### COVER SHEET

**S.E.C. Registration Number**

A 1 9 9 6 - 1 1 5 9 3

**MANILA WATER COMPANY, INC. AND SUBSIDIARIES**

<table>
<thead>
<tr>
<th>(Company's Full Name)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M W S S A D M I N I S T R A T I O N B U I L D I N G ,</td>
</tr>
<tr>
<td>4 8 9 K A T I P U N A N R O A D , B A L A R A ,</td>
</tr>
<tr>
<td>Q U E Z O N C I T Y , M E T R O M A N I L A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Business Address: No. Street City / Town / Province)</th>
</tr>
</thead>
<tbody>
<tr>
<td>L U I S J U A N B . O R E T A</td>
</tr>
<tr>
<td>(632) 981-8129</td>
</tr>
</tbody>
</table>

**SEC FORM 17- Q**

<table>
<thead>
<tr>
<th>Month</th>
<th>Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

**Contact Person**

<table>
<thead>
<tr>
<th>(Company Telephone Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(632) 981-8129</td>
</tr>
</tbody>
</table>

**Secondary License Type, If Applicable**

<table>
<thead>
<tr>
<th>FORM TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

**Dept. Requiring this Doc.**

<table>
<thead>
<tr>
<th>Amended Articles Number/Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

**Total Amount of Borrowings**

<table>
<thead>
<tr>
<th>Domestic</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**To be accomplished by SEC Personnel concerned**

<table>
<thead>
<tr>
<th>File Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCU</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Document I.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashier</td>
</tr>
</tbody>
</table>
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 March 31, 2017
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) 981-8129
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):

<table>
<thead>
<tr>
<th>Title of each class</th>
<th>Number of shares outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized Capital Stock</td>
<td></td>
</tr>
<tr>
<td>Common Shares (P1.00 par value)</td>
<td>3,100,000,000</td>
</tr>
<tr>
<td>Number of Shares Outstanding</td>
<td></td>
</tr>
<tr>
<td>Common Shares (P1.00 par value)</td>
<td>2,053,945,884</td>
</tr>
</tbody>
</table>

Amount of debt outstanding as of March 31, 2017: 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 [ ]

---

1^2,023,486,693 Listed Shares under PSE
30,459,191 Shares Under the Stock Ownership Plans
2,053,945,884 Issued and Outstanding Shares
## MANILA WATER COMPANY, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unaudited</td>
<td>Audited</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>₱3,990,768</td>
<td>₱4,065,700</td>
</tr>
<tr>
<td>Receivables</td>
<td>2,423,343</td>
<td>2,368,589</td>
</tr>
<tr>
<td>Concession financial receivable - current portion</td>
<td>219,710</td>
<td>200,253</td>
</tr>
<tr>
<td>Inventories</td>
<td>174,274</td>
<td>166,570</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,679,659</td>
<td>1,454,788</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>₱8,487,754</td>
<td>₱8,255,900</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,881,589</td>
<td>1,796,169</td>
</tr>
<tr>
<td>Service concession assets - net</td>
<td>65,907,021</td>
<td>64,653,247</td>
</tr>
<tr>
<td>Concession financial receivable - net of current portion</td>
<td>996,425</td>
<td>1,005,561</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>6,418,466</td>
<td>6,199,517</td>
</tr>
<tr>
<td>Goodwill</td>
<td>130,319</td>
<td>130,319</td>
</tr>
<tr>
<td>Pension asset - net</td>
<td>107,275</td>
<td>118,010</td>
</tr>
<tr>
<td>Deferred tax assets - net</td>
<td>1,220,849</td>
<td>1,185,689</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>2,537,860</td>
<td>2,134,990</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>79,199,804</td>
<td>77,223,502</td>
</tr>
<tr>
<td><strong>LIABILITIES AND EQUITY</strong></td>
<td>₱87,687,558</td>
<td>₱85,479,402</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and other payables</td>
<td>₱4,997,212</td>
<td>₱3,946,925</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>300,000</td>
<td>–</td>
</tr>
<tr>
<td>Current portion of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>2,362,340</td>
<td>2,287,381</td>
</tr>
<tr>
<td>Service concession obligation</td>
<td>734,407</td>
<td>740,417</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>917,263</td>
<td>506,784</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>9,311,222</td>
<td>7,481,507</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent portion of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>25,257,842</td>
<td>25,331,121</td>
</tr>
<tr>
<td>Service concession obligation</td>
<td>6,872,082</td>
<td>6,959,227</td>
</tr>
<tr>
<td>Pension liabilities - net</td>
<td>24,738</td>
<td>31,827</td>
</tr>
<tr>
<td>Deferred tax liabilities - net</td>
<td>131,760</td>
<td>104,584</td>
</tr>
<tr>
<td>Provisions</td>
<td>501,099</td>
<td>501,099</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>662,864</td>
<td>688,350</td>
</tr>
<tr>
<td><strong>Total Noncurrent Liabilities</strong></td>
<td>33,450,105</td>
<td>33,616,208</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>₱42,761,327</td>
<td>₱41,097,715</td>
</tr>
</tbody>
</table>

(Forward)
### Equity

Attributable to equity holders of Manila Water Company, Inc.:

<table>
<thead>
<tr>
<th>Capital stock:</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>P2,053,667</td>
<td>P2,053,667</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Total paid-up capital</td>
<td>2,453,667</td>
<td>2,453,667</td>
</tr>
</tbody>
</table>

| Additional paid-in capital | 4,221,713 | 4,221,713 |

| Subscriptions receivable  | (308,613) | (319,227) |

| Total paid-up capital     | 6,366,767 | 6,356,153 |

| Common stock options outstanding | 28,368 | 25,325 |

<table>
<thead>
<tr>
<th>Retained earnings:</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated</td>
<td>21,100,000</td>
<td>21,100,000</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>15,408,239</td>
<td>15,000,583</td>
</tr>
<tr>
<td>Remeasurement gain on defined benefit plans</td>
<td>60,813</td>
<td>60,813</td>
</tr>
<tr>
<td>Other equity reserves</td>
<td>54,107</td>
<td>54,107</td>
</tr>
<tr>
<td>Cumulative translation adjustment</td>
<td>880,404</td>
<td>787,421</td>
</tr>
</tbody>
</table>

| Total Retained earnings | 43,898,698 | 43,384,402 |

| Non-controlling interests | 1,027,533 | 997,285 |

<table>
<thead>
<tr>
<th>Total Equity</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P87,687,558</td>
<td>P85,479,402</td>
</tr>
</tbody>
</table>

| Non-controlling interests | 1,027,533 | 997,285 |

<table>
<thead>
<tr>
<th>Total Equity</th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P87,687,558</td>
<td>P85,479,402</td>
</tr>
</tbody>
</table>
MANILA WATER COMPANY, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands Except Earnings Per Share Figures)

<table>
<thead>
<tr>
<th>Periods Ended March 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>P=3,343,495</td>
<td>P=3,249,795</td>
</tr>
<tr>
<td>Environmental charges</td>
<td>578,249</td>
<td>579,199</td>
</tr>
<tr>
<td>Sewer</td>
<td>109,668</td>
<td>95,845</td>
</tr>
<tr>
<td>Other operating income</td>
<td>324,137</td>
<td>285,108</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>4,355,549</td>
<td>4,209,947</td>
</tr>
</tbody>
</table>

| **COSTS OF SERVICES**  |            |            |
| Depreciation and amortization | 634,177  | 642,549    |
| Salaries, wages and employee benefits | 329,792  | 317,483    |
| Power, light and water        | 288,204   | 204,257    |
| Repairs and maintenance       | 131,458   | 175,181    |
| Management, technical and professional fees | 75,979   | 65,431     |
| Contractual services         | 53,152    | 56,963     |
| Regulatory costs             | 39,787    | 25,210     |
| Cost of water service connections | 37,104   | 15,610     |
| Wastewater costs             | 34,772    | 23,060     |
| Collection fees              | 31,243    | 5,917      |
| Transportation and travel    | 20,539    | 9,293      |
| Water treatment chemicals    | 18,640    | 12,676     |
| Occupancy costs              | 18,052    | 33,357     |
| Other expenses               | 96,229    | 150,904    |
| **Total Costs of Services** | 1,809,128 | 1,737,891  |

**GROSS PROFIT**

| 2,546,421  | 2,472,056 |

**OPERATING EXPENSES**

| 432,916    | 334,370   |

**INCOME BEFORE OTHER INCOME (EXPENSES)**

| 2,113,505  | 2,137,686 |

**OTHER INCOME (EXPENSES)**

| Revenue from rehabilitation works | 1,421,742 | 961,434    |
| Cost of rehabilitation works     | (1,421,742) | (961,434) |
| Foreign currency differentials   | 431,206   | (120,463)  |
| Foreign exchange gains (losses)  | (427,416) | 130,311    |
| Equity share in net income of associates | 86,679 | 88,272 |
| Interest income                  | 65,000    | 69,250     |
| Interest expense                 | (370,315) | (393,094)  |
| Gain on disposal of property and equipment | 36 | 2,506     |
| Other income (expense) - net     | –         | (1,148)    |
| **Total Other Income (Expenses)** | (214,810) | (224,366)  |

**INCOME BEFORE INCOME TAX**

| 1,898,695  | 1,913,320 |

**PROVISION FOR INCOME TAX**

| 419,337    | 405,692   |

**NET INCOME**

| 1,479,358  | 1,507,628 |

(Forward)
### Other Comprehensive Income

Other comprehensive income to be reclassified to profit or loss in subsequent periods:

<table>
<thead>
<tr>
<th>Cumulative translation adjustment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P92,982</td>
<td>P5,909</td>
</tr>
</tbody>
</table>

**TOTAL COMPREHENSIVE INCOME**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity holders of Manila Water</td>
<td>P1,449,110</td>
<td>P1,481,020</td>
</tr>
<tr>
<td>Company, Inc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>30,248</td>
<td>26,608</td>
</tr>
<tr>
<td></td>
<td>P1,479,358</td>
<td>P1,507,628</td>
</tr>
</tbody>
</table>

Total comprehensive income attributable to:

| Equity holders of Manila Water    | P1,542,092 | P1,486,929 |
| Company, Inc.                     |        |        |
| Non-controlling interests         | 30,248  | 26,608  |
|                                  | P1,572,340 | P1,513,537 |

**Earnings per Share**

Net income attributable to common equity holders of Manila Water Company, Inc.:

| Basic                             | P0.57  | P0.67  |
| Diluted                           |        |        |
MANILA WATER COMPANY, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands Except Par Value and Number of Shares Figures)

<table>
<thead>
<tr>
<th>Periods Ended March 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPITAL STOCK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock - P1 par value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized - 3,100,000,000 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued and outstanding - 2,024,934,090 shares in 2017 and 2,018,209,523 shares in 2016</td>
<td>P2,024,934</td>
<td>P2,018,210</td>
</tr>
<tr>
<td>Preferred stock - P0.10 par value, 10% cumulative, voting participating, nonredeemable and nonconvertible</td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Authorized, issued and outstanding - 4,000,000,000 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADDITIONAL PAID-IN CAPITAL</td>
<td>4,221,713</td>
<td>4,193,023</td>
</tr>
<tr>
<td>SUBSCRIPTIONS RECEIVABLE</td>
<td>(319,227)</td>
<td>(346,017)</td>
</tr>
<tr>
<td>Collections during the period</td>
<td>10,614</td>
<td>9,537</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>(308,613)</td>
<td>(336,480)</td>
</tr>
<tr>
<td>COMMON STOCK OPTIONS OUTSTANDING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>25,325</td>
<td>20,818</td>
</tr>
<tr>
<td>Cost of share-based payments</td>
<td>3,043</td>
<td>8,300</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>28,368</td>
<td>29,118</td>
</tr>
<tr>
<td>RETAINED EARNINGS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated</td>
<td>21,100,000</td>
<td>–</td>
</tr>
<tr>
<td>Unappropriated:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>15,000,584</td>
<td>32,120,481</td>
</tr>
<tr>
<td>Net income</td>
<td>1,449,110</td>
<td>1,481,020</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>(1,041,455)</td>
<td>(1,022,559)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>15,408,239</td>
<td>32,578,942</td>
</tr>
<tr>
<td>REMEASUREMENT GAIN (LOSS) ON DEFINED BENEFIT PLANS</td>
<td>60,813</td>
<td>(123,584)</td>
</tr>
<tr>
<td>OTHER EQUITY RESERVES</td>
<td>54,107</td>
<td>7,500</td>
</tr>
<tr>
<td>CUMULATIVE TRANSLATION ADJUSTMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>787,422</td>
<td>498,830</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>92,982</td>
<td>5,909</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>880,404</td>
<td>504,739</td>
</tr>
<tr>
<td>43,898,698</td>
<td>39,306,925</td>
<td></td>
</tr>
<tr>
<td>NON-CONTROLLING INTERESTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of period</td>
<td>997,285</td>
<td>894,275</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>22,039</td>
</tr>
<tr>
<td>Share in net income of non-controlling interests</td>
<td>30,248</td>
<td>26,608</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>1,027,533</td>
<td>942,922</td>
</tr>
<tr>
<td>P44,926,231</td>
<td>P40,249,847</td>
<td></td>
</tr>
</tbody>
</table>
### MANILA WATER COMPANY, INC. AND SUBSIDIARIES
### UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

<table>
<thead>
<tr>
<th>Periods Ended March 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income tax</td>
<td>1,898,694</td>
<td>1,913,320</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>749,880</td>
<td>693,629</td>
</tr>
<tr>
<td>Interest expense</td>
<td>370,315</td>
<td>339,094</td>
</tr>
<tr>
<td>Equity share in net income of an associate</td>
<td>(86,679)</td>
<td>(88,272)</td>
</tr>
<tr>
<td>Provisions for probable losses and doubtful accounts</td>
<td>(4,814)</td>
<td>(249,460)</td>
</tr>
<tr>
<td>Interest income</td>
<td>(65,000)</td>
<td>(69,250)</td>
</tr>
<tr>
<td>Pension expense, net of contribution and benefit payment</td>
<td>6,949</td>
<td>13,616</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>3,043</td>
<td>8,299</td>
</tr>
<tr>
<td>Gain on sale of property, plant and equipment</td>
<td>(36)</td>
<td>(2,430)</td>
</tr>
<tr>
<td>Operating income before changes in operating assets and liabilities</td>
<td>2,872,352</td>
<td>2,612,546</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>(49,887)</td>
<td>(51,911)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(7,704)</td>
<td>35,117</td>
</tr>
<tr>
<td>Other current assets</td>
<td>(225,617)</td>
<td>(271,361)</td>
</tr>
<tr>
<td>Concession financial receivable</td>
<td>29,921</td>
<td>(13,346)</td>
</tr>
<tr>
<td>Service concession assets</td>
<td>(1,913,148)</td>
<td>(1,219,039)</td>
</tr>
<tr>
<td>Increase in accounts and other payables</td>
<td>1,333,871</td>
<td>15,194</td>
</tr>
<tr>
<td>Net cash provided by operations</td>
<td>2,039,788</td>
<td>1,107,200</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(7,686)</td>
<td>(4,241)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>2,032,102</td>
<td>1,102,959</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM INVESTING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions of property and equipment</td>
<td>(197,953)</td>
<td>(23,749)</td>
</tr>
<tr>
<td>Interest received</td>
<td>24,705</td>
<td>17,744</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant and equipment</td>
<td>287</td>
<td>2,430</td>
</tr>
<tr>
<td>Decrease (increase) in other noncurrent assets</td>
<td>(255,064)</td>
<td>27,608</td>
</tr>
<tr>
<td>Net cash provided (used) by investing activities</td>
<td>(428,025)</td>
<td>24,033</td>
</tr>
<tr>
<td><strong>CASH FLOWS FROM FINANCING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service concession obligation</td>
<td>(279,317)</td>
<td>(228,086)</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>(509,638)</td>
<td>(31,888)</td>
</tr>
<tr>
<td>Availments of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>188,290</td>
<td>5,487,413</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(1,041,455)</td>
<td>(1,022,559)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(261,807)</td>
<td>(441,856)</td>
</tr>
<tr>
<td>Collection of subscriptions receivable</td>
<td>10,615</td>
<td>9,538</td>
</tr>
<tr>
<td>Increase in non-controlling interest</td>
<td>–</td>
<td>22,038</td>
</tr>
<tr>
<td>Increase (decrease) in other noncurrent liabilities</td>
<td>(85,697)</td>
<td>7,382</td>
</tr>
<tr>
<td>Net cash provided (used) in financing activities</td>
<td>(1,679,009)</td>
<td>3,801,982</td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH AND CASH EQUIVALENTS</strong></td>
<td>(74,932)</td>
<td>4,929,974</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</strong></td>
<td>4,065,700</td>
<td>6,849,956</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS AT END OF PERIOD</strong></td>
<td>3,990,768</td>
<td>11,778,930</td>
</tr>
</tbody>
</table>
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited condensed consolidated financial statements do not include all the information and disclosures required in the December 31, 2016 annual audited consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as of and for the year ended December 31, 2016.

The preparation of the financial statements, in compliance with Philippine Financial Reporting Standards (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 accompanying unaudited condensed consolidated financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the unaudited condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited condensed consolidated financial statements include the accounts of Manila Water Company, Inc. (herein referred to as “the Parent Company”) and its subsidiaries (collectively referred to as “the Group”).

On May 4, 2017, the Audit Committee approved and authorized the release of the accompanying unaudited 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 condensed consolidated financial statements included the financial statements of the Parent Company and the following wholly and majority owned domestic and foreign subsidiaries:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country of Incorporation</th>
<th>Percentages of Ownership</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manila Water International Solutions, Inc. (MWIS)</td>
<td>Philippines</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manila Water Total Solutions Corp. (MWTS)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manila Water Asia Pacific Pte. Ltd. (MWAP)</td>
<td>Singapore</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manila Water South Asia Holdings Pte. Ltd. (MWSAH)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manila Water Asia Pacific Pte. Ltd. (MWAP)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Thu Duc Water Holdings Pte. Ltd. (TDWH)</td>
<td>Singapore</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Kenh Dong Water Holdings Pte. Ltd. (KDWH)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manila Water Philippine Ventures, Inc. (MWPVI)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Laguna AAA Water Corporation (Laguna Water)</td>
<td>-</td>
<td>70.0</td>
<td>70.0</td>
<td></td>
</tr>
<tr>
<td>Clark Water Corporation (Clark Water)</td>
<td>-</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Manila Water Consortium, Inc. (MW Consortium)</td>
<td>-</td>
<td>57.2</td>
<td>57.2</td>
<td></td>
</tr>
<tr>
<td>Cebu Manila Water Development, Inc. (Cebu Water)</td>
<td>-</td>
<td>70.6</td>
<td>70.6</td>
<td></td>
</tr>
<tr>
<td>Boracay Island Water Company, Inc. (Boracay Water)</td>
<td>-</td>
<td>80.0</td>
<td>80.0</td>
<td></td>
</tr>
<tr>
<td>Zamboanga Water Company, Inc. (Zamboanga Water)</td>
<td>-</td>
<td>70.0</td>
<td>70.0</td>
<td></td>
</tr>
<tr>
<td>Davao del Norte Water Infrastructure Company, Inc.</td>
<td>(Davao Water)</td>
<td>-</td>
<td>51.0</td>
<td>51.0</td>
</tr>
<tr>
<td>Tagum Water Company, Inc. (Tagum Water)</td>
<td>-</td>
<td>90.0</td>
<td>90.0</td>
<td></td>
</tr>
</tbody>
</table>

*Asia Water is 51.0% owned by Saigon Water Infrastructure Corporation (Saigon Water) and 48.5% owned by MWSAH. MWSAH’s effective ownership interest in Asia Water is 64.55% by virtue of its 31.47% ownership interest in Saigon Water.

Unless otherwise indicated, the Philippines is the principal place of business and country of incorporation of the Group’s subsidiaries.
Parent Company's Concession Agreement with Metropolitan Waterworks and Sewerage System (MWSS)

On February 21, 1997, the Parent Company entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of the Parent Company throughout a 25-year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires – the Parent Company and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants the Parent Company (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of twenty five (25) years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While the Parent Company has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by the Parent Company during the Concession remains with the Parent Company until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, the Parent Company officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in the Parent Company’s project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Concession Agreement, the Parent Company is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001; and
d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
   i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
   ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by the Parent Company for water and sewerage services as follows:

a. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by the Parent Company (subject to interim adjustments) are set out in the Concession Agreement.
b. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit the Parent Company to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and the Parent Company’s loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS BOT passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a P1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.

b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.

c. To increase the total investments from the approved P=187.00 billion for the periods 2008 to 2022 to P=450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for the Parent Company’s investment is now extended by another 15 years from 2022 to 2037.

In March 2012, the Parent Company submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS conducted a review of the proposal including the Parent Company’s last five (5) years’ financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on the Parent Company’s 2012 average basic water rate of P=24.57 per cubic meter shall be implemented in five (5) equal tranches of negative 5.894% per charging year. The Parent Company objected to the MWSS’ Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS Board of Trustees (MWSS BOT), through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for the Parent Company’s Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, the Parent Company received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. P=28.1 billion Opening Cash Position (OCP) which restored P=11.0 billion from the September 2013 OCP determination of MWSS of P=17.1 billion;

b. P=199.6 billion capital expenditures and concession fees which restores P=29.5 billion from the September 2013 future capital and concession fee expenditure of P=170.1 billion;

c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of P25.07 per cubic meter. This adjustment translates to a decrease of P2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with the Parent Company's Concession Agreement with MWSS.

On December 10, 2015, the Parent Company filed a Notice of Arbitration with the Permanent Court of Arbitration 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”), to guarantee the obligations of the MWSS under its Concession Agreement with the Parent Company executed on February 21, 1997.

In the Sovereign Undertaking, the Republic, through the DOF, undertook to indemnify the Parent 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 Parent 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 Parent 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.

The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of the Parent Company, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2016 and 2015, the following FCDA adjustments and their related foreign exchange basis took effect.

<table>
<thead>
<tr>
<th>Approval Date</th>
<th>FCDA Adjustment</th>
<th>Foreign Exchange Rate Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 12, 2015</td>
<td>P0.05 per cubic meter</td>
<td>USD1: P44.60 / JPY1: P0.38</td>
</tr>
<tr>
<td>June 4, 2015</td>
<td>P0.02 per cubic meter</td>
<td>USD1: P44.41 / JPY1: P0.37</td>
</tr>
<tr>
<td>September 9, 2015</td>
<td>P0.05 per cubic meter</td>
<td>USD1: P45.26 / JPY1: P0.37</td>
</tr>
<tr>
<td>December 10, 2015</td>
<td>P0.15 per cubic meter</td>
<td>USD1: P46.36 / JPY1: P0.39</td>
</tr>
<tr>
<td>March 10, 2016</td>
<td>P0.26 per cubic meter</td>
<td>USD1: P47.51 / JPY1: P0.40</td>
</tr>
<tr>
<td>June 14, 2016</td>
<td>P0.25 per cubic meter</td>
<td>USD1: P46.29 / JPY1: P0.40</td>
</tr>
<tr>
<td>April 22, 2017</td>
<td>P0.02 per cubic meter</td>
<td>USD1: P44.41 / JPY1: P0.37</td>
</tr>
</tbody>
</table>

There were no updated FCDA for the third and fourth quarters of 2016 and the first quarter of 2017 because the MWSS BOT who should approve the MWSS RO resolution was vacant.

**Laguna Water’s Concession Agreement with the Provincial Government of Laguna (PGL)**

On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004 and July 22, 2009) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of twenty-five (25) years which commenced on October 20, 2004.

While Laguna Water has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by Laguna Water in the performance of its obligations under the agreement remains with Laguna Water and shall not pass to PGL until the end of the concession period at which time, Laguna Water will transfer, or if the ownership is vested in another person, cause the
transfer to PGL. Laguna Water has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30%) of the concession fees are payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, from the start of the operational period.

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

In connection with the amendment of Laguna Water’s Concession Agreement, the Sangguniang Bayan of the Municipality of the Calauan Laguna, approved the resolution for Laguna Water to provide water and wastewater services to the municipality of Calauan. The expansion of Laguna Water in the municipality will be done in phases, with full coverage of the area targeted by the first quarter of 2020.

Boracay Water’s Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority (TIEZA)

On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of Boracay Water as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants Boracay Water the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by Boracay Water during the concession remains with Boracay Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

As part of the agreement, Boracay Water advanced concession fees to TIEZA amounting to ₱60.00 million, which will be applied as payment of, and shall be offset against the annual concession fees payable to TIEZA equivalent to 5% of the annual gross revenue of Boracay Water.

Under its concession agreement, Boracay Water is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer CPI;

b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and

c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in Boracay Water’s concession agreement.

The rate rebasing date is set every five (5) years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

Boracay Water requested for the deferment of the rate rebasing since it was not able to commence operations in June 2009, as originally planned, because the SEC required the Boracay Water to seek conformity from the DOF before it could be incorporated.
In January 14, 2013, TIEZA approved the Rebasing Convergence adjustment for Boracay Water which is equivalent to an increase from its existing rates of 35% to be implemented on a staggered basis for a period of four (4) years with a 10.10% increase in 2013; 9.18% in 2014; 8.40% in 2015; and 7.75% in 2016, effective February 1, 2013.

For 2013 and 2014, only the approved rate rebasing adjustment was implemented while the CPI adjustment was deferred due to economic considerations relative to the first time adjustment and natural calamities in 2013.

For 2015, the rate rebasing adjustment was implemented plus the catch-up CPI adjustment of 3.70% pertaining to 2013. In September 2015, Boracay Water also implemented a downward adjustment in the FCDA of 14.34% together with two CPI adjustments of 2.70% and 4.40% pertaining to years 2014 and 2015, respectively.

The Concession Agreement also provides a general rate setting policy for rates chargeable by Boracay Water for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by Boracay Water (subject to interim adjustments) are set out in the Agreement; and

b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit Boracay Water to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also, as part of the concession agreement, Boracay Water assumed certain property and equipment of Boracay Water Sewerage System (BWSS) as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, Boracay Water recognized a total of PHP 986.86 million service concession assets on commencement date. It includes the JICA loan assumed by Boracay Water, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

In January 2016, Boracay Water implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was implemented during the year.

Clark Water’s Concession Agreement with Clark Development Corporation (CDC)

On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling twenty-five (25) years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for
the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to Clark Water by virtue of an assignment and assumption agreement between VWPI and Clark Water. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, Clark Water pays CDC an annual franchise fee of P1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by Clark Water on the facilities as well as title to new facilities procured by Clark Water in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, where in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of Clark Water the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of Clark Water and CDC under the concession agreement. Under the lease agreement, Clark Water was required to make a rental deposit amounting to P2.77 million equivalent to six (6) months lease rental and a performance security amounting to P6.72 million to ensure the faithful compliance of Clark Water with the terms and conditions of the lease agreement. Clark Water pays semi-annual rental fees of P2.77 million amounting to a total of P138.28 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, Clark Water and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The amendment provides for the following:

a. Extension of the original concession period for another 15 years up to October 1, 2040;

b. Additional investment of P4.00 billion over the remaining life of the extended concession period provided under the amended concession agreement to be spent for further improvement and expansion of water and waste water services in the area. Investment requirement under the original concession agreement amounted to P3.00 billion and the amended concession agreement required an additional investment of P2.00 billion. Initial investment prior to the amendment of the concession agreement amounted to P1.00 billion.

c. Introduction of a rate rebasing mechanism for every four (4) years starting 2014.

d. Reduction in tariff rates by 3.9% (from Php25.63/m³ to Php24.63/m³) effective September 1, 2014, subject to the EPA; and

e. Increase in tariff rates by:
   i. P0.41/m³ (from Php24.63/m³ to Php25.04/m³) in 2018;
   ii. P0.42/m³ (from Php25.04/m³ to Php25.45/m³) in 2019;
   iii. P0.42/m³ (from Php25.45/m³ to Php25.87/m³) in 2020; and
   iv. P0.43/m³ (from Php25.87/m³ to Php26.30/m³) in 2021.

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by P56.58 million. Further, the recovery period of the Clark Water’s investment was extended by another fifteen (15) years from 2025 to 2040.

MW Consortium Agreement with the Provincial Government of Cebu (PGC)

On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.00 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is thirty (30) years starting March 2012 and renewable for another twenty five (25) years. MW Consortium and the PGC incorporated Cebu Water, with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.
On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). On December 18, 2013, Cebu Water and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18 million liters per day of water for the first year and 35 million liters per day of water for years two (2) up to twenty (20). Cebu Water delivered its initial 18 million liters per day bulk water supply to MCWD on January 5, 2015. Cebu Water increased its bulk water delivery to thirty five (35) million liters per day in 2016.

In 2016, due to the declaration of the state of calamity arising from the El Niño, Cebu Water and MCWD invoked the force majeure clause in their Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for Cebu Water to deliver the agreed thirty five (35) million liters of water starting January 5, 2016.

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)
On March 17, 2014, the Parent Company and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed non-revenue water reduction (NRW) project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.
As of March 31, 2017, MWAP has successfully completed its pilot NRW reduction project in Yangon, significantly reducing levels of water system loss. In partnership with Mitsubishi Corporation and Yangon City Development Committee, the leading water service provider has fulfilled its promise to demonstrate its technical capabilities undertaking a pilot project and improving the waterways in selected areas.

Joint Venture for NRW Reduction Activities with Zamboanga City Water District (ZCWD)
On December 19, 2014, the Parent Company received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga. On January 30, 2015, the Parent Company and ZCWD signed and executed a joint venture agreement in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, the Parent Company and ZCWD incorporated Zamboanga Water to implement the NRW project.

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

Joint Venture for NRW Reduction Activities by Asia Water and Saigon Water
On April 22, 2015, Asia Water was granted the Investment Certificate from the Department of Planning and Investment of Ho Chi Minh City, Vietnam. Asia Water is a joint venture between MWSAH and Saigon Water which aims to carry out activities such as NRW reduction management, waste system design and construction, and operation and management of distribution system and network.

Bulk Water Supply Agreements between Davao Water and Tagum Water District (TWD)
On July 28, 2015, TWD awarded the Tagum City Bulk Water Supply Project to Davao Water, a consortium of the Parent Company and iWater, Inc. The Parent Company owns 51% of the issued and outstanding capital stock of Davao Water.

On October 15, 2015, Davao Water has signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum City Bulk Water Supply Project (the Project). Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, Tagum Water, which shall implement the Project for fifteen (15) years from the Operations Start Date as defined in the JVA. The consortium of Davao Water owns 90.00% while TWD owns 10.00% of Tagum Water’s outstanding capital stock. Tagum Water was registered with the SEC on December 15, 2015 and its primary purpose is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TWD.
On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the Operations Start Date.

MWSAH Capital Transfer Agreement with Saigon Water
On November 3, 2015, MWSAH completed the execution of a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter capital of Cu Chi Water Supply Sewerage Company Ltd., a company incorporated in Vietnam, in the total amount of ₫318.16 million (VND154.35 billion). Pursuant to the Capital Transfer Agreement, Saigon Water has granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. As of December 31, 2016, no trigger event has occurred and the value of the put option was determined to be nil.

Cu Chi Water is limited liability company in Vietnam with the following line of business, among others: water exploitation, treatment and supply sewerage and wastewater treatment, installation of water supply system and management consultancy services.

MWAP MOU with the Perusahaan Daerah Air Minum (PDAM) Tirtawening Kota Bandung (PDAM Bandung)
On November 6, 2015, MWAP signed an MOU with the PDAM Bandung in Bandung City, West Java, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City.

Pursuant to the MOU, MWAP shall conduct a Demonstration Project for NRW reduction in Bandung City, Indonesia as the first step in the implementation of other cooperation schemes for the development of PDAM Bandung services in accordance with the prevailing Indonesian laws and regulations. MWAP and PDAM Bandung intend to cooperate to undertake the Demonstration Project towards the successful realization of the cooperation scheme. The execution of the MOU is in line with the Group’s strategic objective to pursue expansion projects and investments outside of the East Zone business area.

As of December 31, 2016, MWAP has completed its pilot District Metering Area (DMA) project.

MWPVI Memorandum of Agreement (MOA) with Ayala Land, Inc. (ALI) and the SM Group
On January 15, 2016, MWPVI entered into a MOA with ALI and its subsidiaries (the ALI Group), whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

On December 8, 2016, MWPVI entered into a similar MOA with each of SM Prime Holdings Inc.’s and the latter’s affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA. As of December 31, 2016, MWPVI has five (5) signed MOA with the SM Group.

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

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

On April 11, 2017, the Securities and Exchange Commission issued the incorporation documents of Bulacan MWPV Development Corporation (BMDC), the primary purpose of which is to design,
construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is also the ultimate entity that will own and operate the assets acquired from Asian Land.

**Arbitration of the Parent Company’s Claim against the Republic**

On January 5, 2017, the two (2) Arbitrators nominated by the Parent Company and by the Republic, agreed to the appointment of the Presiding Arbitrator of the Arbitral Tribunal. On January 14, 2017, the Arbitral Tribunal was formally constituted.

The Arbitral Tribunal is expected to issue the first procedural order which will outline, among others, the procedural rules and the timetable that will govern the conduct of the proceedings. Until the issuance of the first procedural order, there is no incident pending or awaiting action by the parties and/or by the Arbitral Tribunal.

**Notice of Award from the Obando Water District (OWD) and Incorporation of Obando Water Consortium Holdings Corp.**

On January 24, 2017, the consortium of the Parent Company and MWPVI received the Notice of Award from the OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.

On February 2, 2017, the SEC issued the Certificate of Registration of Obando Water Consortium Holdings Corp. (“Obando Water Holdings”). Obando Water Holdings is the consortium between the Parent Company and MWPVI with the Parent Company having an equity share of 49% and 51% for MWPVI. The primary purpose of Obando Water Holdings is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

**Summary of Significant Accounting Policies**

**Basis of Preparation**

The unaudited condensed consolidated financial statements of the Group have been prepared using the historical cost basis. The Group’s presentation and functional currency is the Philippine Peso (₱, Peso or PHP). Amounts are rounded off to the nearest thousand Peso, except when otherwise stated.

**Statement of Compliance**

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

**Basis of Consolidation**

The unaudited condensed consolidated financial statements comprise the financial statements of the Group as of March 31, 2017 and December 31, 2016 and for each of the periods ended March 31, 2017 and 2016.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.
Generally, there is a presumption that a majority of voting rights result in control.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements; and
c. the Group’s voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
b. derecognizes the carrying amount of any non-controlling interests;
c. derecognizes the cumulative translation differences recorded in equity;
d. recognizes the fair value of the consideration received;
e. recognizes the fair value of any investment retained;
f. recognizes any surplus or deficit in profit or loss; and
g. reclassifies the parent company’s share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those of the previous financial years except for the PFRS, amended PFRS and improvements to PFRS which were adopted as of January 1, 2017. Unless otherwise stated, the new standards and amendments did not have any material impact to the Group.

a. Amendments to PAS 7, Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but should disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

b. Amendments to PAS 12, Income Taxes: Recognition of Deferred Tax Assets for Unrecognized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without
allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

c. Annual Improvements Cycle - 2014-2016
   Amendments to PFRS 12, Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in PFRS 12
   The amendments clarify that the disclosure requirements in PFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Effective in 2018

a. PFRS 9, Financial Instruments
   In July 2014, the International Accounting Standards Board (IASB) issued the final version of International Financial Reporting Standard (IFRS) 9, Financial Instruments. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

   The Group does not expect the adoption of PFRS 9 to have any significant impact on the Group’s consolidated financial statements.

b. IFRS 15, Revenue from Contracts with Customers
   IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

   The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is in the process of performing a preliminary assessment of the impact IFRS 15 to its consolidated financial statements.

Effective in 2019

a. IFRS 16, Leases
   On January 13, 2016, the IASB issued its new standard, IFRS 16, Leases, which replaces International Accounting Standards (IAS) 17, the current standard for leases, and its related Interpretations.

   Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases in their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

   The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.
The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group will perform an assessment of the impact of IFRS 16 on its existing lease agreements.

**Interpretation with Deferred Effective Date**

a. Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate
   This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final revenue standard is issued by the IASB and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Group since the Group does not engage in the construction of real estate directly or indirectly through subcontractor.

**Current versus Noncurrent Classification**

The Group presents assets and liabilities in its statement of financial position based on a current and noncurrent classification. An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle  
b. Held primarily for the purpose of trading  
c. Expected to be realized within twelve (12) months after the reporting period; or  
d. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting period. All other assets are classified as non-current.

All other assets are classified as non-current.

A liability is current when:

a. It is expected to be settled in normal operating cycle  
b. It is held primarily for the purpose of trading  
c. It is due to be settled within twelve months after the reporting period, or  
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

**Fair Value Measurement**

Fair value is the estimated price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability or  
b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

a. Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
b. Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
c. Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group’s management determines the policies and procedures for both recurring and non-recurring fair value measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Assets and Financial Liabilities
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument, or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.
Day 1 profit
For transactions other than those related to customers’ guaranty deposits and other deposits, where
the transaction price in a non-active market is different from the fair value from other observable
current market transactions in the same instruments or based on a valuation technique whose
variables include only data from observable market, the Group recognizes the difference between
the transaction price and fair value (a ‘Day 1’ profit) in profit or loss under “Other income” unless it
qualifies for recognition as some other type of asset or liability. In cases where use is made of data
which is not observable, the difference between the transaction price and model value is only
recognized in profit or loss when the inputs become observable or when the instrument is
derecognized. For each transaction, the Group determines the appropriate method of recognizing
the ‘Day 1’ profit amount.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all
of the following conditions are met: (a) the economic characteristics and risks of the embedded
derivative are not closely related to the economic characteristics and risks of the host contract; (b) a
separate instrument with the same terms as the embedded derivative would meet the definition of a
derivative; and (c) the hybrid or
combined instrument is not recognized at FVPL. Embedded derivatives are measured at fair value
with fair value changes being reported through profit or loss, and are carried as assets when the fair
value is positive and as liabilities when the fair value is negative.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that
significantly modifies the cash flows that otherwise would be required under the contract, in which
case reassessment is required. The Group determines whether a modification in the cash flows is
significant by considering the extent to which the expected future cash flows associated with the
embedded derivative, the host contract, or both have changed and whether the change is significant
relative to the previously expected cash flows from the contract.

The Group has certain closely and clearly related derivatives that are embedded in the host contract
(such as long-term debt) which does not require bifurcation.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities
that are not quoted in an active market. These are not entered into with the intention of immediate
or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.
These are included in current assets if maturity is within twelve months from the reporting date.
Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost
using the effective interest rate method, less allowance for impairment. Amortized cost is calculated
by taking into account any discount or premium on acquisition and fees that are an integral part of
the effective interest rate. The amortization is included in “Interest income” in profit or loss. The
losses arising from impairment of such loans and receivables are recognized as “Provision for
probable losses and doubtful accounts” in profit or loss.

This accounting policy applies primarily to the Group’s cash in banks and cash equivalents,
receivables, concession financial receivable, advances to contractors, deposits under current
assets and other noncurrent assets, advances and receivable from related parties.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as
financial assets at FVPL, HTM investments or loans and receivables. These are purchased and
held indefinitely and may be sold in response to liquidity requirements or changes in market
conditions. These include equity investments, money market papers and other debt instruments.
After initial measurement, AFS financial assets are subsequently measured at fair value. The
effective yield component of AFS debt securities, as well as the impact of restatement on foreign
currency-denominated AFS debt securities, is reported in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded net of tax from net income and are reported as “Unrealized gain (loss) on available-for-sale financial assets” under OCI.

When the investment is disposed of, the cumulative gain or loss previously recognized under OCI is recognized as “Gain (loss) on disposal of available-for-sale financial assets” in profit or loss. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized under the “Other income” account when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as “Provisions for probable losses” in profit or loss.

The fair value of AFS financial assets which cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments are carried at cost.

The Group’s AFS financial assets are included under “Other noncurrent assets” in the consolidated statement of financial position.

Other financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issuance.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Group’s long-term debt, accounts and other payables except statutory liabilities, customers’ guaranty deposits and other deposits under other noncurrent liabilities, service concession obligation, payable to related parties and stockholders, and other payables that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities and income tax payable).

Derecognition of Financial Assets and Financial Liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

1. the right to receive cash flows from the asset has expired;
2. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
3. the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a
guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Financial liabilities**
A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

**Impairment of Financial Assets**
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with default. For the Group’s receivables from customers, evidence of impairment may also include non-collection of the Group’s trade receivables, which remain unpaid after thirty days from bill generation.

**Loans and receivables**
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, customer type, customer location, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows
are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

**AFS financial assets**

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of quoted equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

For unquoted AFS investments, the Group assesses impairment if indicators exist (e.g., significant deterioration of the investee's financial performance, adverse development in the industry where the investee operates).

**Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Inventories**

Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price less estimated costs to complete and to sell. The cost is determined using the moving average method for all inventories, except for raw materials and finished goods. The cost of raw materials and finished goods are determined based on the periodic weighted average method.

The cost of raw materials includes all costs directly attributable to their acquisition.

Finished goods include the cost of raw materials, direct labor and a proportion of manufacturing overhead.

**Prepaid Expenses**

Prepaid expenses are carried at cost less the amortized portion. These typically include prepayments for business taxes, insurance and employee health care expenses and other benefits, as well as prepaid concession fees of Laguna Water with the PGL.

**Property, Plant and Equipment**

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related property, plant and equipment.
Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the property, plant and equipment as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office furniture and equipment</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>5 years</td>
</tr>
</tbody>
</table>

Leasehold improvements are amortized over five (5) years or the term of the lease, whichever is shorter.

Plant and technical equipment are depreciated over five (5) years or the term of the related management contract, whichever is shorter.

The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction and is stated at cost including costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

When property, plant and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Assets and Obligations

The Group accounts for its concession arrangements with MWSS, PGL, TIEZA and CDC under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall remain with MWSS, PGL, TIEZA and CDC at the end of the concession period.

On the other hand, the concession arrangements with PGC and TWD are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement, Cebu Water and TWCI are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period.

The “Service concession assets” (SCA) pertain to the fair value of the service concession obligations at drawdown date, construction costs related to the rehabilitation works performed by the Group, and other local component costs and cost overruns paid by the Group. These are amortized using the straight-line method over the life of the related concession.

In addition, the Parent Company, Boracay Water, Clark Water, Laguna Water and Cebu Water recognize and measure revenue from rehabilitation works in accordance with PAS 11, Construction Contracts, and PAS 18, Revenue, for the services it performs. Recognition of revenue is by reference to the ‘stage of completion method,’ also known as the ‘percentage of completion method’ as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as “Revenue from rehabilitation works” and “Cost of rehabilitation works,” respectively, in profit or loss in the period in which the work is performed.

Investments in Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.
The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group’s investments in its associates are accounted for using the equity method.

Under the equity method, an investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Group’s share of the results of operations of the associate. Any change in the other comprehensive income of those investees is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group’s share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside of operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. If the Group’s share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognizes the loss as “Equity share in net income of associates” in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss included under “Remeasurement gain (loss) arising from business combination.”
Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree’s identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, Operating Segments.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in profit or loss any excess remaining after reassessment.

Impairment of Non-financial Assets
This accounting policy applies primarily to the Group’s property, plant, and equipment, service concession assets, investments in associates and water banking rights. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is calculated as the higher of the asset’s or CGU’s fair value less costs to sell and its value in use and is determined for
an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill and water banking rights with indefinite life, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**Leases**

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal of or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized.

**Water and sewer revenue**

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the
customers. Also, twenty percent (20%) of water revenue is recognized by the Parent Company as environmental charge.

**Interest income**

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

**Revenue from rehabilitation works and Cost of rehabilitation works**

Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at fair value. The Group accounts for revenue and costs relating to operation services in accordance with PAS 18 under the captions “Revenue from rehabilitation works” and “Cost of rehabilitation works” in the consolidated statement of comprehensive income.

**Management contracts and supervision fees**

Management contracts and supervision fees are recognized using the percentage of completion method of accounting, measured principally on the basis of the physical proportion of the contract work to the estimated completion of a project.

**Other operating income**

Other customer related fees such as connection, reconnection and disconnection fees are recognized when these services have been rendered.

**Revenue from pipeworks**

Revenue from pipeworks is recognized when the related water and wastewater network related services are rendered.

**Distributors’ fee**

Distributors’ fee is recognized when significant risk and rewards of ownership of trade assets have been transferred to the distributor.

**Revenue from packaged water**

Revenue from packaged water and other water related products is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods where the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfers of risks and rewards varies depending on the individual terms of the contract of sale but usually occurs when the customer receives the product.

**Cost of Services and Operating Expenses**

Cost of services and operating expenses are recognized as they are incurred.

**Foreign Currency-Denominated Transactions**

Foreign exchange differentials arising from foreign currency transactions are credited to or charged against operations. For the Parent Company, as approved by the MWSS BOT under Amendment No.1 of the Concession Agreement, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;
b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱41.19:US$1.00 based on the latest rate rebasing exercise effective January 1, 2013.

c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and

d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

For Boracay Water, its concession agreement with TIEZA allows for the recovery of the following from its customers:

a. Restatement of foreign currency-denominated loans;
b. Excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at agreed base rate; and
c. Excess of actual payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rates on settlement dates over the amount of other financing charges translated at agreed base rate.

The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the separate financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

In view of the automatic reimbursement mechanism, the Group recognizes deferred FCDA (included as part of “Other noncurrent assets” or “Other noncurrent liabilities” in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by the MWSS-RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

The functional currency of MWAP, MWSAH, TDWH and KDWH is the United States Dollar (US$ or USD), while Asia Water’s functional currency is the Vietnamese Dong (VND). As of reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in OCI and reported as “Cumulative translation adjustment”, a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in OCI relating to that particular foreign operation shall be recognized in profit or loss.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) that necessarily takes a substantial period of time to get ready for its intended use are recorded as property, plant and equipment or SCA, as applicable. All other borrowing costs are expensed in the
period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group’s weighted average cost of borrowings after adjusting for borrowing associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of those borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds. Premiums and/or discounts on long-term debt are included in the “Long-term debt” account in the consolidated statement of financial position and are amortized using the effective interest rate method.

Provisions
A provision is recognized when the Group has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is not recognized as a separate asset and only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any).

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs, and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.
Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability or asset) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

**Termination Benefit**
Termination benefits are employee benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

**Short-term Employee Benefits**
Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Company during the reporting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

**Employee Leave Entitlement**
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

**Share-Based Payment**
**Employee share purchase plan**
The Parent Company has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Company’s shares at a discounted price. The Parent Company recognizes stock compensation expense over the holding period. The Parent Company treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2, *Share-based Payment*, options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed
shares where the employees still have the option to subscribe in the future, these are accounted for as “Common stock options outstanding” in the consolidated statement of financial position.

**Equity**

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to “Additional paid-in capital” account. Direct costs incurred related to equity issuance are chargeable to “Additional paid-in capital” account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group. Appropriated retained earnings are set aside for future business expansions. The Parent Company’s BOD declares dividends from the unappropriated portion of its retained earnings.

Other equity reserves pertain to gain from sale of investments in a subsidiary by the Parent Company that did not result to a loss of control.

**Taxes**

*Value-Added Tax (VAT)*

Input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group’s trade or business on local purchase of goods or services. Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment and service concession assets for each month amounting to ₱1 million or more. This is amortized over five (5) years or the life of the property, plant and equipment or service concession assets, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation.

Output VAT pertains to the 12% tax due on the local sale of goods and services by the Group.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under “Trade payables” in the “Accounts and other payables” account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under the “Other current assets” account.

*Current tax*  
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

*Deferred tax*  
Deferred tax is provided, using the liability method, for all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
• In respect of taxable temporary difference associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

• When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
• In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Earnings per Share (EPS)**
Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period. The net income attributable to common stock is net of the dividends attributable to participating preferred stock. The participating preferred shares participate in the earnings at a rate of 1/10 of the dividends paid to a common share.

Diluted EPS is computed by dividing earnings attributable to common shares by the weighted average number of common shares outstanding during the period, after giving retroactive effect of any stock dividends during the period and adjusted for the effect of dilutive options. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effects of the assumed exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

**Assets Held in Trust**
Assets which are owned by MWSS, PGL, TIEZA and CDC that are operated by the Group under the Group’s concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust.
Segment Reporting
The Group aggregates two or more operating segments into a single operating segment when separately, each operating segment has similar economic characteristics and service area. The Group aggregated its local and foreign subsidiaries into Domestic Subsidiaries Segment and Foreign Subsidiaries Segment even if it caters to different customers since management assessed that these entities have similar economic characteristics and service area. The Group considers the Manila Concession and Head Office, Domestic Subsidiaries and Foreign Subsidiaries as its operating segments that are aggregated based on the geographical location and source of revenues.

Details of the Group’s operating segments as of and for the years ended March 31, 2017 and 2016 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>March 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manila Concession and Head Office</td>
<td>Domestic Subsidiaries</td>
</tr>
<tr>
<td>Total revenue</td>
<td>₱3,602,255</td>
<td>₱992,366</td>
</tr>
<tr>
<td>Segment profit (loss) before income tax</td>
<td>₱1,620,390</td>
<td>₱269,252</td>
</tr>
<tr>
<td>Segment provision for income tax</td>
<td>346,943</td>
<td>72,391</td>
</tr>
<tr>
<td>Segment profit (loss) after income tax</td>
<td>₱1,273,447</td>
<td>₱196,861</td>
</tr>
<tr>
<td>Net income (loss) attributable to the equity holders of the Parent Company</td>
<td>₱1,273,447</td>
<td>₱196,860</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in Thousands)</td>
</tr>
<tr>
<td>Total revenue</td>
<td>₱3,626,836</td>
</tr>
<tr>
<td>Segment profit (loss) before income tax</td>
<td>1,688,852</td>
</tr>
<tr>
<td>Segment provision for income tax</td>
<td>366,802</td>
</tr>
<tr>
<td>Segment profit (loss) after income tax</td>
<td>₱1,322,050</td>
</tr>
<tr>
<td>Net income (loss) attributable to the equity holders of the Parent Company</td>
<td>₱1,322,050</td>
</tr>
</tbody>
</table>
NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. The unaudited condensed consolidated financial statements as of March 31, 2017 include all adjustments, normal and recurring, which are necessary to present fairly the results for the period shown. The results for the interim periods are not necessarily indicative of results for the full year.

B. The unaudited condensed consolidated financial statements of the Group have been prepared using the historical cost basis. Accounting principles and policies applied for the period ended March 31, 2017 are the same as those applied in the preceding calendar year, except as stated in the preceding sections.

C. 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.

D. Other than the items disclosed in the unaudited condensed consolidated financial statements, the Group did not acquire assets nor incur liabilities that are material in amount for the period ended March 31, 2017.

E. 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.

F. 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. The segment information is reported based on similar economic characteristics and service area. The Group considers the Manila Concession and Head Office, Domestic Subsidiaries, and Foreign Subsidiaries as its operating segments that are aggregated based on geographical location and source of revenues.

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

H. 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 the opinion of the Group’s management and its legal counsel, the eventual liability under these lawsuits and claims, if any, will not have a material or adverse effect on the Group’s financial position and results of operations.

DISCUSSION AND ANALYSIS OF MATERIAL EVENTS AND UNCERTAINTIES

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

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

C. The Parent Company targets to spend around ₱57 billion capital expenditures from 2017 to 2020 for the rehabilitation and construction of facilities to improve water and sewer services in the Manila Concession Area, based on the 2013 rate rebasing arbitration decision and government approvals. Capital expenditures will be funded from the current cash reserves, internal funds generation and proceeds from available loan facilities.
D. In March 2012, the Parent Company submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The MWSS conducted a review of the proposal including the Parent Company’s last five (5) years financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% to the Parent Company’s 2012 average basic water rate of ₱24.57 per cubic meter. The adjustment shall be implemented in five (5) equal tranches of negative 5.894% per charging year. The Parent Company objected to MWSS’ Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS Board of Trustees through R.O. Resolution No. 13-012 CA, approved the implementation of a status quo for the Parent Company’s Standard Rates including FCDA, until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, the Parent Company received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

1) ₱28.1 billion Opening Cash Position (OCP) which restores ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
2) ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion of ₱170.1 billion from the September 2013 future capital and concession fee expenditure;
3) 7.61% Appropriate Discount Rate (ADR) which is an improvement of 79 bps from the post tax ADR of 6.82% in September 2013;

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% from the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments will continue to be made consistent with the Parent Company’s Concession Agreement with MWSS.

On December 10, 2015, the Parent Company filed a Notice of Arbitration with the Permanent Court of Arbitration 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”), to guarantee the obligations of the MWSS under its Concession Agreement with the Parent Company executed on February 21, 1997.

In the Sovereign Undertaking, the Republic, through the DOF, undertook to indemnify the Parent 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 Parent 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 Parent 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.
E. On January 15, 2016, MWPVI entered into a MOA with the Ayala Land Group, whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the Ayala Land Group.

F. On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the operations start date. Tagum Water will have the sole and exclusive right and responsibility during the term of the agreement to:
   a. Develop raw surface water sources in Hijo River;
   b. Plan, develop, design, build and test the facilities;
   c. Implement the project;
   d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
   e. Supply treated water to TWD for distribution to its network.

G. On June 30, 2016, Zamboanga Water signed a term loan agreement in the amount of PHP85.0 million with the Development Bank of the Philippines. The proceeds of the loan will be used to partially finance Zamboanga Water’s capital expenditures in relation to its non-revenue water reduction and management program in Zamboanga City.

H. On October 5, 2016, MWPVI signed a 15-year fixed rate term loan facility in the amount of PHP4.0 billion with Security Bank Corporation and Metropolitan Bank and Trust Company. The terms of the loan include an option to increase the size of the facility to a maximum of PHP7.0 billion. The proceeds of the loan will be used to finance the company’s capital expenditures, future acquisitions and other general corporate requirements.

I. On October 7, 2016, Tagum Water signed a term loan agreement in the amount of PHP450.0 million with Philippine National Bank. The proceeds of the loan will be used to partially finance the development, construction, operation and maintenance of bulk water supply facilities, including the delivery and sale of treated bulk water exclusively to Tagum Water District.

J. On March 1, 2017, cash dividends of PHP0.4244 and PHP0.04244 per share of outstanding common shares and participating preferred shares, respectively, were declared and are payable on March 31, 2017 to stockholders of record as of March 15, 2017.

K. In connection with the amendment of Laguna Water’s Concession Agreement, the Sangguniang Bayan of the Municipality of the Calauan Laguna, approved the resolution for Laguna Water to provide water and wastewater services to the municipality of Calauan. The expansion of Laguna Water in the municipality will be done in phases, with full coverage of the area targeted by the first quarter of 2020.

L. There were no significant changes in income or loss arising from the non-operating activities of the Group.
SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Management believes the following represent a summary of these significant estimates and judgments:

Judgments
In the process of applying the Group’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, Service Concession Arrangements, the Group has made a judgment that its concession agreements with MWSS, PGL, TIEZA and CDC qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the under hand, the Group has made a judgment that the concession agreement with PGC and TWD qualify under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from PGC and TWD.

Investments in subsidiaries
The Group considers the entities listed in the notes to the financial statements as its subsidiaries because it exercises control over the said entities. The Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities.

The Group has determined that it exercises control over Asia Water even though it owns less than 51% of Asia Water’s shares of stock. Factors considered include, among others, its representation in the Board of Directors (“BOD”) and the assignment of Parent Company employees in the key management positions to direct the activities that significantly affect the returns of Asia Water.

Investments in associates
The Parent Company considers Thu Duc Water B.O.O. Corporation (Thu Duc Water), Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), Saigon Water and Cu Chi Water as associates because it has the power to participate in the financial and operating policy decisions of these entities but does not have control or joint control over those policies.

Impairment of investments in associates
At each reporting date, the Group makes an assessment whether it is necessary to recognize an impairment loss in its "Investments in associates” by considering internal and external sources of information. As of March 31, 2017, the Group has determined that there are no indicators of impairment on its investments in Thu Duc Water, Kenh Dong Water, Saigon Water and Cu Chi Water.

Non-financial asset impairment
The Group assesses the impairment of non-financial assets (property, plant and equipment, SCA, other current assets and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
• significant underperformance relative to expected historical or projected future operating results;
• significant changes in the manner of usage of the acquired assets or the strategy for the
  Group’s overall business; and
• significant negative industry or economic trends.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of
the net selling price and value in use.

In determining the present value of estimated future cash flows expected to be generated from the
continued use of the assets, the Group is required to make estimates and assumptions regarding
the expected future cash generation of the assets, discount rates to be applied and the expected
period of benefits.

Operating lease commitments - Group as lessee
The Group entered into lease arrangements for its Healthy Family plant sites, stockyard and office
spaces. The Group has determined, based on the evaluation of the terms and conditions of the
arrangements, that the significant risks and rewards for properties leased from third parties are
retained by the lessors and accordingly, accounts for these contracts as operating leases.

Embedded derivative
The Group has entered into loan facility agreements with prepayment options. These prepayment
options give the Group the right to redeem the outstanding loans in part or in full after the lapse of a
prescribed period. The Group assessed that these prepayment options are clearly and closely
related considering that the amortized cost of the loan approximates the prepayment at exercise
dates. As a result, the Group did not bifurcate any embedded derivatives.

Segment reporting
The Group aggregates two or more operating segments into a single operating segment when
separately, each operating segment has similar economic characteristics and service area. The
Group aggregated its local and foreign subsidiaries into Domestic Subsidiaries Segment and
Foreign Subsidiaries Segment even if it caters to different customers since management assessed
that these entities have similar economic characteristics and service area.

As of March 31, 2017, the Group considers the Manila Concession and Head Office, Domestic
Subsidiaries and Foreign Subsidiaries as its operating segments that are aggregated based on the
geographical location and source of revenues.

Contingencies
The Group is currently involved in various legal proceedings in the ordinary conduct of business.
The estimate of the probable costs for the resolution of these claims has been developed in
consultation with internal and outside counsels handling the defense in these matters and is based
upon an analysis of potential results.

The Group currently does not believe these proceedings will have a material or adverse effect on
the Group’s financial position and results of operations.

Use of Estimates
Key assumptions concerning the future and other sources of estimation uncertainty at the reporting
date that have a significant risk of causing a material adjustment to the carrying amounts of assets
and liabilities are discussed below. Existing circumstances and assumptions about future
developments, however, may change due to market changes or circumstances arising that are
beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition – rehabilitation works
The Group measures revenue from rehabilitation works at the fair value of the consideration
received or receivable. The Company’s revenue from rehabilitation works recognized based on the
percentage of completion are measured principally on the basis of the estimated completion of a
physical proportion of the contract works, and by reference to the actual costs incurred to date over
the estimated total costs of the project. Revenue from rehabilitation works recognized by the Group is equivalent to the costs of rehabilitation works incurred as these costs are recovered by the Group through its right to charge the customers.

**Estimating allowance for doubtful accounts**
The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessments under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable’s original EIR. Impairment loss is determined as the difference between the receivable’s carrying amount and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (industry, customer type, customer location, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management’s judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

**Estimating useful lives of water banking rights**
Cebu Water estimates the useful lives of its water banking rights to be indefinite considering that the water permits remain valid for as long as water is beneficially used. Cebu Water annually reviews the estimated useful life of water banking rights based on the asset’s expected utilization. It is possible that future results of operations could be materially affected by changes in Cebu Water’s estimates brought about by changes in the factors mentioned. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

**Goodwill impairment**
Goodwill impairment testing requires an estimation if the recoverable amount which is the fair value less cost to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use amount requires management to make an estimate of the expected future cash flows for the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

The Parent Company’s impairment test for goodwill related to the acquisition of Clark Water is based on value in use calculations. The value in use calculations used a discounted cash flow model. The 2016 cash flows are derived from the budget for the next twenty-three (23) years and assume a steady growth rate. The Parent Company used the remaining concession life of Clark Water. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flow projections was 8.09% in 2016.

**Impairment of water banking rights**
Impairment of water banking rights requires an estimation of the recoverable amount of the asset which is the higher of fair value less cost to sell or value in use. Estimating value in use amount requires management to make an estimate of the expected future cash flows for the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

At each reporting date, Cebu Water performs an impairment assessment of its water banking rights which is based on value in use calculations using a discounted cash flow model assuming a steady growth rate. The post-tax discount rate applied to cash flow projections of Cebu Water was 5.30% in 2016.

**Deferred tax assets**
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no
assurance that the Group will generate sufficient taxable income to allow all or part of the deferred
tax assets to be utilized.

Also, the Group does not recognize certain deferred taxes on deductible temporary differences
where doubt exists as to the tax benefits they will bring in the future.

Deferred FCDA
Under the concession agreements entered into by the Parent Company and Boracay Water with
MWSS and TIEZA, respectively, the Parent Company and Boracay Water are entitled to recover
(refund) foreign exchange losses (gains) arising from concession loans and any concessionaire
loans. The Parent Company and Boracay Water recognized deferred FCDA (included as part of
“Other noncurrent assets” or “Other noncurrent liabilities” in the consolidated statement of financial
position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set
up as an asset for the realized and unrealized exchange losses since this is a resource controlled
by the Parent Company and Boracay Water as a result of past events and from which future
economic benefits are expected to flow to the Parent Company and Boracay Water. Realized and
unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are
presented as liability.

The Group’s deferred FCDA arises from a rate adjustment mechanism for the recovery or
compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA,
when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA
loans and concession loans used for capital expenditures and concession fee payments.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option
holders and is not necessarily indicative of the exercise patterns that may occur. The expected
volatility is based on the average historical price volatility which may be different from the expected
volatility of the shares of stock of the Parent Company.

Pension assets and liabilities
The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial
valuation involves making various assumptions. These include the determination of the discount
rates, future salary increases, mortality rates and future pension increases. Due to the complexity
of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations
are highly sensitive to changes in these assumptions. Discount rate and salary increase rate
assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of
government bonds that are denominated in the currency in which the benefits will be paid, with
extrapolated maturities corresponding to the expected duration of the defined benefit obligation.
Future salary increases and pension increases are based on expected future inflation rates for the
specific country.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated
statement of financial position or disclosed in the notes cannot be derived from active markets, they
are determined using internal valuation techniques using generally accepted market valuation
models. While significant components of the fair value measurement were determined using
verifiable objective evidence (i.e., foreign exchange rate and interest rate), the amount of changes
in fair value may differ due to usage of different methodology.
COMMITMENTS

Parent Company’s Concession Agreement

The significant commitments of the Parent Company under the Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. Post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US$70.00 million in favor of MWSS as a bond for the full and prompt performance of the Parent Company’s obligations under the Concession Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

<table>
<thead>
<tr>
<th>Rate Rebasing Period</th>
<th>Aggregate amount drawable under performance bond (in US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First (August 1, 1997 - December 31, 2002)</td>
<td>US$70.00</td>
</tr>
<tr>
<td>Second (January 1, 2003 - December 31, 2007)</td>
<td>70.00</td>
</tr>
<tr>
<td>Third (January 1, 2008 - December 31, 2012)</td>
<td>60.00</td>
</tr>
<tr>
<td>Fourth (January 1, 2013 - December 31, 2017)</td>
<td>60.00</td>
</tr>
<tr>
<td>Fifth (January 1, 2018 - December 31, 2022)</td>
<td>50.00</td>
</tr>
<tr>
<td>Sixth (January 1, 2023 - December 31, 2027)</td>
<td>50.00</td>
</tr>
<tr>
<td>Seventh (January 1, 2028 - December 31, 2032)</td>
<td>50.00</td>
</tr>
<tr>
<td>Eighth (January 1, 2033 - May 6, 2037)</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Within thirty (30) days from the commencement of each renewal date, the Parent Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

With a minimum of 10-day written notice period to the Parent Company, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by the Parent Company is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. On April 16, 2009, the Concession Agreement with MWSS was extended up to year 2037. With the Extension, the Parent Company agreed to increase its annual share in MWSS operating budget by 100% from ₱198.00 million to ₱396.00 million, subject to annual CPI;

d. Meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. Operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with the Parent Company);

f. Repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. Ensure that at all times, the Parent Company has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and
h. Ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

The Parent Company is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the concession.

**Laguna Water’s Concession Agreement**

The significant commitments of Laguna Water under its concession agreement with PGL are as follows:

a. Pay PGL concession fees;

b. Manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. Design, construct and commission the new facilities during the cooperation period;

d. Provide and manage the services;

e. Bill and collect payment from the customer for all services;

f. Extract raw water exclusively from all sources of raw water; and

g. Negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

On June 30, 2015, PGL and MWPVI signed an amendment to their joint venture agreement dated November 10, 2000. Simultaneously, and consequent to the amendment of the joint venture agreement of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:

a. Expand its concession area to cover all cities and municipalities in the PGL; and

b. Include in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

**Technical Services Agreement**

Under the JVA (as amended), Laguna Water, as the joint venture corporation, shall enter into a technical services agreement with MWPVI to secure the specialized services necessary for the performance of Laguna Water’s obligations.

Accordingly, on March 18, 2005, AAA Water Corporation (currently, MWPVI) and Laguna Water entered into the Technology Transfer and Support Agreement (TTSA). Under the TTSA, Laguna Water shall pay MWPVI an annual technical service fee equivalent to 5% of Laguna Water’s annual gross revenue, which annual technical support fee shall in no case be less than the Peso equivalent of US$0.25 million. On February 15, 2017, the Board of Directors of Laguna Water approved the proposal to amend the TTSA. Among the provisions to be amended is the increase of the annual technical service fee to an amount equivalent to 7% of Laguna Water’s annual gross revenue beginning January 1, 2017.

**Asset Purchase Agreement with LTI**

On December 23, 2013, Laguna Water entered into an asset purchase agreement with LTI to acquire and operate its water operations division in Laguna. The significant commitments of Laguna Water under its agreement with LTI follow:

a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;
b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where Laguna Water acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;

c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by Laguna Water;

d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;

e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. Laguna Water shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

Laguna Water shall make a supply of water available to current and future locators in LTI, including the areas of expansion in the future.

**Boracay Water’s Concession Agreement**

The significant commitments of Boracay Water under its concession agreement with TIEZA are as follows:

a. Meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. Pay concession fees, subject to the following provisions:

i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

ii. Payment of an amount equivalent to 5% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of Boracay Water as reflected in its separate financial statements;

iii. Provision of the amount of the TIEZA BOD’s approved budget in 2012, payable semi-annually and not exceeding:

<table>
<thead>
<tr>
<th>Month</th>
<th>Maximum Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>₱10,000,000</td>
</tr>
<tr>
<td>July</td>
<td>10,000,000</td>
</tr>
</tbody>
</table>

iv. Provision of the annual operating budget of the TIEZA-RO, payable in two (2) equal tranches in January and July and not exceeding:

<table>
<thead>
<tr>
<th>Year</th>
<th>Maximum Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>₱15,000,000</td>
</tr>
<tr>
<td>2012</td>
<td>20,000,000</td>
</tr>
<tr>
<td>2013 and beyond</td>
<td>previous year, subject to annual CPI adjustment</td>
</tr>
</tbody>
</table>

c. Establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be
reasonable and prudent;

d. Pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. Raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. Operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with Boracay Water);

g. Repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. Ensure that at all times, Boracay Water has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.

In addition, the Parent Company, as the main proponent of Boracay Water, shall post a performance security in the amount of US$2.50 million to secure the Parent Company’s and Boracay Water’s performance of their respective obligations under the agreement. The amount of the performance security shall be reduced following the schedule below:

<table>
<thead>
<tr>
<th>Rate Rebasining Period</th>
<th>Amount of Performance Security (in US$ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>US$2.50</td>
</tr>
<tr>
<td>Second</td>
<td>2.50</td>
</tr>
<tr>
<td>Third</td>
<td>1.10</td>
</tr>
<tr>
<td>Fourth</td>
<td>1.10</td>
</tr>
<tr>
<td>Fifth</td>
<td>1.10</td>
</tr>
</tbody>
</table>

On or before the start of each year, Boracay Water shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

With a minimum of 10 days written notice period to Boracay Water, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasining Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by Boracay Water is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of Boracay Water to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

**Technical Services Agreement**

Simultaneous with the execution of Boracay Water’s concession agreement, Boracay Water and the Parent Company executed a Technical Services Agreement by which the Parent Company is being paid by Boracay Water a technical services fee equivalent to 4% of the annual gross revenue of Boracay Water, for rendering the following services to Boracay Water:

a. Financial management, including billing and collection services, accounting methods and financial control devices; and
b. Operations and project management, including facility operations and maintenance, and infrastructure project management.

On November 12, 2015, the BOD of Boracay Water approved the assignment of the Technical Services Agreement of the Parent Company to MWPVI.

Clark Water’s Concession Agreement

The significant commitments of Clark Water under its concession agreement with CDC are follows:

a. Pay franchise and rental fees of CDC;

b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Clark Water; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;

d. Treat raw water and wastewater in Clark Special East Zone;

e. Provide and manage all water and wastewater related services like assisting locator in relocation of pipes and assessing internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in Clark Freeport Zone free of charge by CDC.

On August 15, 2014, the Clark Water and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

a. Extension of the original concession period for another 15 years up to October 1, 2040;

b. Additional investment of ₱4.00 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area.

Investment requirement under the original CA amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.00 billion;

c. Introduction of rate rebasing mechanism for every four years starting 2014;

d. Reduction in tariff rates by 3.9% (from Php25.63/m³ to Php24.63/m³) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   o ₱0.41/m³ (from Php24.63/m³ to Php25.04/m³) in 2018
   o ₱0.42/m³ (from Php25.04/m³ to Php25.45/m³) in 2019
   o ₱0.42/m³ (from Php25.45/m³ to Php25.87/m³) in 2020
   o ₱0.43/m³ (from Php25.87/m³ to Php26.30/m³) in 2021
As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the Clark Water’s investment is now extended by another 15 years from 2025 to 2040.

Technical Services Agreement
Clark Water has entered into a general management service agreement with the Parent Company in 2015 and 2014. Under the agreement, the Parent Company agrees to render including, but not limited to, the following services to Clark Water:

a. Financial Management System services, including accounting methods and financial control devices;
b. Customer Service System devices, including billing and collection services;
c. Operations and Project Management services, including facility operations and maintenance and infrastructure project management.

On November 16, 2015, the BOD approved the transfer and assignment of the management services agreement from the Parent Company to MWPVI.

Bulk Water Supply Agreement with MCWD
On December 18, 2013, Cebu Water entered into a bulk water supply agreement with MCWD. The commitments of Cebu Water under the agreement with MCWD are as follows:

a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to twenty (20) years in the amount of ₱24.59 per cubic meter.
b. Ensure that the source shall be sustainable and 100% reliable at any day the duration of the agreement.
c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day. Maintenance of the same shall be on the account of Cebu Water.

NRWSA with ZCWD
On June 2, 2015, the Zamboanga Water entered into a NRWSA with ZCWD. The NRWSA sets forth the rights and obligations of the Zamboanga Water throughout the 10-year period. The significant provisions under the agreement with ZCWD consists of:

a. Zamboanga Water being required to implement Network Restructuring and Non-Revenue Water Reduction Programs for ZCWD’s water distribution system; and
b. Zamboanga Water having the right to restructure and maintain the facilities in the ZCWD service area, legal title to these assets remains with ZCWD. The legal title of all fixed assets contributed to the existing ZCWD system by Zamboanga Water during the project tenure remains with Zamboanga Water until the expiration date (or early termination date) at which time all rights, titles and interest in such assets will automatically vest in ZCWD.

MWPVI MOA with ALI
On January 12, 2016, MWPVI executed a MOA with Ayala Land, Inc. and twenty-four (24) of its subsidiaries (“ALI Group”). Under the MOA, MWPV will provide the water and used water services and facilities to all the property development projects of the ALI Group nationwide, with certain exceptions as provided in the MOA.

Memorandum of Agreement with SM Group
On December 8, 2016, MWPVI entered into a MOA with SM Prime Holdings, Inc., SM Development Corporation and SM Residences Corporation. Pursuant to the MOA, MWPVI, will provide water and/or used water services and facilities to the property development projects of the SM Group identified in each MOA. As of December 31, 2016, the five projects will be developed under this arrangement.
**Bulk Water Supply Agreement with TWD**

On October 15, 2015, Davao Del Norte Water Infrastructure Company, Inc. (“DWICI”) has signed and executed a Joint Venture Agreement with TWD. The Joint Venture Agreement (“JVA”) governs the relationship of Davao Water and TWD as joint venture partners in the Tagum City Bulk Water Supply Project (the “Project”). Pursuant to the JVA, DWICI and the TWD caused the incorporation of a Joint Venture Company (“JVC”), Tagum Water Company, Inc. (“TWCI”), which shall implement the Project for 15 years from the Operations Start Date as defined in the JVA. The consortium of DWICI owns 90% while TWD owns 10% of TWCI’s outstanding capital stock. The primary purpose of TWCI is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TWD through a fifteen (15) year bulk water supply contract.

On February 26, 2016, TWD and Tagum Water signed and executed a Bulk Water Sales and Purchase Agreement (BWSPA) for the supply of bulk water to TWD for a period of fifteen (15) years starting from the Operations Start Date. Under the BWSPA, Tagum Water will supply 26.00 million liters per day within the first to third year at a rate of ₱19.25 per cubic meter; 32.00 million liters per day within the fourth to sixth year at ₱22.14 per cubic meter; and 38.00 million liters per day in the succeeding years up to the end of the contract at ₱25.46 per cubic meter.

Tagum Water will have the sole and exclusive right and responsibility during the term of the agreement to:

- Develop raw surface water sources in Hijo River;
- Plan, develop, design, build and test the facilities;
- Implement the project;
- Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
- Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by Tagum Water to implement the bulk water project will be owned by Tagum Water even after the expiration of the BWSPA.
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 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 exclusive right to provide water and used water services to the eastern side of Metro Manila (“Manila Concession” or “East Zone”) under a Concession Agreement (“CA”) entered into between the Company and Metropolitan Waterworks and Sewerage System (“MWSS”) in August 1997. The original term of the concession was for a period of 25 years to expire in 2022. The Company’s concession was extended by another 15 years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

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

Under the terms of the CA, the Company has the right to the use of land and operational fixed assets, and the exclusive right, as agent 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 through Manila Water Philippine Ventures, Inc. (“MWPV”). Currently under MWPV are LagunaAAA Water Corporation (“Laguna Water”), Boracay Island Water Company (“Boracay Water”), Clark Water Corporation (“Clark Water”), Manila Water Consortium, Inc. (“MW Consortium”), and Estate Water, an operating division under MWPV which operates and manages the water systems of townships developed by property developers such as Ayala Land, Inc. A subsidiary of MW Consortium is Cebu Manila Water Development, Inc. (“Cebu Water”) that provides bulk water in the province of Cebu. The Group has other new projects in its portfolio including the Zamboanga City performance-based non-revenue water reduction project under Zamboanga Water Company, Inc. (“Zamboanga Water”) and the Tagum City bulk water supply project under Tagum Water Company, Inc. (“Tagum Water”), among others.

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 ("Asia Water").

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

**CONSOLIDATED FINANCIAL PERFORMANCE**

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

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
<th>(in thousand Pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>4,355,549</td>
</tr>
<tr>
<td>Total cost and expenses (excluding depreciation and amortization)</td>
<td>1,492,164</td>
</tr>
<tr>
<td>Other income (expense) - net</td>
<td>90,505</td>
</tr>
<tr>
<td>Equity share in net income of associates</td>
<td>86,679</td>
</tr>
<tr>
<td>Others</td>
<td>3,826</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,953,890</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>749,880</td>
</tr>
<tr>
<td>Income before interest income/expense</td>
<td>2,204,010</td>
</tr>
<tr>
<td>Interest income (expense) - net</td>
<td>(305,315)</td>
</tr>
<tr>
<td>Income before income tax</td>
<td>1,898,695</td>
</tr>
<tr>
<td>Provision for income tax</td>
<td>419,337</td>
</tr>
<tr>
<td>Net income</td>
<td>1,479,358</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>30,248</td>
</tr>
<tr>
<td>Net income attributable to MWC</td>
<td>1,449,110</td>
</tr>
</tbody>
</table>

Consolidated operating revenues for the first three months of 2017 grew by 3% to P4,356 million from P4,210 million in the same period last year driven by the expansion of the domestic operating subsidiaries, including Estate Water and MWTS, higher by 23% year-on-year.

A breakdown of the revenue drivers is shown below:

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
<th>(in thousand Pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Water</td>
<td>3,343,495</td>
</tr>
<tr>
<td>Environmental charges</td>
<td>578,249</td>
</tr>
<tr>
<td>Sewer</td>
<td>109,668</td>
</tr>
<tr>
<td>Others</td>
<td>324,137</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>4,355,549</td>
</tr>
</tbody>
</table>

The Group derived 77% of its operating revenues from the sale of water, while 16% came from environmental and sewer charges. Other revenues, which accounted for the balance of 7%, were from after-the-meter services, connection fees and septic sludge disposal, among others.
On the other hand, consolidated operating costs and expenses (excluding depreciation and amortization) rose by 8% to ₱1,492 million in the first quarter of 2017. Salaries, wages and employee benefits led the growth with an increase of 16%, primarily due to the additional manpower of the new subsidiaries. For non-personnel costs, the biggest contributor to the increase was power, as both volume and rate increased.

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

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousand Pesos)</td>
</tr>
<tr>
<td><strong>2017</strong></td>
</tr>
<tr>
<td>Salaries wages and employee benefits</td>
</tr>
<tr>
<td>Non personnel costs</td>
</tr>
<tr>
<td>Direct costs</td>
</tr>
<tr>
<td>Overhead</td>
</tr>
<tr>
<td>Premises</td>
</tr>
<tr>
<td>Other expenses</td>
</tr>
<tr>
<td>Total operating expenses</td>
</tr>
</tbody>
</table>

Meanwhile, other income (net of expense) dropped by 9% to ₱91 million in the first quarter of 2017 from ₱99 million in same period in 2016 due to the decline in the equity share in net income of associates and lower other expenses. The two bulk water companies in Vietnam, Thu Duc Water and Kenh Dong Water, together with Saigon Water, contributed ₱87 million to net income, slightly declining by 2% from the same period last year.

The movements in operating revenues and expenses, as well as other income that dropped by 9%, resulted in a consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) of ₱2,954 million in the first quarter of 2017, growing by 1% from the same period in 2016. EBITDA margin was recorded at 68%.

However, due to higher depreciation and amortization as the Group completes water and used water projects, net income fell slightly by 2% to ₱1,449 million in the first quarter of 2017.

**BUSINESS UNITS’ FINANCIAL AND OPERATING PERFORMANCE**

**Manila Concession**

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousand Pesos)</td>
</tr>
<tr>
<td><strong>2017</strong></td>
</tr>
<tr>
<td><strong>Operating Highlights</strong></td>
</tr>
<tr>
<td>Billed volume (in million cubic meters)</td>
</tr>
<tr>
<td>Domestic</td>
</tr>
<tr>
<td>Semi-Commercial</td>
</tr>
<tr>
<td>Commercial</td>
</tr>
<tr>
<td>Industrial</td>
</tr>
<tr>
<td>Number of billed connections</td>
</tr>
<tr>
<td>Non-revenue water</td>
</tr>
<tr>
<td><strong>Financial Highlights (in thousand Pesos)</strong></td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Cost and expenses</td>
</tr>
<tr>
<td>EBITDA</td>
</tr>
<tr>
<td>Net income</td>
</tr>
</tbody>
</table>
The Manila Concession’s billed volume increased by 1% in the first quarter of 2017 to 115.9 million cubic meters (“mcm”) despite coming from a high base in 2016 that was partly due to the one day advantage of 2016 being a leap year. Billed water connections (net of permanent disconnections) grew by 3% to 937,589 customers at the end of the period, mostly from the expansion areas of Marikina, Pasig and Taguig. Average consumption slightly contracted by 2% to 41.35 cubic meters per connection while average effective tariff slightly decreased to ₱29.77 per cubic meter.

While the domestic and commercial accounts were almost flat, billed volume growth was driven by the improvement in semi-commercial accounts by 8% with the reclassification of certain accounts from industrial and commercial to semi-commercial accounts. This was offset by the decline of industrial accounts by 6% due to the completion of construction projects.

The level of system losses, as measured by the non-revenue water (“NRW”) ratio, went up to 12.2% at the end of March 2017 from 11.2% during the same period in 2016, with some leaks found in the distribution lines. Meanwhile, collection efficiency in the first quarter of 2017 was strong at 102%, with average accounts receivable days maintained at 19 days.

Manila Water received on April 21, 2015 the decision of the Appeals Panel in the arbitration proceedings between the Company and MWSS. The final award of the Appeals Panel 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 in the basic water charge for implementation on a staggered basis. The first tranche of negative ₱1.66 per cubic meter adjustment was implemented on June 1, 2015 together with a CPI adjustment of 4.19% on top of the basic water charge equivalent to ₱1.08 per cubic meter. The second tranche of negative ₱0.55 per cubic meter adjustment was implemented on January 1, 2016 together with a CPI adjustment of 0.8% equivalent to ₱0.20 per cubic meter. The third and final tranche of negative ₱0.55 per cubic meter was implemented on April 22, 2017 with a CPI adjustment of 1.9% equivalent to ₱0.47 per cubic meter.

With the 1% billed volume growth and slight decline in tariff, revenues was down by 1% to ₱3,564 million in the first quarter of 2017. Operating expenses, on the other hand, rose by 1% to ₱957 million due to higher manpower and power costs resulting in an EBITDA of ₱2,611 million and an EBITDA margin of 73%. With higher depreciation, the Manila Concession’s net income fell by 3% to ₱1,314 million.

### Boracay Island Water Company (Boracay Water)

<table>
<thead>
<tr>
<th>Operating Highlights</th>
<th>2017</th>
<th>2016</th>
<th>Increase/ (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed volume (in million cubic meters)</td>
<td>1.26</td>
<td>1.19</td>
<td>0.07</td>
<td>6%</td>
</tr>
<tr>
<td>Number of water connections</td>
<td>6,551</td>
<td>6,396</td>
<td>155.0</td>
<td>2%</td>
</tr>
<tr>
<td>Non-revenue water</td>
<td>18%</td>
<td>18%</td>
<td>0%-pt</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Highlights (in thousand Pesos)</th>
<th>2017</th>
<th>2016</th>
<th>Increase/ (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>133,694</td>
<td>125,582</td>
<td>8,112.0</td>
<td>6%</td>
</tr>
<tr>
<td>Cost and expenses</td>
<td>63,501</td>
<td>56,454</td>
<td>7,047.0</td>
<td>12%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>70,193</td>
<td>69,128</td>
<td>1,065.0</td>
<td>2%</td>
</tr>
<tr>
<td>Net income</td>
<td>21,903</td>
<td>29,433</td>
<td>(7,530.0)</td>
<td>-26%</td>
</tr>
</tbody>
</table>

Boracay Water posted a billed volume growth of 6% in the first three months of 2017 to 1.26 mcm from 1.19 mcm in the same period in 2016. The growth was driven by a 2% expansion in water service connections and the strong influx of tourists that reached more than 511,000 during the three-month period, growing by 5% year-on-year. NRW was recorded at 18% at the end of March 2017, the same level at the end of 2016, due to suspected leaks at the distribution lines. Boracay Water spent minimal capital expenditures of ₱22 million in the first quarter of 2017, mostly for the expansion of used water services, as it awaits the approval of its new business plan.
The growth in billed volume and flat average tariff at ₱88.88 per cubic meter led to a 6% improvement in total revenues in the first three months of 2017 to ₱134 million. Tariff was flat pending the completion of Boracay Water’s rate rebasing which should have taken effect on January 1, 2017. Meanwhile, operating expenses increased by 12% to ₱64 million due to higher manpower and overhead costs, resulting in an EBITDA of ₱70 million that is equivalent to 2% growth. However, because of higher depreciation and amortization, and the expiration of its income tax holiday, net income dropped by 26% to ₱22 million in the first quarter of 2017.

On March 30, 2016, Boracay Water submitted its rate rebasing proposal that includes a capital expenditures program anchored on billed volume projections, projected operating expenses, the appropriate discount rate and the computed tariff. The review of the rate rebasing proposal is ongoing.

**Clark Water Corporation (Clark Water)**

<table>
<thead>
<tr>
<th>Operating Highlights</th>
<th>For the three months ended March 31</th>
<th>Increase/Decrease</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed volume (in million cubic meters)</td>
<td>3.5</td>
<td>3.2</td>
<td>0.21</td>
</tr>
<tr>
<td>Number of water connections</td>
<td>1,996</td>
<td>1,974</td>
<td>22.0</td>
</tr>
<tr>
<td>Non-revenue water</td>
<td>4%</td>
<td>4%</td>
<td>0%-pt</td>
</tr>
</tbody>
</table>

**Financial Highlights (in thousand Pesos)**

| Revenues | 107,524 | 100,291 | 7,233.0 | 7% |
| Cost and expenses | 59,587 | 46,089 | 13,498.0 | 29% |
| EBITDA | 47,938 | 54,202 | (6,264.0) | -12% |
| Net income | 15,198 | 27,723 | (12,525.0) | -45% |

Clark Water posted billed volume growth of 6% to 3.5 mcm in the first three months of 2017 driven by the higher consumption of commercial accounts with the opening of two hotels and new BPO buildings in the concession area. The sale of bulk water to residential subdivisions outside the Clark Freeport Zone in nearby Angeles City, Pampanga likewise improved volume growth. Average tariff was maintained at ₱30.24 per cubic meter as well as NRW level at 4% at the end of the first quarter of 2017. Clark Water posted capital expenditures of ₱74 million in the first quarter of 2017 mostly for expansion of water supply that was largely in line with its full year target disbursement.

The increase in billed volume and flat average tariff led to a revenue growth of 7% to ₱108 million in the first quarter of 2017. Meanwhile, operating expenses rose by 29% to ₱60 million due to higher direct costs resulting in a 12% drop in EBITDA to ₱48 million. With higher interest expense due to loan availments for its capital expenditure program and higher depreciation expense from completed projects, net income of Clark Water in the first quarter of 2017 declined by 45% to ₱15 million.

**Laguna AAAWater Corporation (Laguna Water)**

<table>
<thead>
<tr>
<th>Operating Highlights</th>
<th>For the three months ended March 31</th>
<th>Increase/Decrease</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed volume (in million cubic meters)</td>
<td>11.1</td>
<td>9.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Number of water connections</td>
<td>118,513</td>
<td>104,109</td>
<td>14,404</td>
</tr>
<tr>
<td>Non-revenue water</td>
<td>17%</td>
<td>14%</td>
<td>(3% pts)</td>
</tr>
</tbody>
</table>

**Financial Highlights (in thousand Pesos)**

| Revenues | 296,931 | 221,515 | 75,416 | 34% |
| Cost and expenses | 157,340 | 118,126 | 39,214 | 33% |
| EBITDA | 139,591 | 103,389 | 36,202 | 35% |
| Net income | 54,021 | 43,672 | 10,349 | 24% |
Billed volume of Laguna Water grew by 22% to 11.1 mcm in the first quarter of 2017 brought about by additional service connections totaling more than 18,000 that raised billed volume in the base business to 6.2 mcm, growing by 14% year-on-year. The balance of 4.2 mcm came from the 187 industrial customers of Laguna Technopark, Inc. (LTI), growing by 24% the previous year, and additional 0.6 mcm from new businesses outside the original concession area. It, however, faced a setback in NRW as this increased to 17% at the end of March 2017 from 14% at the end of March 2016 due to the takeover of subdivisions. Laguna Water spent ₱227 million in capital expenditures in the first quarter of 2017 mostly for the expansion of water and used water networks, growing by 8% year-on-year.

Revenues grew by 34% in the first quarter of 2017 to ₱297 million as a result of the higher billed volume and 26% improvement in average effective tariff to ₱23.48 per cubic meter. On the other hand, operating expenses grew by 33% to ₱157 million, resulting in an EBITDA growth of 35% to ₱140 million. Net income of Laguna Water reached ₱54 million in the first quarter of 2017, growing by 24% from the same period in the previous year.

On June 30, 2015, Laguna Water signed an amendment to its Concession Agreement with the Provincial Government of Laguna expanding the scope of its concession from the cities of Biñan, Cabuyao and Sta. Rosa to cover all cities and municipalities in the entire Province of Laguna. The amendment likewise included the provision of wastewater services and the establishment of an integrated sewage and septage system in the province. To date, Laguna Water is close to finalizing the takeover of two additional towns in the province. A proper disclosure will be given in due time.

**Estate Water**

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
<th>2017</th>
<th>2016</th>
<th>Increase/ (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Highlights</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed volume (in million cubic meters)</td>
<td>1.0</td>
<td>0.0</td>
<td>1.0</td>
<td>3367%</td>
</tr>
<tr>
<td>Number of water connections</td>
<td>7,154</td>
<td>22</td>
<td>7,132</td>
<td>32418%</td>
</tr>
<tr>
<td><strong>Financial Highlights (in thousand Pesos)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>151,259</td>
<td>30,848</td>
<td>120,411</td>
<td>390%</td>
</tr>
<tr>
<td>Cost and expenses</td>
<td>55,669</td>
<td>5,413</td>
<td>50,256</td>
<td>928%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>95,668</td>
<td>25,434</td>
<td>70,234</td>
<td>276%</td>
</tr>
<tr>
<td>Net income</td>
<td>66,325</td>
<td>17,790</td>
<td>48,535</td>
<td>273%</td>
</tr>
</tbody>
</table>

Estate Water posted a billed volume of 1.0 mcm in its first three months of 2017 from its 7,154 total customers broken down into 6,984 residential and 170 commercial accounts. It spent ₱160 million in capital expenditures mostly for the development of water and used water networks in the new estates being developed by Ayala Land.

Revenues reached ₱151 million in the first quarter of 2017 brought about by availability charges, income from O&M contracts, and water and sewer revenues from the billed volume of customers, growing significantly from the same period in 2016. On the other hand, operating expenses was ₱56 million, resulting in an EBITDA of ₱96 million. Estate Water posted a net income of ₱66 million in the first quarter of 2017, rising by 273% from the same period last year.
Thu Duc Water B.O.O Corporation (Thu Duc Water)

Thu Duc Water sold a total of 27.2 mcm in the first quarter of 2017, rising by 3% from the 26.3 mcm billed volume in the same period last year. The growth was due to the higher water intake of Saigon Water Corporation (“SAWACO”).

Under Vietnamese Accounting Standards (VAS), revenues grew by 4% to VND79 billion while operating expenses increased by 2% to VND25 billion due to higher maintenance costs. This led to a 4% improvement in EBITDA and a 12% increase in net income to VND26 billion. In Peso terms, the PFRS-translated income reflected in the consolidated financial statements as equity share in net income of associates amounted to P=59 million, equivalent to Manila Water’s 49% stake in Thu Duc Water.

Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water)

Kenh Dong Water registered a billed volume of 14.1 mcm in the first quarter of 2017, a 4% decrease from the 14.8 mcm in the same period in 2016 as the previous year included billed volume related to flushing activities.

Under Vietnamese Accounting Standards (VAS), Kenh Dong Water posted revenues of VND53 billion and an EBITDA of VND36 billion. With lower interest income, this led to a net income of VND15 billion, declining by 22% year-on-year. Similar to TDW, income from Kenh Dong Water is translated into PFRS and is reported as equity share in net income of associates in the consolidated financial statements. In Peso terms, the PFRS-translated income of Manila Water’s 47.35% stake in Kenh Dong Water amounted to P=33 million.

Aside from Thu Duc and Kenh Dong, its investment in Saigon Water, the listed holding company in Vietnam, recorded a net loss of P2 million in the first quarter of 2017 due mainly to higher depreciation and additional interest on loan drawn in 2016.
BALANCE SHEET

The consolidated balance sheet as of the end of the first quarter of 2017 remained strong and geared for expansion. Strong cash inflows attributable to the high collection efficiency and loan drawdowns brought cash and cash equivalents to ₱3.99 billion. Total assets rose by 3% to ₱87.6 billion as the Company continued to lay additional capital investments. Liabilities also rose by 4% to ₱42.7 billion.

The Group continued to be compliant with its loan covenants. Debt to equity ratio stood at 0.80x, excluding concession obligations, while net bank debt to equity registered at 0.54x.

Under the Company’s cash dividend policy, common shares are entitled to annual cash dividends equivalent to 35% of the prior year’s net income, payable semi-annually. The Company declared cash dividends for the first half of the year on March 1, 2017 of ₱0.4244 per common share and ₱0.04244 per preferred share amounting to 1.0 billion.

CAPITAL EXPENDITURES

The Company’s Manila Concession spent a total of ₱1.61 billion (inclusive of concession fee payments) for capital expenditures in the first three months of 2017, 22% more than the ₱1.32 billion spent in the same period the previous year. Of the total amount, 84% was spent on wastewater expansion, network reliability and water supply projects, while the balance of 16% was accounted for by concession fees paid to MWSS. Capital expenditures for the balance of 2017 is expected to ramp up as large projects commence and are awarded to contractors. Planned capital expenditures for 2017 of the Manila Concession is ₱14 billion.

Meanwhile, total capital expenditures of the domestic operating subsidiaries grew by 19% to ₱486 million from the ₱408 million spent in the first quarter of 2016. Of the total amount, ₱227 million was used by Laguna Water for its development of new water sources and network expansion, while Clark Water and Boracay Water disbursed ₱74 million and ₱22 million, respectively. Estate Water spent ₱163 million for its greenfield and brownfield projects.
ANALYSIS OF MATERIAL CHANGES (+/- 5% or more) IN THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Income Statement Items – For the period ended March 31, 2017 (unaudited) vs. March 31, 2016 (unaudited)
(Amounts in Thousands)

Revenue

<table>
<thead>
<tr>
<th></th>
<th>For the three months ended March 31</th>
<th>Increase (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Water, environmental and sewer charges</td>
<td>₱4,031,412</td>
<td>₱3,924,839</td>
<td>₱106,573</td>
</tr>
<tr>
<td>Other income</td>
<td>324,137</td>
<td>285,108</td>
<td>₱39,029</td>
</tr>
<tr>
<td></td>
<td>₱4,355,549</td>
<td>₱4,209,947</td>
<td>₱145,602</td>
</tr>
</tbody>
</table>

Other income – 14% increase
Increase of ₱39.03 million was mainly attributable to higher revenue generated by MWTS from its Corporate Accounts Management projects and sale of Healthy Family water bottles for the current period. In addition, revenue from supervision fees have been recognized by MWPVI for its ongoing water and used water projects with the Ayala Land Group as well as income from operations and maintenance contracts and subdivision takeovers.

Costs of Services and Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>For the three months ended March 31</th>
<th>Increase (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>₱749,880</td>
<td>₱693,629</td>
<td>₱56,251</td>
</tr>
<tr>
<td>Salaries, wages and employee benefits</td>
<td>482,393</td>
<td>416,957</td>
<td>₱65,436</td>
</tr>
<tr>
<td>Power, light and water</td>
<td>293,325</td>
<td>222,339</td>
<td>₱70,986</td>
</tr>
<tr>
<td>Contractual services</td>
<td>105,340</td>
<td>134,886</td>
<td>(₱29,546)</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>102,762</td>
<td>102,739</td>
<td>₱23</td>
</tr>
<tr>
<td>Management, technical and professional fees</td>
<td>80,029</td>
<td>88,996</td>
<td>(₱8,967)</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>71,270</td>
<td>66,704</td>
<td>₱4,566</td>
</tr>
<tr>
<td>Other direct costs</td>
<td>56,428</td>
<td>35,227</td>
<td>₱21,201</td>
</tr>
<tr>
<td>Taxes and licenses</td>
<td>46,810</td>
<td>47,603</td>
<td>(₱793)</td>
</tr>
<tr>
<td>Regulatory costs</td>
<td>39,787</td>
<td>37,074</td>
<td>₱2,713</td>
</tr>
<tr>
<td>Cost of water service connections</td>
<td>37,104</td>
<td>38,557</td>
<td>(₱1,453)</td>
</tr>
<tr>
<td>Wastewater costs</td>
<td>34,772</td>
<td>25,437</td>
<td>₱9,335</td>
</tr>
<tr>
<td>Collection fees</td>
<td>31,243</td>
<td>28,389</td>
<td>₱2,854</td>
</tr>
<tr>
<td>Water treatment chemicals</td>
<td>18,640</td>
<td>17,096</td>
<td>₱1,544</td>
</tr>
<tr>
<td>Other expenses</td>
<td>92,261</td>
<td>116,628</td>
<td>(₱24,367)</td>
</tr>
<tr>
<td></td>
<td>₱2,242,044</td>
<td>₱2,072,261</td>
<td>₱169,783</td>
</tr>
</tbody>
</table>

Depreciation and amortization – 8% increase
Increase of ₱56.25 million was due to additional amortization arising from the completion of several projects and facilities of the Group.

Salaries, wages and employee benefits – 16% increase
Increase of ₱65.44 million was primarily attributable to the additional manpower driven by the continued growth in the business operations of the subsidiaries, regularization of the contractual employees and change in the compensation structure implemented during the period.

Power, light and water – 32% increase
Increase of ₱70.99 million was driven by the additional power consumption of the new facilities and new offices of the subsidiaries, as well as higher power rates.

Contractual services – 22% decrease
Decrease of ₱29.55 was on account of the regularization of contractual hires during the period.
Management, technical and professional fees – 10% decrease
Decrease of ₱8.97 million was mainly due to higher professional fees incurred for tax consultancy in 2016.

Occupancy costs – 7% increase
Increase of ₱4.57 million was mainly due to additional in office rentals of the Parent Company and operating subsidiaries during the current period.

Other direct cost – 60% increase
Increase of ₱21.20 million was on account of the increase in cost of goods and delivery charges of the Healthy Family brand due to increase in number of water bottles sold.

Regulatory costs – 7% increase
Increase of ₱2.71 million was mainly driven by the increase in the concession fees of Laguna Water and Boracay Water due to higher revenues, and CPI adjustment of the Parent Company.

Wastewater costs – 37% increase
Increase of ₱9.34 million was due to higher volume of waste desludged in certain business areas.

Collection fees – 10% increase
Increase of ₱2.85 million was due to higher collections costs arising from the increase in service connections.

Water treatment chemicals – 9% increase
Increase of ₱1.54 million was due to higher chemical usage of Cebu Water and Laguna Water driven by higher volume supplied to customers, and new property developments taken over by Estate Water.

Other expenses – 21% decrease
Decrease of ₱24.37 million was driven mostly by decrease in business meetings and representation expense due to cost saving initiatives of the Group.

Other Income (Expenses)

<table>
<thead>
<tr>
<th>For the three months ended March 31</th>
<th>2017</th>
<th>2016</th>
<th>Increase (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from rehabilitation works</td>
<td>₱1,421,742</td>
<td>₱961,434</td>
<td>₱460,308</td>
<td>48%</td>
</tr>
<tr>
<td>Cost of rehabilitation works</td>
<td>(1,421,742)</td>
<td>(961,434)</td>
<td>(460,308)</td>
<td>48%</td>
</tr>
<tr>
<td>Foreign currency differentials</td>
<td>431,206</td>
<td>(120,463)</td>
<td>551,669</td>
<td>(458%)</td>
</tr>
<tr>
<td>Foreign exchange gains (losses)</td>
<td>(427,416)</td>
<td>130,311</td>
<td>(557,727)</td>
<td>(428%)</td>
</tr>
<tr>
<td>Equity share in net income of associates</td>
<td>86,679</td>
<td>88,272</td>
<td>(1,593)</td>
<td>(2%)</td>
</tr>
<tr>
<td>Interest income</td>
<td>65,000</td>
<td>69,250</td>
<td>(4,250)</td>
<td>(6%)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(370,315)</td>
<td>(393,094)</td>
<td>22,779</td>
<td>(6%)</td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td>36</td>
<td>2,506</td>
<td>(2,470)</td>
<td>(99%)</td>
</tr>
<tr>
<td>Other income (expense) - net</td>
<td>–</td>
<td>(1,148)</td>
<td>1,148</td>
<td>(100%)</td>
</tr>
<tr>
<td></td>
<td>₱214,810</td>
<td>₱224,366</td>
<td>₱9,556</td>
<td>(4%)</td>
</tr>
</tbody>
</table>

Revenue from and cost of rehabilitation works – 48% increase
Increase of ₱460.31 million was mainly due to higher recorded rehabilitation works from the increase in capital expenditures during the period.

Foreign currency differentials and foreign exchange gains (losses) - net – 62% decrease
Decrease was due to the depreciation of the Peso against the JPY and USD as of March 2017 compared to the same period last year.

Interest income – 6% decrease
Decrease of ₱4.25 million may be attributable to lower investment and bank interest rates and lower average cash balance compared to the same period last year, partially offset by the higher finance income from the concession financial receivable of Cebu Water.
Interest expense – 6% decrease
Decrease of P2.78 million was due to the diminishing balance of the Group’s long-term debt arising mainly from the amortization of the Parent Company’s Yen loan, and service concession obligations.

Gain on sale of property and equipment – 99% decrease
Decrease was due to lesser disposals during the current period.

Other income (expense) – 100% decrease
Decrease of P1.15 million was mainly due to provision for losses recognized during the prior period.

Balance Sheet Items – As of March 31, 2017 (unaudited) vs. December 31, 2016 (audited)
(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
<th>Increase (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>PhP3,990,768</td>
<td>PhP4,065,700</td>
<td>(74,932)</td>
<td>(2%)</td>
</tr>
<tr>
<td>Receivables - net</td>
<td>PhP2,423,343</td>
<td>PhP2,368,589</td>
<td>54,754</td>
<td>2%</td>
</tr>
<tr>
<td>Concession financial receivable - current portion</td>
<td>PhP219,710</td>
<td>PhP200,253</td>
<td>19,457</td>
<td>10%</td>
</tr>
<tr>
<td>Inventories</td>
<td>PhP174,276</td>
<td>PhP166,570</td>
<td>7,704</td>
<td>5%</td>
</tr>
<tr>
<td>Other current assets</td>
<td>PhP1,679,659</td>
<td>PhP1,454,788</td>
<td>224,871</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>PhP8,467,754</td>
<td>PhP8,255,900</td>
<td>231,854</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment - net</td>
<td>PhP1,881,589</td>
<td>PhP1,796,169</td>
<td>85,420</td>
<td>5%</td>
</tr>
<tr>
<td>Service concession assets - net</td>
<td>PhP65,907,021</td>
<td>PhP64,653,247</td>
<td>1,253,774</td>
<td>2%</td>
</tr>
</tbody>
</table>
| Concession financial receivable - net of current portion | PhP996,425 | PhP1,005,561 | (9,136) | (1%)
| Investments in associates | PhP6,418,466 | PhP6,199,517 | 218,949 | 4% |
| Goodwill             | PhP130,319    | PhP130,319        | –                   | 0%   |
| Pension asset - net  | PhP107,275    | PhP118,010        | (10,735)            | (9%) |
| Deferred tax assets - net | PhP1,220,849 | PhP1,185,689 | 35,160 | 3% |
| Other noncurrent assets | PhP2,537,860 | PhP2,134,990 | 402,870 | 19% |
| **Total Noncurrent Assets** | PhP79,199,804 | PhP77,223,502 | 1,976,302 | 3% |
| **Total Liabilities** | PhP87,687,558 | PhP85,479,402 | PhP2,208,156 | 3% |

| LIABILITIES AND EQUITY |               |                   |                     |      |
| Current Liabilities    |               |                   |                     |      |
| Accounts and other payables | PhP4,997,212 | PhP3,946,925 | PhP1,050,287 | 27% |
| Short-term debt        | PhP300,000    | –                 | PhP300,000          | 100% |
| Current portion of:    |               |                   |                     |      |
| Long-term debt         | PhP2,362,340  | PhP2,287,381      | 74,959              | 3%   |
| Service concession obligation | PhP734,407 | PhP740,417 | (6,010) | (1%)
| Income tax payable     | PhP917,263    | PhP506,784        | PhP410,479          | 81%  |
| **Total Current Liabilities** | PhP9,311,222 | PhP7,481,507 | PhP1,829,715 | 24% |
| Noncurrent Liabilities |               |                   |                     |      |
| Noncurrent portion of: |               |                   |                     |      |
| Long-term debt         | PhP25,257,842 | PhP25,331,121     | (73,279)            | 0%   |
| Service concession obligation | PhP6,872,082 | PhP6,959,227 | (87,145) | (1%)
| Pension liabilities - net | PhP24,738 | PhP31,827 | (7,099) | (22%)
| Deferred tax liabilities - net | PhP131,760 | PhP104,584 | 27,176 | 26% |
| Provisions             | PhP501,099    | PhP501,099        | –                   | 0%   |
| Other noncurrent liabilities | PhP662,584 | PhP688,350 | (25,766) | (4%)
| **Total Noncurrent Liabilities** | PhP33,450,105 | PhP33,616,208 | (166,103) | 0% |
| **Total Liabilities**  | PhP42,761,327 | PhP41,097,715    | PhP1,663,612        | 4%   |
### Equity

Attributable to equity holders of Manila Water Company:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital stock:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>2,053,667</td>
<td>2,053,667</td>
<td>0%</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>400,000</td>
<td>400,000</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Additional paid-in capital</strong></td>
<td>2,453,667</td>
<td>2,453,667</td>
<td>0%</td>
</tr>
<tr>
<td>Subscriptions receivable</td>
<td>(308,613)</td>
<td>(319,227)</td>
<td>10,614 (3%)</td>
</tr>
<tr>
<td><strong>Total paid-up capital</strong></td>
<td>6,366,767</td>
<td>6,356,153</td>
<td>10,614 0%</td>
</tr>
<tr>
<td><strong>Common stock options outstanding</strong></td>
<td>28,368</td>
<td>25,325</td>
<td>3,043 12%</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated</td>
<td>21,100,000</td>
<td>21,100,000</td>
<td>0%</td>
</tr>
<tr>
<td>Unappropriated</td>
<td>15,408,239</td>
<td>15,000,583</td>
<td>407,656 (3%)</td>
</tr>
<tr>
<td>Remeasurement gain on defined benefit plans</td>
<td>60,813</td>
<td>60,813</td>
<td>0%</td>
</tr>
<tr>
<td>Other equity reserves</td>
<td>54,107</td>
<td>54,107</td>
<td>0%</td>
</tr>
<tr>
<td>Cumulative translation adjustment</td>
<td>880,404</td>
<td>787,421</td>
<td>92,983 12%</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>43,898,698</td>
<td>43,384,402</td>
<td>514,296 1%</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>1,027,533</td>
<td>997,285</td>
<td>30,248 3%</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>44,926,231</td>
<td>44,381,687</td>
<td>544,544 1%</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>P=87,687,558</td>
<td>P=85,479,402</td>
<td>P=2,208,156 3%</td>
</tr>
</tbody>
</table>

Concession financial receivable - current portion – 10% increase
Increase of P=19.46 million was mainly due to the reclassification from noncurrent portion to current portion of Cebu Water’s concession financial receivable.

Inventories – 5% increase
Increase of P=7.70 million was mainly due to higher purchases of materials used in operations by the subsidiaries.

Other current assets – 15% increase
Increase of P=224.87 million was due to prepaid expenses, such as business and real property taxes, paid at the beginning of the year and to be amortized for the rest of 2017.

Property, plant and equipment – 5% increase
Increase of P=85.42 million was due to additions made by the Group during the period, offset by the corresponding depreciation and amortization expense.

Pension asset - net – 9% decrease
Decrease of P=10.74 million was due to recognition of retirement expense recognized during the period.

Other noncurrent assets – 19% increase
Increase of P=402.87 million was due to higher deferred FCDA on account of foreign exchange translations during the period which is recoverable through water tariff adjustment.

Accounts and other payables – 27% increase
Increase of P=1,050.29 million due to additional trade payables during the quarter arising from several capital expenditure projects of the Group during the quarter.

Short-term debt – 100% increase
Increase of P=300.00 million due to short-term loan acquired by MWPVI for working capital requirements.

Income tax payable – 81% increase
Increase of P=410.48 million mainly driven by the Group’s accumulated income tax due for the fourth quarter of 2016 and for the first quarter of 2017, as well as the expiration of Boracay Water’s Income Tax Holiday in the second quarter of 2016.
**Pension liabilities - net – 22% decrease**
Decrease of ₱7.09 million was due to additional fund contributions made by the subsidiaries during the period.

**Deferred tax liabilities - net – 26% decrease**
Decrease of ₱27.18 million was due to Cebu Water’s concession financial receivable.

**Common stock options outstanding – 12% increase**
Increase of ₱3.04 million was mainly due to shared options expense during the period.

**Cumulative translation adjustment – 12% increase**
Increase of ₱92.99 million due to movements in exchange rates of weaker PHP against the USD 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 2017
E. Performance Indicators and Business Efficiency Measures
G. Average Tariff
PART II – OTHER INFORMATION

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. VICTORIA P. SUGAPONG
Deputy Group Chief Finance Officer,
Corporate Finance and Governance
for Manila Water Operations; Division
Head, Controllership, Accounting and
Planning

Signature and Title:

LUIS JUAN B. ORETA
Chief Finance Officer

May 4, 2017
APPENDIX A

BOARD OF DIRECTORS AND SENIOR MANAGEMENT TEAM

The Board of Directors has eleven (11) members elected by the Parent Company’s stockholders entitled to vote at the annual meeting. The directors hold office for one (1) year and until their successors are elected and qualified in accordance with the Company’s By-Laws.

The following are the members of the Board and corporate secretarial officers elected in the annual stockholders’ meeting held on April 17, 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Board Committee Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fernando Zobel de Ayala</td>
<td>Chairman of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Chairman of Executive Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Remuneration Committee</td>
</tr>
<tr>
<td>Jaime Augusto Zobel de Ayala</td>
<td>Vice Chairman of the Board of Directors</td>
</tr>
<tr>
<td>Ferdinand M. Dela Cruz</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td></td>
<td>Member of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Member of Executive Committee</td>
</tr>
<tr>
<td>Oscar S. Reyes</td>
<td>Lead Independent Director</td>
</tr>
<tr>
<td></td>
<td>Chairman of Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Remuneration Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Nomination Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Risk Committee</td>
</tr>
<tr>
<td>Gerardo C. Ablaza, Jr.</td>
<td>Member of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Vice Chairman of Executive Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Risk Committee</td>
</tr>
<tr>
<td>Antonino T. Aquino</td>
<td>Member of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Member of Executive Committee</td>
</tr>
<tr>
<td>Delfin L. Lazaro</td>
<td>Member of the Board of Directors</td>
</tr>
<tr>
<td>John Eric T. Francia</td>
<td>Member of the Board of Directors</td>
</tr>
<tr>
<td></td>
<td>Member of Executive Committee</td>
</tr>
<tr>
<td>Jaime C. Laya</td>
<td>Independent Director</td>
</tr>
<tr>
<td></td>
<td>Chairman of Risk Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Nomination Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Related Party Transactions Committee</td>
</tr>
<tr>
<td>Sherisa P. Nuesa</td>
<td>Independent Director</td>
</tr>
<tr>
<td></td>
<td>Chairman, Related Party Transactions</td>
</tr>
<tr>
<td></td>
<td>Member of Remuneration Committee</td>
</tr>
<tr>
<td>Jose L. Cuisia, Jr.</td>
<td>Independent Director</td>
</tr>
<tr>
<td></td>
<td>Chairman of Nomination Committee</td>
</tr>
<tr>
<td></td>
<td>Chairman of Remuneration Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Risk Committee</td>
</tr>
<tr>
<td></td>
<td>Member of Related Party Transactions Committee</td>
</tr>
</tbody>
</table>
Below are the Company’s key executive officers appointed during the organizational meeting of the board held on April 17, 2017:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ferdinand M. Dela Cruz</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td>Luis Juan B. Oreta</td>
<td>Chief Finance Officer and Treasurer</td>
</tr>
<tr>
<td></td>
<td>Compliance Officer</td>
</tr>
<tr>
<td></td>
<td>Group Director, Corporate Finance and Governance</td>
</tr>
<tr>
<td>Virgilio C. Rivera Jr.</td>
<td>Chief Operating Officer, New Business Operations</td>
</tr>
<tr>
<td>Geodino V. Carpio</td>
<td>Chief Operating Officer, Manila Water Operations</td>
</tr>
<tr>
<td></td>
<td>Group Director, Corporate Operations, Manila Water Operations</td>
</tr>
<tr>
<td></td>
<td>Data Protection Officer</td>
</tr>
<tr>
<td>Abelardo P. Basilio</td>
<td>Group Director, Strategic Asset Management Manila Water Operations</td>
</tr>
<tr>
<td>Rodell A. Garcia</td>
<td>Chief Technology Adviser</td>
</tr>
<tr>
<td></td>
<td>Group Director, Corporate Information Technology Manila Water Operations</td>
</tr>
<tr>
<td>Thomas T. Mattison</td>
<td>Group Director, Corporate Project Management Manila Water Operations</td>
</tr>
<tr>
<td>Janine T. Carreon</td>
<td>Group Director, Corporate Human Resources Manila Water Operations</td>
</tr>
<tr>
<td>Esmeralda R. Quines</td>
<td>Group Director, East Zone Business Operations Manila Water Operations</td>
</tr>
<tr>
<td>Ma. Victoria P. Sugapong</td>
<td>Group Deputy Chief Finance Officer</td>
</tr>
<tr>
<td></td>
<td>Chief Accountant</td>
</tr>
<tr>
<td>Jocelyn Frances P. Sison</td>
<td>Chief Risk Officer</td>
</tr>
<tr>
<td>Xerxes Noel O. Ordanez</td>
<td>Chief Audit Executive</td>
</tr>
</tbody>
</table>

For more information about each of the members of the Board and the key officers, please visit the Manila Water website at [www.manilawater.com](http://www.manilawater.com).
APPENDIX B

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise of cash and cash equivalents, AFS financial assets, concession financial receivable, long-term debt and service concession obligation. The main purpose of the Group’s financial instruments is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group has other various financial assets such as trade receivables and payables which arise directly from the conduct of its operations.

The Parent Company’s BOD reviews and approves the policies for managing each of these risks. The Group monitors risks arising from all financial instruments and regularly report financial management activities and the results of these activities to the Parent Company’s BOD.

The Group’s risk management policies are summarized below:

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group’s exposure to interest rate risk relates primarily to its financial instruments with floating and/or fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

The Group’s policy is to manage the interest payments using a mix of fixed and variable rate debts to minimize the Group’s exposure to changes in interest rates primarily from its long-term debt. As of March 31, 2017 and December 31, 2016, the Group’s mix of fixed interest and floating interest rate of long-term debt are 75.68% and 24.32% and 76.05% to 23.95%, respectively.

Fixed interest rates of the Group’s foreign currency denominated long-term debt is from 4.57% to 4.66% and is from 4.42% to 9.00% for Peso denominated long term debt. Floating interest rates are based on 6-month LIBOR plus margin as of March 31, 2017 and December 31, 2016.

**Foreign Exchange Risk**

The Group’s foreign exchange risk results primarily from movements of the PHP against the USD and JPY. Substantially all revenues are generated in PHP and majority of capital expenditures are also in PHP. Approximately 43.9% and 44.0% of of debt as of March 31, 2017 and December 31, 2016, 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:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original Currency</td>
<td>Peso Equivalent</td>
</tr>
<tr>
<td></td>
<td>(Amount in Thousands)</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>USD19,787</td>
<td>₱993,286</td>
</tr>
<tr>
<td>VND</td>
<td>VND4,242,805</td>
<td>9,334</td>
</tr>
<tr>
<td>AUD</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>SGD</td>
<td>SGD28</td>
<td>1,002</td>
</tr>
<tr>
<td>IDR</td>
<td>IDR1,230,806</td>
<td>5,016</td>
</tr>
<tr>
<td>MMK</td>
<td>MMK12,678</td>
<td>468</td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>USD452</td>
<td>22,680</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,031,786</td>
<td>806,236</td>
</tr>
</tbody>
</table>
Under Amendment 1 of the Concession Agreement, however, the Parent Company and Boracay Water have a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in their tariffs. Thus, the Group does not expect any movement of the USD, JPY, FRF, SGD, AUD, VND, IDR and MMK against the Philippine Peso to have a significant effect on the Group’s income before income tax.

Credit Risk
The Group trades only with recognized and creditworthy third parties. It is the Group’s policy that, except for connection fees, the Group does not offer credit terms to its customers.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and short-term cash investments, the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group transacts only with institutions or banks which have demonstrated financial soundness for the past five (5) years.

With respect to receivables from customers, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

The Group has no significant concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to their carrying value.

As of March 31, 2017 and December 31, 2016, the credit quality per class of the Group’s financial assets are as follows:

<table>
<thead>
<tr>
<th>March 31, 2017</th>
<th>Neither Past Due nor Impaired</th>
<th>Past Due and Impaired</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents*</td>
<td>₱3,981,030</td>
<td>₱–</td>
<td>₱3,981,030</td>
</tr>
<tr>
<td>Receivables from:</td>
<td>(Amount in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and used water services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>518,113</td>
<td>1,070,246</td>
<td>572,198</td>
</tr>
<tr>
<td>Commercial</td>
<td>76,671</td>
<td>13,385</td>
<td>91,369</td>
</tr>
<tr>
<td>Semi-business</td>
<td>48,825</td>
<td>5,222</td>
<td>39,765</td>
</tr>
<tr>
<td>Industrial</td>
<td>65,121</td>
<td>2,675</td>
<td>6,137</td>
</tr>
</tbody>
</table>
March 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>Neither Past Due nor Impaired</th>
<th>Past Due and Impaired</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Amount in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pipework services</td>
<td>–</td>
<td>282,498</td>
<td>282,498</td>
</tr>
<tr>
<td>Distributor’s fee</td>
<td>–</td>
<td>123,916</td>
<td>123,916</td>
</tr>
<tr>
<td>Supervision fee</td>
<td>–</td>
<td>314,382</td>
<td>314,382</td>
</tr>
<tr>
<td>Bonifacio Water Corporation</td>
<td>–</td>
<td>526,126</td>
<td>526,126</td>
</tr>
<tr>
<td>Employees</td>
<td>8,040</td>
<td>31,289</td>
<td>39,329</td>
</tr>
<tr>
<td>Interest from banks</td>
<td>–</td>
<td>8,308</td>
<td>8,308</td>
</tr>
<tr>
<td>Others</td>
<td>–</td>
<td>94,015</td>
<td>152,005</td>
</tr>
<tr>
<td>Concession financial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>receivable</td>
<td>1,216,135</td>
<td>–</td>
<td>1,216,135</td>
</tr>
<tr>
<td></td>
<td>₱5,913,935</td>
<td>₱2,472,278</td>
<td>₱767,459</td>
</tr>
</tbody>
</table>

*Excludes cash on hand

December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Neither Past Due nor Impaired</th>
<th>Past Due and Impaired</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Amount in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents*</td>
<td>₱4,011,787</td>
<td>–</td>
<td>₱4,011,787</td>
</tr>
<tr>
<td>Receivables from:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and used water services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>199,672</td>
<td>867,676</td>
<td>1,626,777</td>
</tr>
<tr>
<td>Commercial</td>
<td>69,594</td>
<td>67,939</td>
<td>168,533</td>
</tr>
<tr>
<td>Semi-business</td>
<td>13,631</td>
<td>119,206</td>
<td>132,837</td>
</tr>
<tr>
<td>Industrial</td>
<td>97,373</td>
<td>202,501</td>
<td>300,874</td>
</tr>
<tr>
<td>Pipework services</td>
<td>–</td>
<td>219,752</td>
<td>219,752</td>
</tr>
<tr>
<td>Distributor’s fee</td>
<td>–</td>
<td>115,005</td>
<td>115,005</td>
</tr>
<tr>
<td>Supervision fee</td>
<td>–</td>
<td>193,756</td>
<td>193,756</td>
</tr>
<tr>
<td>Bonifacio Water Corporation</td>
<td>–</td>
<td>529,501</td>
<td>529,501</td>
</tr>
<tr>
<td>Employees</td>
<td>170</td>
<td>40,346</td>
<td>40,346</td>
</tr>
<tr>
<td>Interest from banks</td>
<td>–</td>
<td>8,255</td>
<td>8,255</td>
</tr>
<tr>
<td>Others</td>
<td>25,071</td>
<td>50,464</td>
<td>75,535</td>
</tr>
<tr>
<td>Concession financial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>receivable</td>
<td>1,205,814</td>
<td>–</td>
<td>1,205,814</td>
</tr>
<tr>
<td></td>
<td>₱5,913,935</td>
<td>₱2,472,278</td>
<td>₱767,459</td>
</tr>
</tbody>
</table>

*Excludes cash on hand

As of March 31, 2017 and December 31, 2016, the Group does not have financial assets that are ‘past due but not impaired’.

The credit quality of the financial assets were determined as follows:

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. Management assesses the quality of these assets as high grade.

Receivables which are classified as high grade pertains to receivables that are collectible within seven (7) days from bill delivery. Receivables rated as standard are collectible from eleven (11) to thirty (30) days from bill delivery.

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, debentures, preference shares, leases and hire purchase contracts. 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:

### March 31, 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>Within 1 year</th>
<th>1-5 years</th>
<th>More than 5 years</th>
<th>Total - Gross</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>₱3,981,030</td>
<td>₱–</td>
<td>₱–</td>
<td>₱3,981,030</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>3,054,449</td>
<td></td>
<td></td>
<td>3,054,449</td>
</tr>
<tr>
<td>Employees</td>
<td>39,329</td>
<td></td>
<td></td>
<td>39,329</td>
</tr>
<tr>
<td>Interest from banks</td>
<td>8,308</td>
<td></td>
<td></td>
<td>8,308</td>
</tr>
<tr>
<td>Others</td>
<td>13,913</td>
<td></td>
<td></td>
<td>13,913</td>
</tr>
<tr>
<td>AFS financial assets</td>
<td>2,409</td>
<td></td>
<td></td>
<td>2,409</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>₱7,099,438</strong></td>
<td>₱–</td>
<td>₱–</td>
<td><strong>₽7,099,438</strong></td>
</tr>
</tbody>
</table>

### December 31, 2016

<table>
<thead>
<tr>
<th>Assets</th>
<th>Within 1 year</th>
<th>1 to 5 years</th>
<th>More than 5 years</th>
<th>Total – Gross</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>₱4,065,700</td>
<td>₱–</td>
<td>₱–</td>
<td>₱4,065,700</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>2,876,275</td>
<td></td>
<td></td>
<td>2,876,275</td>
</tr>
<tr>
<td>Employees</td>
<td>40,939</td>
<td></td>
<td></td>
<td>40,939</td>
</tr>
<tr>
<td>Interest from banks</td>
<td>8,255</td>
<td></td>
<td></td>
<td>8,255</td>
</tr>
<tr>
<td>Others</td>
<td>135,149</td>
<td></td>
<td></td>
<td>135,149</td>
</tr>
<tr>
<td>AFS financial assets</td>
<td>2,409</td>
<td></td>
<td></td>
<td>2,409</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>₽7,128,727</strong></td>
<td>₱–</td>
<td>₱–</td>
<td><strong>₽7,128,727</strong></td>
</tr>
</tbody>
</table>

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

### March 31, 2017

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Within 1 year</th>
<th>1 to 5 years</th>
<th>More than 5 years</th>
<th>Total – Gross</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts and other payables</td>
<td>₱4,997,212</td>
<td>₱–</td>
<td>₱–</td>
<td>₱4,997,212</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>300,000</td>
<td>₱–</td>
<td>₱–</td>
<td>300,000</td>
</tr>
<tr>
<td>Long-term debt*</td>
<td>8,366,117</td>
<td>17,225,235</td>
<td>2,267,946</td>
<td>27,859,298</td>
</tr>
<tr>
<td>Service concession obligations*</td>
<td>734,407</td>
<td>6,872,082</td>
<td>₱–</td>
<td>7,606,489</td>
</tr>
<tr>
<td>Customers’ guaranty and other deposits</td>
<td>₱–</td>
<td>₱–</td>
<td>358,649</td>
<td>358,649</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>₽14,397,736</strong></td>
<td>₱24,097,317</td>
<td>₱2,626,595</td>
<td><strong>₽41,121,648</strong></td>
</tr>
</tbody>
</table>

*Includes contractual interest cash flows

### December 31, 2016

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Within 1 year</th>
<th>1 to 5 years</th>
<th>More than 5 years</th>
<th>Total – Gross</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts and other payables</td>
<td>₱3,946,925</td>
<td>₱–</td>
<td>₱–</td>
<td>₱3,946,925</td>
</tr>
<tr>
<td>Long-term debt*</td>
<td>3,287,205</td>
<td>23,653,377</td>
<td>6,712,889</td>
<td>33,653,471</td>
</tr>
<tr>
<td>Service concession obligation*</td>
<td>1,113,205</td>
<td>4,905,984</td>
<td>12,271,390</td>
<td>18,290,579</td>
</tr>
<tr>
<td>Customers’ guaranty deposits and other deposits</td>
<td>₱–</td>
<td>₱–</td>
<td>279,535</td>
<td>279,535</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>₽8,347,335</strong></td>
<td>₱28,559,361</td>
<td>₱19,263,814</td>
<td><strong>₽56,170,510</strong></td>
</tr>
</tbody>
</table>

*Includes contractual interest cash flows
Capital Management

The primary objective of the Group’s capital management strategy is to ensure that it maintains a healthy capital structure, in order to maintain a strong credit standing while it maximizes shareholder value.

The Group closely manages its capital structure vis-à-vis a certain target gearing ratio, which is total debt (less service concession 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.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td>42,761,327</td>
<td>41,097,715</td>
</tr>
<tr>
<td>Less: Total service</td>
<td>7,606,489</td>
<td>7,699,644</td>
</tr>
<tr>
<td>concession obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total stockholders’</td>
<td>35,154,838</td>
<td>33,398,071</td>
</tr>
<tr>
<td>equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>80,081,069</td>
<td>77,779,758</td>
</tr>
<tr>
<td>Gearing ratio</td>
<td>44%</td>
<td>43%</td>
</tr>
</tbody>
</table>

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 and AFS financial assets. To compute its total capital, the Group uses the total stockholders’ equity.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td>42,761,327</td>
<td>41,097,715</td>
</tr>
<tr>
<td>Less: Service</td>
<td>7,606,489</td>
<td>7,699,644</td>
</tr>
<tr>
<td>concession obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash</td>
<td>3,990,768</td>
<td>4,065,700</td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFS financial assets</td>
<td>2,409</td>
<td>2,409</td>
</tr>
<tr>
<td>Net debt</td>
<td>31,161,661</td>
<td>29,329,962</td>
</tr>
<tr>
<td>Total stockholders’</td>
<td>44,926,231</td>
<td>44,381,687</td>
</tr>
<tr>
<td>equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net debt</td>
<td>76,087,892</td>
<td>73,711,649</td>
</tr>
<tr>
<td>and stockholders’ equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net debt and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>equity ratio</td>
<td>41%</td>
<td>40%</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th></th>
<th>2017 High</th>
<th>2017 Low</th>
<th>2016 High</th>
<th>2016 Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Quarter</td>
<td>31.60</td>
<td>28.65</td>
<td>27.40</td>
<td>24.00</td>
</tr>
<tr>
<td>2nd Quarter</td>
<td>–</td>
<td>–</td>
<td>28.25</td>
<td>26.00</td>
</tr>
<tr>
<td>3rd Quarter</td>
<td>–</td>
<td>–</td>
<td>29.80</td>
<td>25.65</td>
</tr>
<tr>
<td>4th Quarter</td>
<td>–</td>
<td>–</td>
<td>32.35</td>
<td>27.30</td>
</tr>
</tbody>
</table>

For the first quarter of 2017, the highest sale price was ₱31.60 and lowest sale price was ₱28.65.

The price information as of the close of March 31, 2017 was ₱30.80.
On March 1, 2017, the BOD declared the first semester 2017 cash dividends: (i) Php0.4244 per share on the outstanding common shares, and (ii) Php0.04244 per share on the outstanding participating preferred shares. The dividends were payable to stockholders of record as of March 15, 2017 and were paid on March 31, 2017.
APPENDIX D

SUMMARY OF CORPORATE DISCLOSURES DURING THE FIRST QUARTER OF 2017

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 Philippine Stock Exchange (PSE). The 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 quarter of 2017.

<table>
<thead>
<tr>
<th>DATE</th>
<th>TOPIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 3, 2017</td>
<td>Update on Annual Corporate Governance Report – Attendance of the Board of Directors</td>
</tr>
<tr>
<td>January 3, 2017</td>
<td>Statement of Changes in Beneficial Ownership of Securities – Ayala Corporation</td>
</tr>
<tr>
<td>January 5, 2017</td>
<td>Foreign Ownership Report</td>
</tr>
<tr>
<td>January 5, 2017</td>
<td>Report on the Number of Shareholders</td>
</tr>
<tr>
<td>January 9, 2017</td>
<td>List of Top 100 Stockholders</td>
</tr>
<tr>
<td>January 13, 2017</td>
<td>Public Ownership Report</td>
</tr>
<tr>
<td>January 24, 2017</td>
<td>Material Information/Transactions – Notice of Award from the Obando Water District</td>
</tr>
<tr>
<td>January 30, 2017</td>
<td>Update on Annual Corporate Governance Report – Certificate of Full Compliance of the Company’s Manual of Corporate Governance</td>
</tr>
<tr>
<td>February 2, 2017</td>
<td>Report on the Number of Shareholders</td>
</tr>
<tr>
<td>February 6, 2017</td>
<td>Notice of Annual Stockholders’ Meeting</td>
</tr>
<tr>
<td>February 6, 2017</td>
<td>Update on Annual Corporate Governance Report – Notice and Agenda of the Annual Stockholders’ Meeting with detailed explanation and rationale on each agenda item</td>
</tr>
<tr>
<td>February 6, 2017</td>
<td>Foreign Ownership Report</td>
</tr>
<tr>
<td>February 16, 2017</td>
<td>Notice of Analysts’/Investors’ Briefing</td>
</tr>
<tr>
<td>February 23, 2017</td>
<td>Material Information/Transactions – Unaudited 2016 Performance Results</td>
</tr>
<tr>
<td>February 23, 2017</td>
<td>List of Stockholders as of Annual Stockholders’ Meeting Record Date (February 20, 2017)</td>
</tr>
<tr>
<td>February 27, 2017</td>
<td>Information Statement – Preliminary</td>
</tr>
<tr>
<td>March 1, 2017</td>
<td>Material Information/Transactions – Results of the Regular Meeting of the Board of Directors held on March 1, 2017</td>
</tr>
<tr>
<td>March 1, 2017</td>
<td>Declaration of Cash Dividends</td>
</tr>
<tr>
<td>March 1, 2017</td>
<td>Material Information/Transactions – 2016 Audited Consolidated Financial Statements</td>
</tr>
<tr>
<td>March 3, 2017</td>
<td>Update on Annual Corporate Governance Report</td>
</tr>
<tr>
<td>March 6, 2017</td>
<td>Foreign Ownership Report</td>
</tr>
<tr>
<td>March 6, 2017</td>
<td>Report on the Number of Shareholders</td>
</tr>
<tr>
<td>March 14, 2017</td>
<td>Information Statement – Definitive</td>
</tr>
<tr>
<td>March 17, 2017</td>
<td>Other SEC Forms, Reports and Requirements – Consent of the CCP to the Nomination/Election of Dr. Jaime C. Laya as Independent Director of Manila water Company, Inc.</td>
</tr>
<tr>
<td>March 30, 2017</td>
<td>Compliance Report on Corporate Governance</td>
</tr>
</tbody>
</table>

For more details on these disclosures, please visit the Manila Water website at [www.manilawater.com](http://www.manilawater.com).
APPENDIX E

PERFORMANCE INDICATORS AND BUSINESS EFFICIENCY MEASURES
As of March 31, 2017

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Water Service Connections (cum)²</td>
<td>964,027</td>
<td>956,898</td>
</tr>
<tr>
<td>Continuity of Water Supply (24-hour supply)</td>
<td>98%</td>
<td>100%</td>
</tr>
<tr>
<td>Pressure of Water Supply (minimum of 7 psi)</td>
<td>98%</td>
<td>99.04%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of CDS @ 19.80 psi (average)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>99.05% of currently-served areas @ 20.22 psi (average)</td>
</tr>
<tr>
<td>Water Quality at Plant Outlet (% compliance with PNSDW) (cum. for the year 2017)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Water Quality in Distribution (% compliance with PNSDW) (cum. for the year 2017)</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Sampling (% compliance with PNSDW) (cum. for the year 2017)</td>
<td>100%</td>
<td>107.0%</td>
</tr>
<tr>
<td>Sewerage Connections (cum. 2017)</td>
<td>170,820</td>
<td>133,404</td>
</tr>
<tr>
<td>Sanitation (Septic Tanks Emptied) (cum. 2017)</td>
<td>61,641</td>
<td>20,083</td>
</tr>
<tr>
<td>Wastewater Effluent Quality (%Compliance with DENR Standards) (cum. for the year 2017)</td>
<td>95%</td>
<td>99.87%</td>
</tr>
<tr>
<td>Response to Customer Service Complaints (% of complaints responded within 10 days) (cum. for the year 2017)</td>
<td>95%</td>
<td>96.29%</td>
</tr>
<tr>
<td>Response to Billing Complaints (% of complaints responded within 10 days) (cum. for the year 2017)</td>
<td>92%</td>
<td>95.24%</td>
</tr>
<tr>
<td>Response to Request for New Connections (% of requests responded within 5 days) (cum. for the year 2017)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Installation of New Water Service Connections (no. of regular connections installed within 7 days) (cum. for the year 2017) – regular connections excluding connections related to new pipeline projects</td>
<td>7,508⁶</td>
<td>7,384⁶</td>
</tr>
<tr>
<td>Response to disruptive mains failure (% of disruptive main failures repaired within 24 hours) (cum. for the year 2017)</td>
<td>96%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Efficiency Measures</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billed Volume (mcm) (cum. for the year 2017)</td>
<td>490</td>
<td>115.95</td>
</tr>
<tr>
<td>Revenue Collection Rate (cum. for the year 2017)</td>
<td>95%</td>
<td>101.70%</td>
</tr>
<tr>
<td>Labor Cost (cum. for the year 2017 - in million pesos)</td>
<td>max. of 1,586</td>
<td>350</td>
</tr>
<tr>
<td>Power Consumption (cum. for the year 2017 - in million KwH)</td>
<td>max. of 152</td>
<td>24.17</td>
</tr>
<tr>
<td>Total Controllable OPEX (cum. for the year 2017 - in million pesos)</td>
<td>1,751</td>
<td>359.75</td>
</tr>
<tr>
<td>CAPEX (cumulative from 2017 to 2021 - in million pesos)³</td>
<td>12,636</td>
<td>1,584.28</td>
</tr>
<tr>
<td>Non-Revenue Water % (YTD Average)</td>
<td>max. of 12%</td>
<td>12.54%</td>
</tr>
</tbody>
</table>

¹ Installed domestic water service connection include temporarily disconnected water service connections (WSCs) but exclude permanently disconnected WSCs
² Year-end target
³ Year-to-date actual figures
⁴ Year-end target
⁵ Year-to-date actual figures
⁶ Total CAPEX net of interest during construction and engineering and supervision
APPENDIX F

*AVERAGE TARIFF

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Previous Basic</td>
<td>25.25</td>
<td>25.25</td>
<td>25.25</td>
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<tr>
<td>CPI</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Rate Rebasin</td>
<td>(0.56)</td>
<td>(0.56)</td>
<td>(0.56)</td>
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<tr>
<td>Total Basic Water</td>
<td>24.89</td>
<td>24.89</td>
<td>24.89</td>
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<tr>
<td>FCDA</td>
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<tr>
<td>EC</td>
<td>5.01</td>
<td>5.03</td>
<td>5.03</td>
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<td><strong>TOTAL</strong></td>
<td><strong>30.05</strong></td>
<td><strong>30.17</strong></td>
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<td>VAT</td>
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<td><strong>TOTAL w/ VAT</strong></td>
<td><strong>33.65</strong></td>
<td><strong>33.79</strong></td>
<td><strong>33.79</strong></td>
</tr>
</tbody>
</table>

*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.