April 21, 2015

SECURITIES AND EXCHANGE COMMISSION
Securities and Exchange Commission Building, EDSA, Greenhills, Mandaluyong City

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

Attention : Ms. Janet A. Encarnacion
Head, Disclosure Department

Subject : Decision of the Appeals Panel on the Manila Water Arbitration with the Metropolitan Waterworks and Sewerage System

Gentlemen:

Please be informed that Manila Water Company Inc. ("Manila Water" or "the Company") received today the Decision of the Appeals Panel dated April 21, 2015 (the "Decision") in the arbitration proceedings between the Company and the Metropolitan Waterworks and Sewerage System ("MWSS"). The Decision concludes a three-year rate rebasing process that began in March 2012 with the submission of a business plan by Manila Water to MWSS and which subsequently resulted in arbitration when the latter released its tariff determination in September 2013 reducing existing tariffs by 29.47% or an average of negative P7.24 per cubic meter. On September 24, 2013, Manila Water objected by filing a Dispute Notice with the International Chamber of Commerce which formally commenced the arbitration process.

The final award included the adoption of the following tariff component determinations:

a. **Opening Cash Position or “OCP” (defined as the total amount of historical cash flows, in 2013 prices) of P28.1 billion.** This figure restores P11 billion from the September 2013 OCP determination of MWSS of P17.1 billion. The amount of OCP contained in the Decision clarifies disagreements over the rules on disallowances adopted by the MWSS-Regulatory Office during the 2013 Rate Rebasing exercise. Prospectively, OCP calculations will be undertaken under a new set of regulatory accounting rules mutually agreed upon by Manila Water and MWSS. These rules are envisioned to provide standards of “prudence and efficiency”, the bases upon which the Company’s expenditures are considered recoverable or not.
b. **Capital Expenditures and Concession Fees (in 2013 prices and over the life of the concession) of ₱199.6 billion.** This figure restores ₱29.5 billion from the September 2013 future capital and concession fee expenditures determination of MWSS of ₱170.1 billion. Certain future capital expenditure programs were reviewed and aligned with the service obligation targets for the remaining life of the concession. Key projects to be pursued prospectively include new water source development and the expansion of the used water collection and treatment system.

c. **Appropriate Discount Rate or “ADR” (defined as the concessionaires’ rate of return in deriving tariff) of 7.61% (post-tax).** This figure is an improvement of 79 bps from the post-tax ADR of 6.82% determined by MWSS in September 2013.

d. **Exclusion of corporate income taxes or “CIT” from cash flows beginning January 1, 2013.** The Appeals Panel decided that CIT should be excluded from the cash flows used for the determination of tariffs. This was a result of their finding that the Company is a public utility.

The final award also resulted in the setting of the rate rebasing adjustment for the period 2013 to 2017 at a negative 11.05% from Manila Water’s 2012 average basic water charge of ₱25.07 per cubic meter. This translates to a decrease of ₱2.77 per cubic meter. The rate rebasing adjustment to the basic water charge will be implemented in the following manner: (a) negative ₱1.66 per cubic meter in 2015, (b) negative ₱0.55 per cubic meter in 2016, and (c) negative ₱0.55 per cubic meter in 2017. Separately, a CPI adjustment of 4.19% will also be made to the basic water charge in 2015 equivalent to ₱1.08 per cubic meter. Annual CPI adjustments will continue to be made consistent with the Company’s Concession Agreement with MWSS.

According to Manila Water President and CEO, Mr. Gerardo C. Ablaza Jr., “While the ruling resolved specific issues raised by Manila Water in the dispute, we are deeply concerned about the finding of the Appeals Panel that Manila Water is a public utility. This, in our view, fundamentally changes the Concession Agreement which characterizes the Company as an agent and contractor of MWSS. This was Government’s representation during the 1997 bidding for private sector participation in the operation of MWSS. We will study the full implications of this ruling and expect MWSS to also look for ways to resolve this regulatory challenge.”

Thank you.

Very truly yours,

[Signature]

JHOEL P. RAQUEDAN  
Chief Legal Counsel