December 10, 2015

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

Attention :  MR. VICTOR 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 :  Notice of Arbitration to the Republic of the Philippines under the
Letter of Undertaking of the Department of Finance

Gentlemen :

In relation to our disclosure letter dated April 23, 2015, please be informed that Manila Water Company, Inc. (the “Company”) has filed a Notice of Arbitration with the Permanent Court of Arbitration in Singapore. This Notice of Arbitration is a consequence of the Notice of Claim submitted by the Company on April 23, 2015 to the Republic of the Philippines (the “Republic”) through the Department of Finance (“DOF”), under the Letter of Undertaking dated July 31, 1997, as reiterated in the letter dated October 19, 2009 (the “Letter of Undertaking”). The Letter of Undertaking was issued by the Republic to guarantee the obligations of the Metropolitan Waterworks and Sewerage System (MWSS) under its 21 February 1997 Concession Agreement with the Company.

In the Letter of Undertaking, the Republic, through the DOF, undertook to indemnify Manila Water, 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 Manila Water a rate of return “allowed from time to time to operators of long-term infrastructure concession agreements 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 Letter of

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1The Letter of Undertaking was a requirement in the Concession Agreement of Manila Water with the Metropolitan Waterworks and Sewerage System executed on February 21, 1997.
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.

Since the filing of the Notice of Claim on April 23, 2015, the Republic has not responded thereto, which prompted the Company to avail of its remedy under the Letter of Undertaking. Hence, the Notice of Arbitration in the Permanent Court of Arbitration in Singapore.

We shall inform the Exchange of further developments regarding this matter.

Very truly yours,

[Signature]

JHOEL P. RAQUEDAN
Chief Legal Counsel
Assistant Corporate Secretary