April 12, 2016

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City, Philippines

Attention : MR. VICENTE GRACIANO P. FELIZMENIO, JR.
Director, Markets and Securities Regulation Department

PHILIPPINE STOCK EXCHANGE, INC.
Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, Philippines

Attention : MS. JANET A. ENCARNACION
Head, Disclosure Department

Subject : Clarification of News Article entitled
"Manila Water sees arbitration case resolution in 2017"

Gentlemen :

We reply to the request for clarification of the Philippine Stock Exchange on the news article entitled "Manila Water sees arbitration case resolution 2017" posted in Manila Bulletin (Internet Edition) on April 11, 2016. The article reported in part that:

“The Manila Water Company, Inc. (Manila Water) is hoping to resolve by early 2017 the P79-billion arbitration case it has filed against the government while continuously executing growth strategies in order to double its income to as much as P12 billion by 2020.

Manila Water president and chief executive officer Gerardo Ablaza Jr. said he is hopeful that the arbitration case that will allow the company to claim a P79-billion water refund from the government will be resolved in the ‘early part of next year’.

...”

We confirm the first paragraph in the above article regarding the statement made by the President and CEO of Manila Water Company, Inc. (“Manila Water” or the “Company”) during the press briefing held after the annual stockholders meeting on April 11, 2016. This is consistent with our disclosure made on December 10, 2015, wherein the Company disclosed its move to file a Notice of Arbitration with the Permanent Court of Arbitration (PCA) against the Republic of the Philippines (the “Republic”). The Notice of Arbitration was filed with respect to Notice of Claim made on the Republic on April 23, 2015 and reiterated on August 13, 2015 and October 20, 2015. The Notice of Claim was made under the Letter of Undertaking of the Republic, issued through the DOF and dated July 31, 1997, as reiterated in the DOF Letter dated October 19, 2009 (the “Sovereign Undertaking”), issued to guarantee the obligations of the Metropolitan Waterworks and Sewerage System (MWSS) under its Concession Agreement with the Company executed on February 21, 1997.
In the Sovereign Undertaking, the Republic, through the DOF, undertook to indemnify the Company against any loss caused by any action on the part of the Republic and/or the MWSS resulting in the reduction of the standard rates “below the level that would otherwise be applicable in accordance with the Concession Agreement”, thereby denying the Company the rate of return “allowed from time to time to operators of long term infrastructure concession agreement in other countries having a credit standing similar to the Philippines” pursuant to Section 9.4 of the Concession Agreement. As a result of certain actions by the MWSS and the Republic, which are covered by the provisions of the Sovereign Undertaking, the Company demanded indemnification from the Republic by reimbursing its losses in operating revenues to be realized for each remaining year of the Concession as such losses are realized, which losses are estimated to amount to Php79 billion for the period 2015 up to 2037.

At present, the arbitration panel is being constituted. Under the UNCITRAL rules, the parties shall nominate their respective panel members and the latter, shall choose their chairman.

Based on the timeline identified by the Company for the resolution of the arbitration in accordance with the rules applicable to the current arbitration proceeding, and barring unforeseen events that will cause delay, the Company expects the resolution of the arbitration in the early part of 2017. In the meantime, the Company confirms its strategy to continue the excellent operating performance of the East Zone concession business and to further maximize the market impact and earnings contribution of its business outside the East Zone concession, towards doubling its 2015 consolidated net income of Php5.96 billion by year 2020.

Finally, with respect to the second paragraph of the article. Manila Water would like to emphasize that the company is claiming the current and projected losses brought about and will result from the lowering of the rate of return from that promised at the start of the concession.

We trust that the foregoing explanation satisfies your request for clarification.

Very truly yours,

JHOEL P. RAQUEDAN
Chief Legal Counsel
Assistant Corporate Secretary