988	–	–	–	–	14,599	1,031,587
Contract assets	1,247,625	–	–	–	–	–	1,247,625
	₱3,552,502	₱601,452	₱167,117	₱83,952	₱469,521	₱1,267,129	₱6,141,673

	Current	December 31, 2018					
		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

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:

	June 30, 2019			
	Within 1 year	1-5 years	More than 5 years	Total – Gross
	(Amount in Thousands)			
Assets				
Cash and cash equivalents	₱6,306,620	₱–	₱–	₱6,306,620
Receivables:				
Customers	3,009,124	–	–	3,009,124
Employees	42,493	–	–	42,493
Interest from banks	18,866	–	–	18,866
Zamboanga City Water District (ZCWD)	10,800	–	–	10,800
Others	498,689	–	–	498,689
Concession financial receivable	106,600	329,510	595,477	1,031,587
	₱9,993,192	₱329,510	₱595,477	₱10,918,179

	December 31, 2018			
	Within 1 year	1 to 5 years	More than 5 years	Total – Gross
	(Amounts in Thousands)			
Assets				
Cash and cash equivalents	₱9,390,591	₱–	₱–	₱9,390,591
Receivables:				
Customers	2,878,961	–	–	2,878,961
Employees	31,156	–	–	31,156
Interest from banks	23,937	–	–	23,937
ZCWD	10,450	–	–	10,450
Others	183,094	–	–	183,094
Concession financial receivable	193,706	739,220	1,664,053	2,596,979
	₱12,711,895	₱739,220	₱1,664,053	₱15,115,168

The Group's financial liabilities based on contractual undiscounted payments:

	June 30, 2019			
	Within 1 year	1 to 5 years	More than 5 years	Total – Gross
	(Amounts in Thousands)			
Liabilities				
Accounts and other payables	₱8,396,137	₱–	₱–	₱8,396,137
Long-term debt*	6,337,883	35,347,130	12,806,193	54,491,206
Service concession obligations*	921,978	3,667,053	9,959,441	14,548,472
Customers' guaranty and other deposits	–	–	1,044,730	1,044,730
	₱15,655,998	₱39,014,183	₱23,810,364	₱78,480,545

***Includes contractual interest cash flows**

	December 31, 2018			
	Within 1 year	1 to 5 years	More than 5 years	Total – Gross
	(Amounts in Thousands)			
Liabilities				
Accounts and other payables	₱7,291,282	₱–	₱–	₱7,291,282
Short-term debt*	8,596,539	–	–	8,596,539
Long-term debt*	7,409,511	31,091,261	14,498,774	52,999,546
Service concession obligation*	1,109,494	3,537,892	9,086,915	13,734,301
Customers' guaranty deposits and other deposits	–	–	776,779	776,779
	₱24,406,826	₱34,629,153	₱24,362,468	₱83,398,447

**Includes contractual interest cash flows*

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 obligation) divided by the sum of the total stockholders' equity and total debt (less service concession obligation). 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.

	June 30, 2019	December 31, 2018
	(Amounts in Thousands)	
Total liabilities	₱69,189,314	₱68,912,222
Less: Total service concession obligations	8,476,158	7,928,526
	60,713,156	60,983,696
Total stockholders' equity	55,290,783	53,621,094
Total	₱116,003,939	₱114,604,790
Gearing ratio	52%	53%

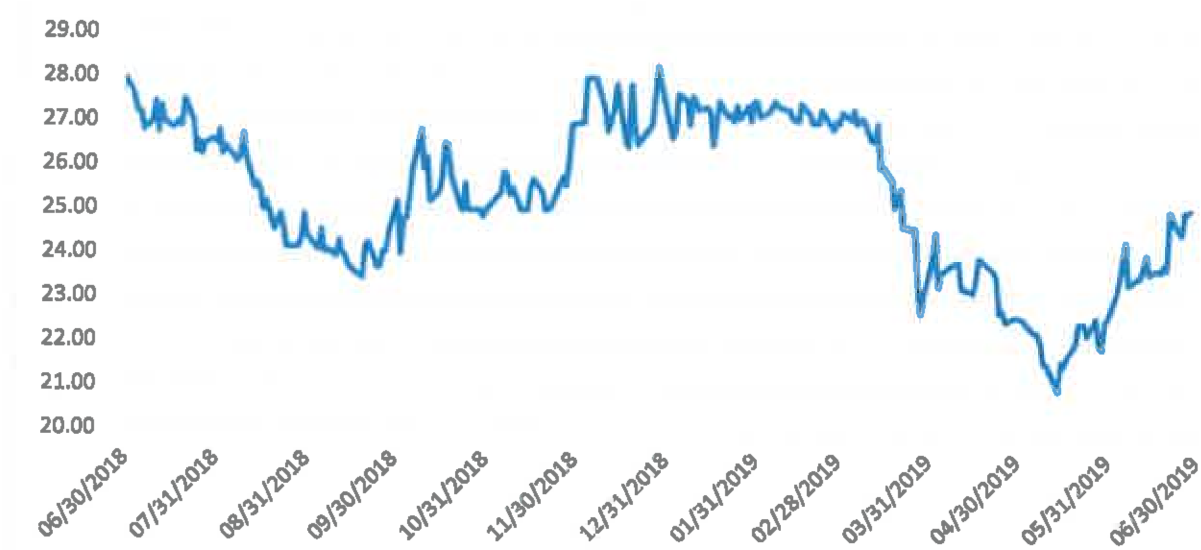
For purposes of computing its net debt, the Group includes the outstanding balance of its long-term debt (including current portion), accounts and other payables, less cash and cash equivalents. To compute its total capital, the Group uses the total stockholders' equity.

	June 30, 2019	December 31, 2018
	(Amounts in Thousands)	
Total liabilities	₱69,189,314	₱68,912,222
Less:		
Total service concession obligations	8,476,158	7,928,526
Cash and cash equivalents	6,306,620	9,390,591
	14,782,778	17,319,117
Net debt	54,406,536	51,593,105
Total stockholders' equity	55,290,783	53,621,094
Total net debt and stockholders' equity	₱109,697,319	₱105,214,199
Total net debt and equity ratio	50%	49%

APPENDIX D

MANILA WATER STOCK AND DIVIDENDS INFORMATION

Stock Chart (June 30, 2018 to June 30, 2019)



**Source: Bloomberg*

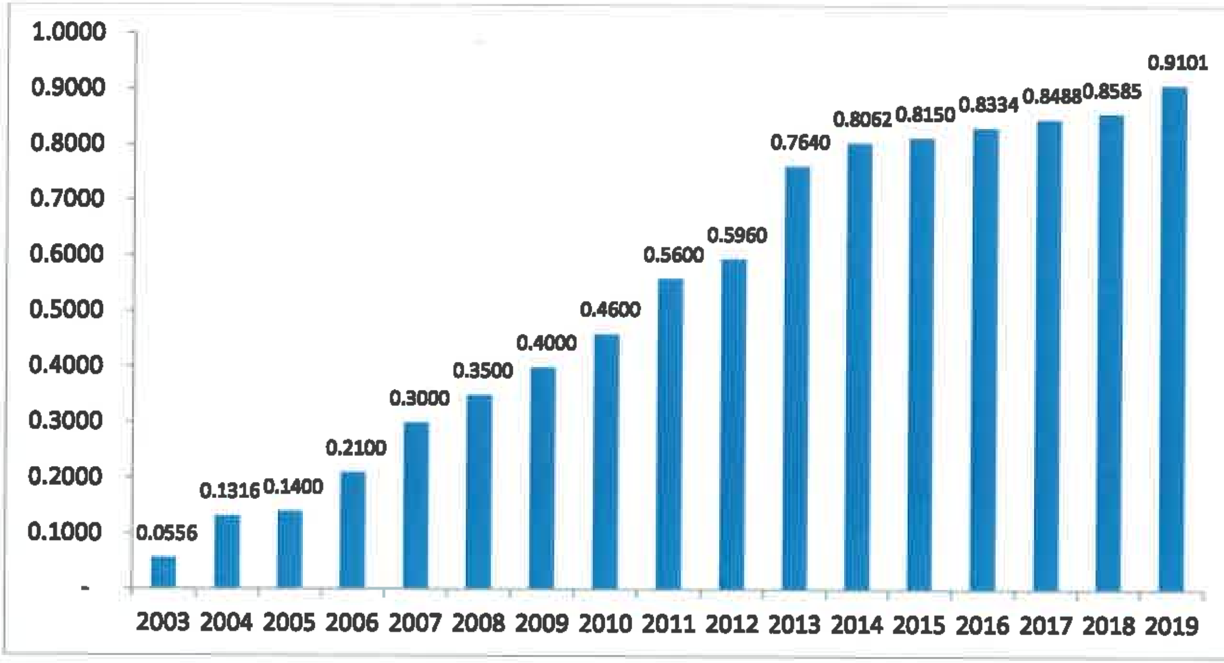
The Company was listed in the Philippine Stock Exchange on March 18, 2005 and its listed shares have since been actively traded therein. The high and low sale prices for each quarter that the Company's shares have been listed are as follows:

High / Low Sales				
	2019		2018	
	High	Low	High	Low
1st Quarter	₱27.65	₱22.70	₱29.15	₱25.70
2nd Quarter	₱25.05	₱20.95	₱28.35	₱25.05
3rd Quarter	–	–	₱27.70	₱23.45
4th Quarter	–	–	₱28.25	₱24.00

For the second quarter of 2019, the highest sale price was ₱25.05 and lowest sale price was ₱20.95.

The price information as of the close of June 28, 2019 was ₱25.05.

Dividends Information



In February 26, 2019, the BOD declared the first semester 2019 cash dividends: (i) ₱0.4551 per share on the outstanding common shares, and (ii) ₱0.04551 per share on the outstanding participating preferred shares. The dividends were payable to stockholders of record as of March 14, 2019 and were paid on March 28, 2019.

APPENDIX E

SUMMARY OF CORPORATE DISCLOSURES DURING THE FIRST HALF OF 2019

As part of its commitment to promote the corporate values of transparency and accessibility of material information to its investors, the Company fully complies with the reporting and disclosure requirements of the law as well as the relevant rules and regulations issued by the SEC and the PSE. The Parent Company adopts a policy of prompt and accurate disclosure of all information that may be material to the investing public. The Company conducts quarterly investors' and analysts' briefings and regular meetings with shareholders and fund managers to keep them up to date on matters affecting the business of the Company.

Below is a summary of the corporate disclosures during the 1st half of 2019.

Date	Topic
January 4, 2019	Foreign Ownership Report as of December 31, 2018
January 4, 2019	Report on the Number of Shareholders as of December 31, 2018
January 15, 2019	Public Ownership Report as of December 31, 2018
January 15, 2019	List of Top 100 Stockholders as of December 31, 2018
January 21, 2019	Joint Venture Agreement between Laguna AAAWater Corporation and the Pagsanjan Water District
January 25, 2019	Notice to Proceed from the Municipality of Manaoag, Province of Pangasinan
January 28, 2019	Clarification of News Article
February 4, 2019	Joint Venture Agreement between the Tanauan Water District and the Consortium of Manila Water Company, Inc. and Manila Water Philippine Ventures, Inc.
February 6, 2019	Foreign Ownership Report as of January 31, 2019
February 6, 2019	Report on the Number of Shareholders as of January 31, 2019
February 14, 2019	Statement of Changes of Beneficial Ownership of Securities
February 20, 2019	Notice of Analysts'/Investors' Briefing
February 21, 2019	[Amended-1] Notice of Annual or Special Stockholders' Meeting
February 26, 2019	Results of Regular Meeting of the Board of Directors held on February 26, 2019
February 26, 2019	Unaudited Full Year 2018 Performance Results
February 26, 2019	Amendments to the Articles of Incorporation
February 27, 2019	Term-Loan Facility for Manila Water (Thailand) Co. Ltd.
March 1, 2019	2019 Audited Consolidated Financial Statements
March 6, 2019	Foreign Currency Differential Adjustment
March 7, 2019	Report on the Number of Shareholders as of February 28, 2019
March 7, 2019	Foreign Ownership Report as of February 28, 2019
March 11, 2019	Term-Loan Facility for Clark Water Corporation
March 14, 2019	Statement of Manila Water on the water supply situation in the East Zone
March 15, 2019	[Amended-2] Notice of Annual or Special Stockholders' Meeting
March 15, 2019	List of Stockholders
March 21, 2019	Clarification of News Article
March 22, 2019	Memorandum of Understanding between Manila Water Company, Inc. and Prime Metroline Infrastructure Holdings, Inc.
March 22, 2019	Clarification of News Article
March 25, 2019	[Amended-3] Notice of Annual or Special Stockholders' Meeting
March 26, 2019	Statement of Manila Water on the Voluntary Bill Waiver for Customers
March 26, 2019	Information Statement
April 5, 2019	Amendment to Articles of Incorporation
April 5, 2019	Foreign Ownership Report as of March 31, 2019
April 5, 2019	Report on the Number of Shareholders as of March 31, 2019
April 12, 2019	List of Top 100 Stockholders as of March 31, 2019
April 14, 2019	Public Ownership Report as of March 31, 2019
April 15, 2019	General Form for Financial Statements as of December 31, 2018
April 15, 2019	Annual Report (SEC Form 17-A) for the year 2018
April 16, 2019	Resignation and Appointment of Officer
April 22, 2019	Results of Annual Stockholders' Meeting
April 22, 2019	Results of Organizational Meeting of the Board of Directors

Date	Topic
April 22, 2019	[Amended-1] Amendments to Articles of Incorporation
April 24, 2019	Company Statement on the decision of Metropolitan Waterworks and Sewerage System to impose a financial penalty on Manila Water
April 24, 2019	Amended 2018 General Information Sheet
April 24, 2019	Initial Statement of Beneficial Ownership of Securities (SEC Form 23-A) of Arnold Jether A. Mortera
April 24, 2019	Initial Statement of Beneficial Ownership of Securities (SEC Form 23-A) of Robert Michael N. Baffrey
May 6, 2019	Notice of Analysts' Briefing
May 8, 2019	Foreign Ownership Report as of April 30, 2019
May 8, 2019	Report on the Number of Shareholders as of April 30, 2019
May 9, 2019	Unaudited First Quarter 2019 Performance Results
May 14, 2019	Election of Jose Rene Gregory D. Almendras
May 14, 2019	Initial Statement of Beneficial Ownership of Securities (SEC Form 23-A) of Jose Rene Gregory D. Almendras
May 15, 2019	Quarterly Report (SEC Form 17-Q) for the period ended March 31, 2019
May 21, 2019	2019 General Information Sheet
May 21, 2019	Amended 2019 General Information Sheet
May 22, 2019	Clarification of News Article
May 30, 2019	Integrated Annual Corporate Governance Report for the year 2018
June 6, 2019	Foreign Ownership Report as of May 31, 2019
June 6, 2019	Report on the Number of Shareholders as of May 31, 2019
June 14, 2019	Signing of Concession Agreement between Bulacan Water District and Bulakan Water Company, Inc.
June 28, 2019	Term-loan Facility for Laguna AAAWater Corporation

For more details on these disclosures, please visit the Company's website at www.manilawater.com.

APPENDIX F

PERFORMANCE INDICATORS AND BUSINESS EFFICIENCY MEASURES – MANILA CONCESSION
As of June 30, 2019

Key Performance Indicators	Target**	Actual
Domestic Water Service Connections*	1,021,009[1]	1,010,574[2]
Continuity of Water Supply (24-hour supply) at ground floor level	98%	92.30%[5]
Water Quality at Plant Outlet (% compliance with PNSDW)	100%	99.97%
Water Quality in Distribution (% compliance with PNSDW)	95%	100%
Sampling (% compliance with PNSDW)	100%	113.4%
Sewerage Connections*	240,182[1]	144,406[2]
Sanitation (no. of septic tanks emptied)	96,560[1]	39,611[2]
Wastewater Effluent Quality (% compliance with DENR standards)	95%	100%
Response to customer service complaints (% of complaints resolved within 10 days)	95%	93.64%***
Response to billing complaints (% of complaints resolved within 10 days)	92%	92.82%
Response to request for new connections (% of requests responded to within 5 days)	100%	100%
Installation of new water service connections (no. of new water service connections installed within 7 days over the total no. of approved applications with paid connection fees) year-to-date [3]	95%	96.85%
Response to disruptive mains failure (% of disruptive main failures repaired within 24 hours)	96%	100%

Business Efficiency Measures	Target	Actual
Billed Volume (mcm)	530	244.86
Revenue Collection Rate	98%	103.49%
Labor Cost (in million PhP)	max. of 2,051	836
Power Consumption (in million KwH)	max. of 190	61.58
Total Controllable OPEX (in million PhP)	2,665	872
CAPEX (in million PhP)[4]	11,640.77	2,917.75[4]
Non-Revenue Water % (YTD Average)	max. of 12%	10.78%

[1] Year-end targets
[2] Year-to-date actual figures
[3] Excluding connections related to new pipeline projects
[4] Year-to-date total CAPEX net of interest during construction and engineering and supervision, including Concession Fees.
[5]For the month of June, 2019, particularly June 1 to 17 our water availability was at 92.30% at the ground floor level. For the remainder of June 2019, the water availability was lower due to reduction of our allocation by NWRB in Angat from 46cms to 40cms in June 19 and further reduction to 36 cms in June 22, 2019 up to present.
*Cumulative figures from 1997
**The targets stated hereunder are those on the 2018 Approved Business Plan.
*** As of June 2019, decline in the performance was due to water deficit.

APPENDIX G

*AVERAGE TARIFF

	Jun. 30, 2018	Dec. 31, 2018	Jun. 30, 2019
Previous Basic	₱24.81	₱25.52	₱26.98
CPI	0.69	(0.69)	1.54
Rate Rebasing	–	2.15	–
Total Basic Water	**25.50**	**26.98**	**28.52**
FCDA	0.59	1.65	0.52
EC	5.22	5.73	5.81
TOTAL	**31.31**	**34.36**	**34.85**
VAT	3.76	4.12	4.18
TOTAL w/ VAT	**₱35.07**	**₱38.48**	**₱39.03**

**Pertains to the Parent Company only*

The weighted average tariff which is approved by MWSS represents for the indicative rate applied to the whole East Concession area. The percentage increase on the basic charge is applied universally across the Manila Water Standard Tariff Table.