FINANCIAL **REVIEW**

Consolidated Financial Statements
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MANAGEMENT'S DISCUSSION AND ANALYSIS 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 audited financial statements, including related notes. This report may contain forward-looking statements that involve risks and uncertainties. The actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to, economic, regulatory, socio-political, financial and other risk factors.

Any references in this MD&A to "our", "us", "we", "MWCI" or the "Group" shall refer to Manila Water Company, Inc., including its subsidiaries. Any reference to "Manila Water Company", "Manila Water", "MWC" or the "Company" shall refer to the parent company only.

Additional information about the Group, including recent disclosures of material events and annual/ quarterly reports, are available at our corporate website at www.manilawater.com.

OVERVIEW OF THE BUSINESS

Manila Water Company holds the right to provide water and used water services to the eastern side of Metro Manila (Manila Concession or East Zone) under a Concession Agreement (CA) entered into between the Company and the Metropolitan Waterworks and Sewerage System (MWSS) in August 1997. The original term of the concession was for a period of 25 years to expire in 2022. The Company's concession was extended by another 15 years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than six million people in the East Zone, comprising a broad range of residential, semi-business, commercial and industrial customers. The East Zone encompasses 23 cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, 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 right, as agent and concessionaire of MWSS, to extract and treat raw water, distribute and sell water, and collect, transport, treat and dispose used water, including reusable industrial effluent discharged by the sewerage system in the East Zone. The Company is entitled to recover over the concession period its operating, capital maintenance and investment expenditures, business taxes, and concession fee payments, and to earn a rate of return on these expenditures for the remaining term of the concession.

Aside from the Manila Concession, the Group has a holding company for all its domestic operating subsidiaries in Manila Water Philippine Ventures, Inc. (MWPV). Currently under MWPV are Clark Water Corporation (Clark Water), Laguna AAA Water Corporation (Laguna Water), Boracay Island Water Company (Boracay Water), Manila Water Consortium, Inc. (MW Consortium), a subsidiary of MW Consortium – Cebu Manila Water Development, Inc. (Cebu Water), Bulacan MWPV Development Corporation (BMDC), Filipinas Water Consortium Holdings Corp. (Filipinas Water), subsidiaries of Filipinas Water – Obando Water Company, Inc. (Obando Water) and Bulakan Water Company, Inc. (Bulakan Water), Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a subsidiary of Davao Water – Tagum Water Company, Inc. (Tagum Water), Zamboanga Water Company, Inc. (Zamboanga Water), Manila Water International Solutions, Inc (MWIS), Aqua Centro MWPV Corporation (Aqua Centro MWPV), EcoWater MWPV Corporation (EcoWater), and Leyte Water Company, Inc. (Leyte Water). Also under MWPV is Estate Water, which is its division that operates and manages the water systems of townships developed by Ayala Land, Inc. Another subsidiary of Manila Water is Calasiao Water Company, Inc. (Calasiao Water), a water supply project for the Calasiao Water District.

The holding company for its international ventures is Manila Water Asia Pacific Pte. Ltd. (MWAP). Under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.O.O Corporation (Thu Duc Water) and Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), both supplying treated water to Saigon Water Corporation (SAWACO) under a take-or-pay arrangement.

Also under MWAP are Saigon Water Infrastructure Corporation (Saigon Water), a holding company listed in the Ho Chi Minh City Stock Exchange, Cu Chi Water Supply Sewerage Company, Ltd. (Cu Chi Water) and another company tasked to pursue non-revenue water reduction projects in Vietnam called Asia Water Network Solutions Joints Stock Company (Asia Water). Apart from its operations in Vietnam, MWAP has affiliates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (East Water), and PT Sarana Tirta Ungaran (PT STU), respectively.

Lastly, Manila Water Total Solutions Corporation (MWTS), a wholly-owned subsidiary, handles after-the-meter products and services. Its current offerings include pipelaying, integrated used water services, and the sale of Healthy Family Purified Water as five-gallon and 500-ml purified water in selected areas in Metro Manila.

CONSOLIDATED FINANCIAL PERFORMANCE

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

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	Increase/ (Decrease)	%
Total operating revenues	**19,836,292**	18,515,772	1,320,520	7%
Total cost and expenses (excluding depreciation and amortization)	**8,076,088**	7,360,379	715,709	10%
Other income (expense) - net	**878,781**	540,980	337,800	62%
Equity share in net income of associates	**699,142**	457,208	241,934	53%
Others	**179,639**	83,772	95,867	114%
EBITDA	**12,638,985**	11,696,373	942,612	8%
Depreciation and amortization	**2,655,669**	2,556,999	98,670	4%
Income before other income/expenses	**9,983,316**	9,139,374	843,942	9%
Interest income (expense) - net	**(1,371,926)**	(1,057,498)	(314,428)	30%
Income before income tax	**8,611,390**	8,081,876	529,514	7%
Provision for income tax	**1,976,357**	1,941,929	34,428	2%
Net income	**6,635,033**	6,139,947	495,086	8%
Non-controlling interest	**111,332**	(6,661)	117,993	-1771%
Net income attributable to MWC	**6,523,701**	6,146,608	377,093	6%

Consolidated operating revenues grew by 7% to ₱19,836 million in 2018 from ₱18,516 million the previous year, on account of higher billed volume driven largely by the Manila Concession.

A breakdown of the revenue drivers is shown below:

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	Increase/ (Decrease)	%
Water	**15,231,518**	14,269,066	962,452	7%
Environmental charges	**2,719,651**	2,481,248	238,403	10%
Sewer	**520,401**	455,606	64,795	14%
Other operating income	**1,364,722**	1,309,852	54,870	4%
Total operating revenues	**19,836,292**	18,515,772	1,320,520	7%

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 costs and expenses (excluding depreciation and amortization) increased by 10% to ₱8,076 million in 2018, led by a 17% growth in direct costs to ₱3,514 million. This is due to higher costs of water treatment chemicals, higher contractual services, and increase in desludging costs due to higher number of households desludged. Another driver of operating costs and expenses was personnel costs brought about by higher headcount at the subsidiaries, driven by continued business expansion.

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

	For the years ended December 31 (in thousand Pesos)			
	2018	2017	Increase/ (Decrease)	%
Salaries, wages and employee benefits	**2,323,082**	2,059,203	263,879	13%
Non-personnel costs	**5,329,406**	4,830,378	499,028	10%
Direct costs	**3,514,476**	2,992,401	522,075	17%
Overhead	**1,427,710**	1,507,402	(79,692)	-5%
Premises	**387,220**	330,575	56,645	17%
Other expenses	**423,600**	470,798	(47,198)	-10%
Total cost and expenses (excluding depreciation and amortization)	**8,076,088**	7,360,379	715,709	10%

Meanwhile, other income (net of expense) grew by 62% to ₱879 million in 2018 from ₱541 million the previous year, due to higher equity share in net income of associates and net foreign exchange gains. The two bulk water companies in Vietnam, namely Thu Duc Water and Kenh Dong Water, together with additional contributions coming from new acquisitions, East Water in Thailand and PT Sarana Tirta Ungaran in Indonesia, contributed ₱699 million in net income, growing by 53% year-on-year.

The movements in operating revenues and expenses as well as other income resulted in consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA) of ₱12,639 million in 2018, improving by 8% from the previous year. EBITDA margin was recorded at 64%.

Depreciation and amortization rose by 4% to ₱2,656 million in line with the Group's continued asset build-up. Meanwhile, net interest expense was higher by 30% to ₱1,372 million due to incremental interest expense arising from the second and final drawdown from the Yen loan facility of the Manila Concession, as well as the new loan drawdowns of the subsidiaries. Provision for income tax increased by 2% to ₱1,976 million due to the higher taxable base of the Group. These developments resulted in a reported net income of ₱6,524 million in 2018, growing 6% from 2017.

BUSINESS UNITS' FINANCIAL AND OPERATING PERFORMANCE

MANILA CONCESSION

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	**503.3**	488.4	14.9	3%
Domestic	**324.2**	317.7	6.6	2%
Semi-Business	**63.7**	60.5	3.2	5%
Commercial	**91.5**	87.2	4.3	5%
Industrial	**23.9**	23.0	0.9	4%
Number of billed connections	**986,756**	961,663	25,093	3%
Non-revenue water	**11.4%**	11.6%	0.2% pt	
Financial Highlights (in thousand Pesos)				
Revenues	**16,234,100**	15,082,828	1,151,272	8%
Cost and expenses	**4,804,285**	4,235,462	568,823	13%
EBITDA	**11,616,869**	10,861,683	755,186	7%
Net income	**6,521,192**	5,949,821	571,371	10%

The Manila Concession's billed volume increased by 3% in 2018 to 503.3 million cubic meters (mcm), on account of a 3% improvement in billed water connections (net of permanent disconnections) to 986,756 customers at the end of the period. Average consumption slightly increased by 0.02% to 42.97 cubic meters per connection, while average effective tariff increased by 4% to ₱31.11 per cubic meter.

Billed volume growth was driven by the improvement in semi-business and commercial accounts both growing by 5%, with the latter due to increased foot traffic in business establishments and the reclassification of major accounts. Domestic accounts likewise grew by 2% mainly due to new regular accounts and the realization of prior year's projects. Lastly, industrial accounts grew by 4% driven by new developments under construction particularly in Taguig and Marikina areas.

The level of system losses, as measured by non-revenue water (NRW), improved to 11.4% at the end of the period from 11.6% during the same period in 2017, resulting from replaced pipelines and repaired assets. Meanwhile, collection efficiency in 2018 was at nearly 100%, with average accounts receivable days maintained at 19 days.

On September 27, 2018, the Metropolitan Waterworks and Sewerage System approved the Rate Rebasing Adjustment for the fifth Rate Rebasing period (2018 to 2022) amounting to an increase of 24.89%. To mitigate the impact of the tariff increase, Manila Water will stagger its implementation over a five-year period: (1) October 2018 at ₱1.46; (2) January 2019 at ₱0.00; (3) January 2020 at ₱2.00; (4) January 2021 at ₱2.00; and (5) January 2022 from ₱0.76 to ₱1.04. On October 16, 2018, the first tranche was implemented on the current basic tariff of ₱24.82 per cubic meter.

Supported by robust billed volume growth, revenues increased by 8% to ₱16,234 million in 2018. Cost and expenses, on the other hand, rose by 13% to ₱4,804 million due to an increase in direct and overhead costs, notably for the higher water turbidity at La Mesa intake and payment of management and legal services, respectively. This resulted in an EBITDA of ₱11,617 million and an EBITDA margin of 72%. Net income reached ₱6,521 million at the end of 2018, growing 10% from the same period last year.

MANILA WATER PHILIPPINES VENTURES (MWPV)

The following discussion includes the consolidated results of Manila Water Philippines Ventures, as well as the individual performance of the domestic operating subsidiaries in Boracay Water, Clark Water, Laguna Water, and Estate Water, which is a division within Manila Water Philippine Ventures.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	**82.2**	83.9	(1.7)	-2%
Financial Highlights (in thousand Pesos)				
Revenues	**3,295,267**	3,111,778	183,489	6%
Cost and expenses	**2,288,540**	2,279,786	8,754	0%
EBITDA	**1,051,469**	886,720	164,749	19%
Net income attributable to MWC	**194,877**	287,473	(92,596)	-32%

On a consolidated MWPV level, revenues grew 6% to ₱3,296 million due to higher average tariff of Boracay Water and Laguna Water, as well as income coming from new subsidiaries Obando Water, BMDC, Aqua Centro and Calasiao Water. Operating expenses slightly rose by 1% year-on-year as business building efforts continue. These include business development costs of ₱129 million for 2018. While cost and expenses were held steady, higher interest expense resulting from loan availments of the subsidiaries placed a strain on net income, ending at ₱195 million in 2018. This is a 32% decline from the previous year.

	For the years ended December 31			
	2018	**2017**	**Increase/ (Decrease)**	**%**
Clark Water				
Billed volume (in million cubic meters)	**14.1**	14.5	(0.4)	-3%
Net income (in thousand Pesos)	**80,188**	94,200	(14,012)	-15%
Laguna Water				
Billed volume (in million cubic meters)	**42.5**	44.1	(1.6)	-4%
Net income (in thousand Pesos)	**308,206**	(321,393)	629,599	-196%
Boracay Water				
Billed volume (in million cubic meters)	**3.9**	5.5	(1.6)	-29%
Net income (in thousand Pesos)	**5,680**	142,434	(136,754)	-96%
Estate Water				
Billed volume (in million cubic meters)	**5.7**	4.5	1.2	27%
Net income (in thousand Pesos)	**133,324**	254,967	(121,643)	-48%

Clark Water registered lower billed volume of 14.1 mcm in 2018, 3% down from 14.5 mcm in 2017 due to lower consumption of several key locators. It also faced a deterioration in NRW as it increased by 1.2%-points to 6.7% in 2018 from 5.5% the previous year. Its average effective tariff, however, improved by 3% to ₱31.05 per cubic meter. Clark Water spent ₱53 million in capital expenditures, mostly going to water supply projects. With lower billed volume, Clark Water's revenues dropped slightly by 1% to ₱455 million in 2018. Furthermore, cost and expenses rose by 2% to ₱256 million resulting in a 5% decline in EBITDA to ₱199 million. As a result, Clark Water net income declined by 15% to ₱80 million at the end of 2018.

Meanwhile, billed volume of Laguna Water dropped by 4% to 42.5 mcm in 2018, brought about by water conservation efforts undertaken by several of its LTI locators. On the other hand, NRW improved by 2.8%-points as it reached 16.7% at the end 2018 from 19.5% the previous year. Laguna Water spent ₱561 million in capital expenditures during the period, mostly for the expansion of water and used water networks. Revenues grew 10% in 2018 to ₱1.34 billion, on the back of a 13% improvement in average effective tariff to ₱27.81 per cubic meter and additional revenues from supervision fees. On the other hand, cost and expenses dropped 41% from 2017 to ₱724 million due to provision for unrecoverable receivables recognized the previous year. These movements resulted in a significant improvement in EBITDA to ₱636 million and 196% net income growth to ₱308 million at the end of 2018. The management takes a prudent approach in reflecting an objective view of the business. In 2018, Laguna Water recognized additional depreciation expense from its completed projects covering both the current and prior years and which resulted to a restatement of Laguna Water's 2017 statutory reported net loss. The additional depreciation expense was recognized in full in the 2018 consolidated operating expenses which does not materially affect the consolidated operating results of the Group for both 2018 and 2017.

Moving on to Boracay Water, its billed volume ended at 3.93 mcm in 2018, down by 29% from the previous year. This was a direct result of the island's closure in April 26, 2018 as part of the government's drive towards the island's environmental rehabilitation. Said closure led to a 53% decline in tourist arrivals during the period, with only 670,000 visitors allowed entry during the rehabilitation. Consequently, NRW improved by 8.7%-points to 13.8% during said period as leaks in the waterlines caused by the road improvements were repaired. Boracay Water spent capital expenditures of ₱444 million in 2018 for pipelaying and expansion of used water services. This is 4% lower than the previous year, mainly caused by project stoppage during the island's closure. Boracay Water's average effective tariff increased by 20% to ₱119.91 per cubic meter in line with the approval of its new rates by the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) Regulatory Office in 2017. However, the 29% decline in billed volume due to the island closure caused revenues to decrease by 24% to ₱454 million. Meanwhile, cost and expenses were managed and grew by only 1% to ₱287 million. With the significantly impaired revenue base, EBITDA declined by 47% to ₱167 million, translating to a 96% drop in net income to ₱6 million in 2018.

Lastly, Estate Water posted billed volume growth of 25% to 5.7 mcm in 2018, on the back of a 3% increase in billed connections coming from the brownfield Ayala Land developments it has taken over. However, capital expenditures spent mostly for the development of water and used water networks in its greenfield projects, dropped by 3% to ₱490 million as it encountered delays in the construction start for several developments. Revenues and other income remained steady at ₱638 million in 2018. On the other hand, cost and expenses rose 57% to ₱431 million, resulting in a drop in EBITDA of 43% to ₱207 million. Estate Water posted a net income of ₱133 million in 2018, declining 48% from the previous year.

MANILA WATER ASIA PACIFIC (MWAP)

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

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Operating Highlights				
Billed volume (in million cubic meters)	**574.9**	236.7	338.2	143%
Financial Highlights (in thousand Pesos)				
Equity Share in Net Income of Associates	**699,142**	457,208	241,934	53%
Cost and expenses	**224,172**	164,925	59,247	36%
EBITDA	**412,842**	332,043	80,799	24%
Net income attributable to MWC	**278,434**	332,579	(54,146)	-16%

On a consolidated MWAP level, equity share in net income of associates increased by 53% to ₱699 million, from the combined income of Thu Duc Water, Kenh Dong Water, Saigon Water, and the addition of East Water and PT STU. Operating expenses increased by 36% to ₱224 million, driven by additional personnel and management and professional costs during the year. These also include business development costs amounting ₱90 million for 2018. In addition, an impairment loss amounting to ₱65.4 million was recognized by MWAP in relation to its investment in Saigon Water due to the difference in the volume weighted average price (VWAP) and carrying value of the Company's investment in Saigon Water. As a result, 2018 net income ended at ₱278 million, 16% lower than the previous year due also to the interest expense related to the loan which financed the East Water acquisition.

	For the years ended December 31			
	2018	2017	Increase/ (Decrease)	%
Thu Duc Water				
Billed volume (in million cubic meters)	**110.2**	110.9	(0.7)	-1%
Net income (in million VND)	**105,406**	104,057	1,349	1%
Net income at 49.00% contribution (in thousand Pesos)	**254,895**	241,946	12,949	5%
Kenh Dong Water				
Billed volume (in million cubic meters)	**57.0**	57.8	(0.8)	-1%
Net income (in million VND)	**74,452**	76,251	(1,799)	-2%
Net income at 47.35% contribution (in thousand Pesos)	**152,656**	148,387	4,269	3%

Thu Duc Water sold a total of 110.2 mcm in 2018, dropping slightly by 1% from a billed volume level of 110.9 mcm the previous year. The decline was due to the lower water intake of Saigon Water Corporation ("SAWACO"). Under the Vietnamese Accounting Standards ("VAS"), revenues grew by 2% to VND335 billion. Thu Duc Water's operating expenses were held steady, increasing by 1% to VND112 billion. This led to an improvement in EBITDA by 2% to VND223 billion. Consequently, net income increased by 1% equivalent to VND105 billion, further supported by the 2% increase in average tariff. In peso terms, the PFRS-translated income reflected in the consolidated financial statements as equity share in net income of associates amounted to ₱255 million in 2018, equivalent to Manila Water's 49% stake in Thu Duc Water.

Kenh Dong Water's billed volume slightly declined by 1% in 2018 to 57.0 mcm from the 57.8 mcm registered in 2017. This is due to lower production to SAWACO caused by low water supply. Under the Vietnamese Accounting Standards (VAS), Kenh Dong Water posted revenues of VND221 billion and an EBITDA of VND148 billion. With higher direct costs, Kenh Dong's net income declined to VND74 billion, down 2% from 2017. Similar to Thu Duc Water, income from Kenh Dong Water is translated into PFRS and is reported as equity share in net income of associates in the consolidated financial statements. In peso terms, the PFRS-translated income of Manila Water's 47.35% stake in Kenh Dong Water amounted to ₱153 million in 2018.

Aside from Thu Duc Water and Kenh Dong Water, MWAP's investment in Saigon Water, the listed holding company in Vietnam, contributed a net income of ₱27 million in 2018. MWAP's new associates in Thailand and Indonesia, East Water and PT STU, contributed P263 million and ₱1.4 million, respectively.

BALANCE SHEET

The consolidated statement of financial position as of the end 2018 reflected the Group's continuous asset base expansion. Total assets rose by 19% to ₱122.53 billion, as the Group undertook additional investments in East Water and PT STU during the first quarter. Liabilities increased by 26% to ₱68.91 billion primarily to fund expansion and new acquisitions. Cash and cash equivalents stood at ₱9.39 billion.

With respect to the Group's loans, debt to equity ratio stood at 1.16x, excluding service concession obligations, while net bank debt to equity registered at 0.64x.

Under the Company's dividend policy, common shares are entitled to annual cash dividends equivalent to 35% of the prior year's net income, payable semi-annually. On March 1, 2018, the Company declared cash dividends for the first half of the year, set at ₱0.4302 per common share and ₱0.04302 per preferred share, amounting to ₱1.06 billion. On October 2, 2018, the Company declared cash dividends for the second half of the year, set at ₱0.4283 per common share and ₱0.04283 per preferred share, totaling ₱1.06 billion.

CAPITAL EXPENDITURES

The Group ended 2018 with total capital expenditures of ₱9,979 million, 23% lower than the previous year.

The Manila Concession spent a total of ₱8,045 million (inclusive of concession fee payments) for capital expenditures in 2018. Of the total amount, 93% was spent on wastewater expansion, network reliability, and water supply projects, while the balance of 7% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries dropped by 20% to ₱1,850 million from the ₱2,315 million spent in 2017. Of the total amount, ₱561 million was spent by Laguna Water for its water network expansion, while Boracay Water and Tagum Water disbursed ₱444 million and ₱203 million, respectively. Estate Water spent ₱490 million for its greenfield and brownfield projects, with the balance being taken on by the remaining subsidiaries for its various projects.

REPORT OF THE AUDIT COMMITTEE TO THE **BOARD OF DIRECTORS**

FOR THE YEAR ENDED DECEMBER 31, 2018

The Audit Committee's roles, responsibilities and authority are defined in the Audit Committee Charter approved by the Board of Directors. The Committee provides assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders relating to the:

a) integrity of the Manila Water Company, Inc.'s (the Company) financial statements and the financial reporting process;
b) appointment, remuneration, independence and performance of internal audit and of the independent auditors, and integrity of the audit process;
c) effectiveness of the systems of internal controls and enterprise risk management process;
d) compliance with applicable legal and regulatory requirements and other reporting standards;
e) performance and leadership of the internal control function; and
f) preparation of a year-end report of the Committee for approval of the Board and to be included in the annual report.

In compliance with the Audit Committee Charter, the Committee confirms that:

- An independent director chairs the Audit Committee. The Committee has three out of four members who are independent directors;
- The Committee had five meetings during the year with the following attendance rate:

Directors	No. of Meetings Attended/Held	Percent Present
Oscar S. Reyes	5/5	100%
Jose L. Cuisia Jr.	5/5	100%
Jaime C. Laya	5/5	100%
Gerardo C. Ablaza Jr.	5/5	100%

- The Committee reviewed and approved the quarterly unaudited Consolidated Financial Statements and the annual audited Consolidated Financial Statements of Manila Water Company, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2018, with the Company's Management, internal auditors, and SGV & Co. These activities were conducted in the following context:

  – Management has the primary responsibility for the financial statements and the reporting process; and
  – SyCip Gorres Velayo & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards.

- The Committee reviewed and approved the Management representation letter before submission to the Company's independent external auditors.

    - The Committee recommended to the Board of Directors the re-appointment of SyCip Gorres Velayo & Co. as independent external auditors for 2018 based on its review of SyCip Gorres Velayo & Co. performance and qualifications, including consideration of Management's recommendation.
    - The Committee reviewed and approved all audit and audit-related services provided by SyCip Gorres Velayo & Co. to the Company and the related fees for such services.
    - The Committee discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and of SyCip Gorres Velayo & Co., the results of their audits and their assessment of the Company's internal controls, and the overall quality of the financial reporting process.
    - The Committee discussed the reports of the internal auditors, and ensured that Management is taking appropriate actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
    - The Audit Committee, through the audits conducted by SGV & Co. and Internal Audit, has reviewed Management's system of internal controls and the Committee found the internal control system to be adequate and effective.
    - The Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
    - The Committee reviewed and confirmed that the existing Audit and Internal Audit Charters are sufficient to accomplish the Committee's and Internal Audit's objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
    - The Committee conducted a self-assessment of its performance to confirm that the Committee continues to meet the expectations of the Board, Management and shareholders.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the Company's audited consolidated financial statements in the Company's Annual Report to the Stockholders for the year ended December 31, 2018 and the filing thereof with the Securities and Exchange Commission.

February 22, 2019

OSCAR S. REYES
Chairman, Audit Committee

JAIME C. LAYA
Independent Director

JOSE L. CUISIA JR.
Independent Director

GERARDO C. ABLAZA JR.
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY **FOR FINANCIAL STATEMENTS**

The management of Manila Water Company, Inc. (the Company) and its subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or its subsidiaries, or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

FERNANDO ZOBEL DE AYALA
Chairman of the Board

FERDINAND M. DELA CRUZ
President and Chief Executive Officer

MA. CECILIA T. CRUZABRA
Chief Finance Officer

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manila Water Company, Inc.

Opinion

We have audited the consolidated financial statements of Manila Water Company, Inc. (the Parent Company) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Revenue recognition for Manila Concession (East Zone)

The Group's revenue from East Zone accounts for 82% of total consolidated revenue. The recognition process for the East Zone revenue requires processing of data from large number of customers classified as either residential, commercial, semi-business, or industrial within the Parent Company's concession area. The amounts billed to customers consist of a number of components, including basic charge, environmental charge and foreign currency differential adjustment and where applicable, sewer charge. These tariffs depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). This matter is significant to our audit because the revenue recognized depends on the completeness of capture of water consumption based on the meter readings over the concession area taken on various dates; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions. In addition, the Group adopted PFRS 15, Revenue from Contracts with Customers, effective January 1, 2018, which involves the application of significant judgment in the assessment of impracticability of retrospective restatement on accounting for connection fees.

Relevant disclosures related to this matter are provided in Notes 1, 2, 3 and 8 to the consolidated financial statements.

Audit response

We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, downloading of data from the billing system and uploading of data to the Parent Company's financial reporting system. We involved our internal specialist in the testing of the related controls over these processes. We performed test calculation of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statement.

For the adoption of PFRS 15, we obtained an understanding of the Group's processes in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis. For connection fees, we obtained an understanding of the process for new water service connections. We obtained sample water and sewer contracts and reviewed whether the accounting policies for connection fees appropriately considered requirements of PFRS 15. We also reviewed the basis of impracticability of retrospective restatement invoked by management against the requirements of PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and against company and industry practices.

Provisions and contingencies

The Group is involved in legal proceedings and assessments for local and national taxes. This matter is significant to our audit because the estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax and legal matters is brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosure about provisions and contingencies are included in Note 28 to the consolidated financial statements.

Audit response

Our audit procedures include, among others, involvement of our tax specialists in reviewing the status of these assessments, the tax position of the Parent Company's legal counsels on the merits of the arguments against the assessments, previous court decisions, implementing rules and opinions issued by relevant government and regulatory bodies. In addition, we performed an independent calculation of the amount of the provisions and compared this with the outstanding provisions as of year-end.

Amortization of Service Concession Assets Using the Units-of-production Method

The service concession assets (SCA) of the Group is related to its concession agreements. The Group uses units-of-production (UOP) method in amortizing its SCA based on the actual billed volume over the estimated billable water volume for the remaining period of the concession agreement. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total estimated billable water volume over the remaining periods of the concession agreements. It considers different factors such as population growth, supply and consumption, and service coverage, including ongoing and future expansions.

Refer to Note 3 to the consolidated financial statements for the relevant disclosures related to this matter.

Audit response

We obtained an understanding of management's processes and controls in the estimation of billable water volume. We evaluated the competence, capabilities, and objectivity of management's specialist who estimated the total billable water volume. We also reviewed the report of the management's specialist and gained an understanding of the methodology and the basis of computing the forecasted volumes. Furthermore, we compared the estimated billable water volume for the year against the data generated from the billing system. We recalculated the amortization expense for the year based on the actual billed water volume.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20- IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael C. Sabado.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332607, January 3, 2019, Makati City

February 28, 2019

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 21 and 28)	[illegible]	P9,020,744,089
Receivables (Notes 2, 6, 21 and 28)	[illegible]	2,045,815,819
Concession financial receivables - current portion (Notes 10, 25, 26 and 27)	193,706,165	197,043,608
Contract assets - current portion (Notes 2, 6 and 10)	[illegible]	–
Inventories (Note 7)	[illegible]	210,742,583
Other current assets (Notes 2 and 8)	[illegible]	1,285,410,717
Total Current Assets	[illegible]	12,758,785,808
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 21)	[illegible]	4,725,814,542
Service concession assets - net (Notes 10, 21 and 22)	[illegible]	74,520,345,581
Concession financial receivables - net of current portion (Notes 2, 10, 25, 26 and 27)	[illegible]	1,187,507,674
Contract assets - net of current portion (Notes 2, 6 and 10)	[illegible]	–
Investments in associates (Note 11)	[illegible]	8,758,037,258
Goodwill (Note 4)	[illegible]	184,725,085
Deferred tax assets - net (Note 18)	[illegible]	1,000,754,450
Other noncurrent assets (Notes 2, 12, 15, 26 and 27)	[illegible]	4,450,277,787
Total Noncurrent Assets	[illegible]	90,835,670,177
	[illegible]	P103,594,455,985

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13, 21, 22 and 28)	[illegible]	P5,883,546,281
Short-term debt (Notes 14, 25 and 28)	[illegible]	–
Current portion of:		
Long-term debt (Notes 14, 21, 25 and 28)	[illegible]	4,474,057,448
Service concession obligations (Notes 10, 22, 25, 26 and 27)	[illegible]	800,981,893
Income tax payable (Note 18)	[illegible]	441,002,098
Total Current Liabilities	[illegible]	11,798,589,641
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 14, 21, 25 and 28)	[illegible]	35,110,322,008
Service concession obligations (Notes 10, 22, 25, 26 and 27)	[illegible]	6,696,714,054
Pension liabilities - net (Note 15)	[illegible]	41,506,250
Deferred tax liabilities - net (Note 18)	[illegible]	111,541,384
Provisions (Note 28)	[illegible]	501,099,016
Other noncurrent liabilities (Notes 16, 25, 26 and 27)	[illegible]	685,984,690
Total Noncurrent Liabilities	[illegible]	43,092,168,913
Total Liabilities	[illegible]	54,890,758,580

(Forward)

	December 31	
	2018	2017
Equity		
Attributable to equity holders of Manila Water Company, Inc.		
Capital stock (Note 19):		
Common stock	[illegible]	[illegible]
Preferred stock	[illegible]	400,000,000
	[illegible]	[illegible]
Additional paid-in capital	[illegible]	[illegible]
Subscriptions receivable	[illegible]	[illegible]
Total paid-up capital	[illegible]	[illegible]
Common stock options outstanding (Note 19)	[illegible]	[illegible]
Retained earnings (Note 19):		
Appropriated	[illegible]	[illegible]
Unappropriated	[illegible]	[illegible]
Remeasurement gain (loss) on defined benefit plans (Note 16)	[illegible]	[illegible]
Other equity reserves (Notes 1 and 19)	[illegible]	[illegible]
Cumulative translation adjustment (Notes 2 and 11)	[illegible]	[illegible]
	[illegible]	[illegible]
Noncontrolling interests (Notes 2 and 19)	[illegible]	[illegible]
Total Equity	[illegible]	[illegible]
	[illegible]	[illegible]

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE FROM CONTRACTS WITH CUSTOMERS			
Water (Notes 21 and 24):			
East Zone	[illegible]	P12,103,491,581	P11,084,758,283
Outside East Zone	[illegible]	2,145,822,488	1,695,679,189
Environmental charges (Notes 21 and 24)	[illegible]	2,481,248,409	2,420,287,209
Sewer (Notes 21 and 24):			
East Zone	[illegible]	226,592,869	225,008,098
Outside East Zone	[illegible]	229,010,845	190,596,818
Other operating income (Notes 17, 21 and 24)	[illegible]	1,309,851,798	1,207,871,524
	[illegible]	18,595,772,280	17,711,911,107
COST OF SERVICES			
Depreciation and amortization (Notes 9 and 10)	[illegible]	2,208,052,858	2,241,624,847
Power, light and water (Note 21)	[illegible]	1,185,198,711	870,000,400
Salaries, wages and employee benefits (Notes 15, 19 and 21)	[illegible]	1,069,851,891	1,016,751,741
Repairs and maintenance	[illegible]	379,644,022	575,578,224
Contracted services	[illegible]	316,447,411	286,877,827
Management, technical and professional fees (Note 21)	[illegible]	285,895,898	155,748,508
Water treatment chemicals	[illegible]	107,109,218	81,992,847
Regulatory costs (Note 1)	[illegible]	191,115,082	174,890,051
Wastewater costs	[illegible]	164,572,198	124,508,208
Amortization of water service connections	[illegible]	190,849,240	184,781,874
Collection fees	[illegible]	110,575,521	119,708,980
Cost of packaged water (Note 7)	[illegible]	111,840,928	89,741,082
Occupancy costs (Notes 29 and 27)	[illegible]	45,488,008	55,580,877
Other expenses	[illegible]	202,422,481	122,869,574
	[illegible]	6,575,081,508	6,380,895,870
GROSS PROFIT	[illegible]	11,940,710,724	11,331,015,237
OPERATING EXPENSES (Note 17)	[illegible]	3,342,316,747	2,677,791,851
INCOME BEFORE OTHER INCOME (EXPENSES)	[illegible]	8,598,393,977	8,653,223,386
OTHER INCOME (EXPENSES)			
Revenue from rehabilitation works (Notes 1, 2, 8 and 10)	[illegible]	11,872,187,081	8,804,906,577
Cost of rehabilitation works (Notes 1, 2, 8 and 10)	[illegible]	(11,872,187,081)	(8,804,906,577)
Interest expense (Notes 14 and 17)	[illegible]	(1,402,298,110)	(1,423,208,888)
Equity share in net income of associates (Note 11)	[illegible]	457,208,414	588,829,534
Interest income (Note 17)	[illegible]	345,787,738	257,128,480
Foreign currency differentials (Note 1)	[illegible]	152,454,045	738,211,079
Foreign exchange losses	[illegible]	(120,695,247)	(761,789,208)
Gain on disposal of property and equipment - net	[illegible]	15,559,520	2,172,007
Amortization of deferred credits (Note 18)	[illegible]	11,142,247	9,814,745
Other income - net (Notes 4, 9, 11 and 17)	[illegible]	55,071,907	38,825,155
	[illegible]	(538,517,718)	(759,879,084)
INCOME BEFORE INCOME TAX	[illegible]	8,059,876,259	7,893,344,302
PROVISION FOR INCOME TAX (Note 18)	[illegible]	1,941,628,572	1,725,274,641
NET INCOME	[illegible]	6,118,247,687	6,168,069,660

(Forward)

	Years Ended December 31		
	2018	2017	2016
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Cumulative translation adjustment (Note 11)	[illegible]	[illegible]	[illegible]
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods			
Actuarial gain (loss) on pension liabilities - net (Note 19)	[illegible]	[illegible]	[illegible]
Income tax effect (Note 18)	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
TOTAL COMPREHENSIVE INCOME	[illegible]	[illegible]	[illegible]
Net income (loss) attributable to:			
Equity holders of Manila Water Company, Inc.	[illegible]	[illegible]	[illegible]
Noncontrolling interests (Note 1)	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Total comprehensive income attributable to:			
Equity holders of Manila Water Company, Inc.	[illegible]	[illegible]	[illegible]
Noncontrolling interests (Note 1)	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Earnings per Share (Note 20)			
Net income attributable to common equity holders of Manila Water Company, Inc.:			
Basic	[illegible]	[illegible]	[illegible]
Diluted	[illegible]	[illegible]	[illegible]

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2018	2017	2016
ATTRIBUTABLE TO EQUITY HOLDERS OF MANILA WATER COMPANY, INC.			
CAPITAL STOCK (Note 19)			
Common stock - P1 par value			
Authorized - 3,100,000,000 shares			
Issued and outstanding - 2,050,752,580 in 2018, 2,026,087,122 in 2017 and 2,024,334,090 in 2016	[illegible]	P2,026,087,122	P2,024,334,090
Subscribed common stock - 34,107,257 in 2018, 27,883,454 shares in 2017 and 28,722,488 shares in 2016			
Balance at beginning of year	[illegible]	28,722,488	35,457,075
Additions	[illegible]	–	–
Issuance of shares	[illegible]	(839,034)	(6,734,587)
Balance at end of year	34,107,257	27,883,454	28,722,488
	[illegible]	2,053,970,578	2,053,056,578
Preferred stock - P0.10 par value, 10% cumulative, voting participating, nonredeemable and nonconvertible			
Authorized, issued, and outstanding - 4,000,000,000 shares	400,000,000	400,000,000	400,000,000
	[illegible]	2,453,970,578	2,453,056,578
ADDITIONAL PAID-IN CAPITAL (Note 19)			
Balance at beginning of year	[illegible]	4,221,712,862	4,193,022,855
Additions	[illegible]	8,795,555	28,690,007
Balance at end of year	[illegible]	4,230,508,417	4,221,712,862
SUBSCRIPTIONS RECEIVABLE (Note 19)			
Balance at beginning of year	[illegible]	(319,227,328)	(348,017,335)
Additions	[illegible]	–	–
Collections	[illegible]	83,535,555	28,790,007
Balance at end of year	[illegible]	(235,691,773)	(319,227,328)
COMMON STOCK OPTIONS OUTSTANDING (Note 19)			
Balance at beginning of year	[illegible]	25,525,280	20,818,525
Cost of share-based payment	[illegible]	14,170,817	33,398,541
Exercised	[illegible]	(8,795,555)	(28,690,007)
Balance at end of year	[illegible]	30,900,542	25,525,280
RETAINED EARNINGS (Note 19)			
Appropriated:			
Balance at beginning of year	[illegible]	21,100,000,000	–
Appropriations	[illegible]	7,884,000,000	21,100,000,000
Balance at end of year	[illegible]	28,984,000,000	21,100,000,000
Unappropriated:			
Balance at beginning of year	[illegible]	15,000,578,181	33,100,480,845
Net income	[illegible]	6,148,808,517	6,085,220,845
Appropriations	[illegible]	(7,884,000,000)	(21,100,000,000)
Dividends declared	[illegible]	(2,122,908,288)	(3,085,118,488)
Balance at end of year	[illegible]	11,140,280,242	15,000,578,181
	[illegible]	40,124,280,242	36,100,578,181

(Forward)

	Years Ended December 31		
	2018	2017	2016
REMEASUREMENT GAIN (LOSS) ON DEFINED BENEFIT PLANS (Note 19)			
Balance at beginning of year	[illegible]	₱80,812,893	(₱115,576,585)
Actuarial gain (loss) on pension liabilities - net	[illegible]	(68,487,800)	197,030,800
Income tax effect	[illegible]	906,758	(2,641,322)
Balance at end of year	[illegible]	6,251,851	80,812,893
OTHER EQUITY RESERVE (Notes 1 and 19)			
Balance at beginning of year	54,108,905	54,108,905	7,500,000
Gain on dilution of noncontrolling interest	–	–	46,608,905
Balance at end of year	54,108,905	54,108,905	54,108,905
CUMULATIVE TRANSLATION ADJUSTMENT (Notes 2 and 11)			
Balance at beginning of year	895,910,482	787,422,320	498,890,039
Other comprehensive income	[illegible]	108,488,162	288,532,281
Balance at end of year	[illegible]	895,910,482	787,422,320
NONCONTROLLING INTERESTS (Notes 1, 2 and 19)			
Balance at beginning of year	1,005,084,401	887,264,878	834,274,398
Additions	[illegible]	14,094,452	26,847,230
Remeasurement gain on defined benefit plans - net of income tax effect	[illegible]	1,245,802	1,000,880
Share in net income (loss)	[illegible]	(8,880,850)	101,759,005
Loss on dilution of noncontrolling interests (Note 19)	–	–	(46,608,905)
Balance at end of year	[illegible]	1,005,084,401	887,264,878
	[illegible]	₱58,580,897,473	[illegible]

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	[illegible]	₱6,081,676,359	₱7,020,564,392
Adjustments for:			
Depreciation and amortization (Notes 9 and 10)	[illegible]	2,254,998,678	2,188,045,080
Interest expense (Notes 14 and 17)	[illegible]	1,408,196,110	1,489,208,868
Equity share in net income of associates (Note 11)	[illegible]	(457,808,214)	(688,829,534)
Interest income (Note 17)	[illegible]	(345,727,786)	(257,128,482)
Impairment losses (Notes 9 and 11)	[illegible]	–	–
Gain on bargain purchase (Note 4)	[illegible]	(54,807,714)	–
Pension expense, contribution and benefit payment – net (Note 15)	[illegible]	88,780,460	(5,478,801)
Gain on disposal of property and equipment – net	[illegible]	(15,558,290)	(1,172,007)
Share-based payments (Note 19)	[illegible]	14,170,817	25,158,841
Amortization of deferred credits (Note 18)	[illegible]	(11,142,247)	(9,514,745)
Operating income before changes in operating assets and liabilities	[illegible]	11,229,017,028	11,818,558,689
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	[illegible]	574,372,442	(907,524,110)
Contract assets	[illegible]	–	–
Inventories	[illegible]	(44,172,730)	10,457,500
Service concession assets	[illegible]	(10,692,179,117)	(7,091,010,111)
Concession financial receivable	[illegible]	2,257,501	145,822,158
Other current assets	[illegible]	111,852,968	(408,814,788)
Increase (decrease) in accounts and other payables	[illegible]	815,274,807	(547,889,187)
Net cash provided by operations	[illegible]	1,924,575,815	3,278,898,058
Income tax paid	[illegible]	(2,082,151,702)	(1,893,898,734)
Net cash provided by (used in) operating activities	[illegible]	(157,575,887)	1,385,000,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investments in associates (Notes 1 and 11)	[illegible]	(229,198,428)	–
Property, plant and equipment (Note 9)	[illegible]	(1,289,288,740)	(848,738,481)
Dividends received from associates (Note 11)	[illegible]	185,044,888	159,885,859
Interest received	[illegible]	193,598,385	108,517,589
Consideration paid for business combination (Note 4)	[illegible]	(74,244,288)	–
Proceeds from sale of property and equipment	[illegible]	8,189,205	2,817,285
Decrease (increase) in other noncurrent assets (Note 12)	[illegible]	(1,107,185,857)	(822,892,841)
Net cash used in investing activities	[illegible]	(2,371,072,538)	(1,390,212,585)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the availments of (Note 14):			
Short-term debt	[illegible]	₱–	₱–
Long-term debt	[illegible]	[illegible]	[illegible]
Payments of:			
Long-term debt (Note 14):	[illegible]	[illegible]	[illegible]
Service concession obligation (Note 10)	[illegible]	[illegible]	[illegible]
Dividends (Note 15)	[illegible]	[illegible]	[illegible]
Interest	[illegible]	[illegible]	[illegible]
Collection of subscriptions receivable (Note 15)	[illegible]	[illegible]	[illegible]
Increase (decrease) in other noncurrent liabilities	[illegible]	[illegible]	[illegible]
Additions to noncontrolling interest (Note 1)	[illegible]	[illegible]	[illegible]
Net cash provided by (used in) financing activities	[illegible]	[illegible]	[illegible]
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	[illegible]	[illegible]	[illegible]
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	[illegible]	4,085,700,122	[illegible]
CASH AND CASH EQUIVALENTS AT END OF YEAR			
(Note 5)	[illegible]	[illegible]	₱4,085,700,122

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Manila Water Company, Inc. (the Parent Company) was incorporated on January 6, 1997 with remaining corporate life of twenty-nine (29) years. The Parent Company started commercial operations on January 1, 2000. It became a publicly listed company via an initial public offering on March 18, 2005. As of December 31, 2018, the Parent Company is 41.99% owned by Ayala Corporation (Ayala). Ayala is a publicly listed company which is 47.04% owned by Mermac, Inc. and the rest by the public. The Parent Company and its subsidiaries (collectively referred to as the Group) are incorporated to provide water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management services.

<u>Parent Company Amendment of Articles of Incorporation</u>
On March 1, 2018, the Board of Directors (BOD) approved the following:

a. amendment of the Parent Company's Articles of Incorporation to exclude the 500.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 500.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Parent Company.

On April 16, 2018, the stockholders of the Parent Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 500.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings, (i) for properties or assets needed for the business of the Parent Company, or (ii) for cash to acquire properties or assets needed for the business of the Parent Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The Parent Company's principal place of business is at the MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Country of Incorporation and Place of Business	Effective Percentages of Ownership	
		2018	2017
Manila Water Total Solutions Corp. (MWTS)	Philippines	100.0	100.0
Calamba Water Company, Inc. (Calamba Water)	-do-	90.0	90.0
Manila Water Asia Pacific Pte. Ltd. (MWAP)	Singapore	100.0	100.0
Manila Water South Asia Holdings Pte. Ltd. (MWSAH)	-do-	100.0	100.0
Asia Water Network Solutions Joint Stock Company (Asia Water)[1]	Vietnam	57.8	57.8
Thu Duc Water Holdings Pte. Ltd. (TDWH)	Singapore	100.0	100.0
Kenh Dong Water Holdings Pte. Ltd. (KDWH)	-do-	100.0	100.0
Manila Water Thailand Holdings Pte. Ltd. (MWTH)[2]	-do-	100.0	100.0
Manila Water (Thailand) Co., Ltd. (MWTC)[3]	Thailand	100.0	–
Manila South East Asia Water Holdings Pte. Ltd. (MSEA)[4]	Singapore	100.0	100.0
PT Manila Water Indonesia (PTMWI)[5]	Indonesia	100.0	–
Manila Water Philippine Ventures, Inc. (MWPV)	Philippines	100.0	100.0
Laguna AAAWater Corporation (Laguna Water)	-do-	70.0	70.0
Clark Water Corporation (Clark Water)	-do-	100.0	100.0
Boracay Island Water Company, Inc. (Boracay Water)	-do-	80.0	80.0

(Forward)

	Country of Incorporation and Place of Business	Effective Percentages of Ownership	
		2018	2017
Filipinas Water Holdings Corp. (Filipinas Water)[6]	-do-	100.0	100.0
Obando Water Company, Inc. (Obando Water)	-do-	90.0	90.0
Bulakan Water Company, Inc. (Bulakan Water)	-do-	90.0	–
Manila Water Consortium, Inc. (MW Consortium)	-do-	57.2	57.2
Cebu Manila Water Development, Inc. (Cebu Water)[7]	Philippines	40.4	40.4
Davao del Norte Water Infrastructure Company, Inc. (Davao Water)	-do-	51.0	51.0
Tagum Water Company, Inc. (Tagum Water)[8]	-do-	45.9	45.9
Bulacan MWPV Development Corp. (BMDC)	-do-	100.0	100.0
Aqua Centro MWPV Corp. (Aqua Centro)	-do-	100.0	100.0
Manila Water International Solutions, Inc. (MWIS)	-do-	100.0	100.0
EcoWater MWPV Corp. (EcoWater)	-do-	100.0	–
Leyte Water Company, Inc. (Leyte Water)	-do-	100.0	–
Zamboanga Water Company, Inc. (Zamboanga Water)	-do-	70.0	70.0

[1] *Asia Water is 51.00% owned by Saigon Water Infrastructure Corporation (Saigon Water) and 48.50% owned by MWSAH. MWSAH's effective ownership interest in Asia Water is 67.87% as of December 31, 2018 and December 31, 2017 by virtue of its 37.99% ownership interest in Saigon Water.*

[2] *Previously named Manila Water Indonesia Holdings Pte. Ltd.*

[3] *MWTC was incorporated on February 20, 2018 and is 100% owned by MWTH.*

[4] *Previously named North West of Saigon Holdings Pte. Ltd.*

[5] *FDWRI is incorporated on February 5, 2018 and is 95.00% owned by MWSA and 5.00% owned by a director of FDWRI whose ownership has been pledged to MWSA.*

[6] *Previously named Obando Water Consortium Holdings Corp. Filipinas Water is 49.00% owned by the Parent Company and 51.00% owned by MWPV.*

[7] *Cebu Water is 70.00% owned by MW Consortium. MWPV's effective ownership interest in Cebu Water is 40.04% by virtue of its 57.20% ownership interest in MW Consortium.*

[8] *Tagum Water Company is 90.00% owned by the Davao Water. MWPV's effective interest in Tagum Water is 45.90% by virtue of its 51.00% ownership interest in Davao Water.*

Unless otherwise indicated, the Philippines is the principal place of business and country of incorporation of the Group's investments in subsidiaries.

Investments in MWIS, Davao Water, and Zamboanga Water

On October 5, 2017, the BOD approved the sale of the Parent Company's shareholdings in MWIS to MWPV.

On December 28, 2017, the Parent Company executed a Deed of Absolute Sale of Shares and Receivables to MWPV for the transfer of 2,500,000 common shares of MWIS and receivables from MWIS.

On May 29, 2018, the Parent Company sold to MWPV its 765,000 common shares of Davao Water comprising approximately 51% of Davao Water's outstanding capital stock in consideration for P75.58 million.

On July 2, 2018, the Parent Company sold to MWPV its 245,000 common shares of Zamboanga Water comprising approximately 70% of Zamboanga Water's outstanding capital stock in consideration for P25.81 million.

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 twenty-five (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 has been obtained 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 (see Notes 2, 10 and 14); and
d. Rebasing Convergence Adjustment for the purpose 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 (4) Charging Years shall be zero; and
   ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

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; 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 the Parent Company to recover, over the twenty five (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 Board of Trustees (MWSS BOT) passed Resolution No. 2009-072 approving the fifteen (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 ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for the Parent Company's investment has been extended by another fifteen (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. 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 ₱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 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 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. ₱88.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱77.1 billion;
b. ₱193.8 billion capital expenditures and concession fees which restores ₱23.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.3 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
d. exclusion of corporate income tax from cash flows beginning January 1, 2013.

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 ₱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 and the quarterly FCDA will continue to be made consistent with the Parent Company's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved the Parent Company's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, the Parent Company shall stagger its implementation over a five-year period. The first tranche took effect on October 16, 2018.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved the Parent Company's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱28.98 per cubic meter and the 2.81% FCDA to be applied to the 2019 average basic charge. These adjustments are recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-12-CA) and shall take effect on January 1, 2019.

Arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Rules (1976)
On April 23, 2015, the Parent Company served to the Republic of the Philippines (the "Republic"), through the DOF, its Notice of Claim demanding that the Republic indemnify the Parent Company in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 21, 1997 and Letter Undertaking dated October 19, 2009. At present, the arbitration case remains pending.

FCDA

The MWSS BOT approves the FCDA 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. The following FCDA adjustments and their related foreign exchange basis took effect in 2016 to 2018.

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
March 10, 2016	April 1, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	July 1, 2016	₱0.25 per cubic meter	USD1: ₱48.29 / JPY1: ₱0.42
April 5, 2017	April 22, 2017	₱0.89 per cubic meter	USD1: ₱49.74 / JPY1: ₱0.47
July 27, 2017	August 15, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.84 / JPY1: ₱0.45
December 15, 2017	January 1, 2018	₱0.89 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45
March 15, 2018	April 1, 2018	₱0.99 per cubic meter	USD1: ₱50.51 / JPY1: ₱0.48
June 14, 2018	July 1, 2018	₱1.81 per cubic meter	USD1: ₱52.10 / JPY1: ₱0.48
September 14, 2018	October 1, 2018	₱1.58 per cubic meter	USD1: ₱53.45 / JPY1: ₱0.48
December 14, 2018	January 1, 2019	₱0.75 per cubic meter	USD1: ₱53.94 / JPY1: ₱0.48

There were no FCDA adjustments for the third and fourth quarters of 2016 and for the first quarter of 2017 due to the vacancies in the MWSS BOT, resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including the FCDA.

<u>Laguna Water's Concession Agreement with the Provincial Government of Laguna (PGL)</u>
On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004, July 22, 2005, and June 30, 2015) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, 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 (see Note 10).

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 to the concession agreement, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan. The provision of services by Laguna Water in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020.

Furthermore, the concession period's commencement date was amended to mean the later of either: (i) three (3) years from the takeover date (i.e., October 20, 2004); or (ii) availment by at least 25,000 customers of the services (i.e., September 30, 2010). The concession period is deemed to have commenced on September 30, 2010 and shall end on September 30, 2035.

On August 25, 2017, the Sangguniang Bayan of Victoria, Laguna, has approved the inclusion of its municipality within the service area of Laguna Water.

On May 2, 2018, the concession agreement was amended to include the approval of Environmental Charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

Laguna Water implemented a tariff adjustment of 10% on December 1, 2018.

<u>Boracay Water's Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority (TIEZA)</u>
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 a twenty-five (25)-year concession period. TIEZA Regulatory Office (TIEZA-RO) 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 for a period of twenty-five (25) years commencing on January 1, 2010 until December 31, 2034, or the early termination date as the case may be. 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.

On January 1, 2010, Boracay Water officially took over the operations of the service area. Rehabilitation works for the service area commenced immediately thereafter. As provided in Boracay Water's project plans, operational commercial capacity will be attained upon completion of the rehabilitation works.

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. 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 (see Notes 2, 10 and 14).

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.

In January 2016, Boracay Water implemented an increase of 8.38% comprising of rate rebasing adjustment of 6.97% and CPI of 1.31%. The downward FCDA adjustment of 14.94% was continuously implemented throughout the year.

On June 7, 2017, TIEZA approved the new water rates of Boracay Water, which is equivalent to an increase of 51.89% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.88%, and 10.70% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017.

On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase of 15.91% effective January 1, 2018.

On August 1, 2018, TIEZA-RO approved the suspension of the 14.94% downward adjustment, which resulted to the implementation of 0.00% FCDA effective August 17, 2018.

On December 4, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase equivalent to 18.08% of the basic water and sewer charge, inclusive of CPI, arising from its 2017 rate rebasing. Furthermore, a 5.00% increase shall be applied to the basic water and sewer charge to account for FCDA. The new rates shall take effect on January 1, 2019.

Boracay Water's 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, 2017), the maximum rates chargeable by Boracay Water (subject to interim adjustments) are set out in the concession 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 twenty five (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 (5)-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 ₱988.86 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 (see Note 10).

<u>Clark Water's Concession Agreement with Clark Development Corporation (CDC)</u>
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 ₱1.90 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 ₱2.77 million equivalent to six (6) months lease rental and a performance security amounting to ₱1.72 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 ₱2.77 million amounting to a total of ₱138.28 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 fifteen (15) years up to October 1, 2040;
b. additional investment of ₱4.00 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 ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Initial investment prior to the amendment of the concession agreement amounted to ₱1.00 billion.
c. introduction of a rate rebasing mechanism for every four (4) years starting 2014.
d. reduction in tariff rates by 3.9% (from ₱25.86/m³ to ₱24.84/m³) effective September 1, 2014, subject to the EPA; and
e. increase in tariff rates by:
    i. ₱0.20/m3 (from 24.84/m³ to ₱25.04/m³) in 2018;
    ii. ₱0.42/m3 (from ₱25.04/ m³ to ₱25.46/m³) in 2019;
    iii. ₱0.42/m3 (from ₱25.46/m³ to ₱25.87/m³) in 2020; and
    iv. ₱0.43/m3 (from ₱25.87/m³ to ₱26.30/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 ₱98.58 million. Further, the recovery period of the Clark Water's investment was extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in the concession agreement. As of December 31, 2018, the rate rebasing is still ongoing.

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 51.00% and 49.00% 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 35.0 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 51.00% and 49.00%, 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 twenty (20)-year Bulk Water Supply Contract for the supply of 18 million liters per day of water for the first year and 35.0 million liters per day of water for years two (2) up to twenty (20). Cebu Water delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. Cebu Water increased its bulk water delivery to 35.0 million liters per day in 2016.

JVA for Non-revenue Water (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 JVA 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.

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 (the "Tagum Bulk Water Project") to Davao Water, a consortium of the Parent Company and iWater, Inc.

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 Bulk Water 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 Tagum Bulk Water 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 28, 2018, 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.

<u>MWPV's Memorandum of Agreement (MOA) with Ayala Land Inc. (ALI)</u>
On January 15, 2016, MWPV entered into a MOA with ALI and its subsidiaries (collectively, the ALI Group), whereby MWPV shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

<u>Aqua Centro's MOA with the SM Group</u>
On December 8, 2016, MWPV entered into MOAs 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, MWPV 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.

On October 5, 2017, Aqua Centro was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

On December 28, 2017, MWPV entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPV has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

<u>Calasiao Water's Concession Agreement with Calasiao Water District (CWD)</u>
On December 3, 2016, the Parent Company received a Notice of Award from 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 CWD in Calasiao, Pangasinan.

On June 19, 2017, the Parent Company signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, the Parent Company and CWD shall cause the incorporation of a joint venture company where the Parent Company and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 198) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017 (the Commencement Date) until December 29, 2042 (the Expiration Date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao 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 CWD.

Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by the CWD.

The ground for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;

c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

<u>MWPV Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) and Incorporation of BMDC</u>
On January 4, 2017, MWPV entered into an APA with 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 MWPV was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, BMDC was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPV assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPV, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC (see Note 4).

<u>Obando Water's Concession Agreement with Obando Water District (OWD)</u>
On January 24, 2017, the consortium of the Parent Company and MWPV received the Notice of Award from 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 OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium Holdings Corp. (now Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between the Parent Company and MWPV with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Filipinas Water is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 28, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project").
On October 10, 2017, Obando Water was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively.

On October 10, 2017, Obando Water and OWD signed and executed a concession agreement without the necessity for another bidding and subject to mutual agreement by Obando Water and the OWD. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 198), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty five (25) years commencing on January 1, 2018 (the Commencement Date) until January 1, 2043 (the Expiration Date) or the early termination date, as the case may be.

The initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreement shall be based on the 2015 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed;
d. change in assumptions at the time of the execution of the concession agreement; or
e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

<u>BMDC APA with Solar Resources, Inc. (Solar Resources)</u>
On July 28, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC (see Note 4).

<u>BMDC APA with Borland Development Corporation (Borland)</u>
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan (see Note 4).

<u>Notice of Award from Leyte Metropolitan Water District (LMWD)</u>
On December 8, 2017, the Parent Company received the Notice of Award from LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, Tabontabon, and Santa Fe.

<u>MWPV JVA with Tubig Pilipinas Group, Inc. (TPGI)</u>
On December 11, 2017, the Municipality of Malasiqui granted a franchise to MWPV and TPGI for the implementation of a joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On February 20, 2018, the board of directors of MWPV approved the creation of a SPV for this project.

On November 16, 2018, MWPV has signed and executed a JVA with TPGI. Under the agreement, MWPV and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

<u>MWPV Lease Agreement with the Philippine Economic Zone Authority (PEZA)</u>
On December 18, 2017, MWPV signed a twenty-five (25) year lease agreement with PEZA. Pursuant to the agreement, MWPV will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone for the provision of water and used water services to the locators therein. MWPV shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 550,000 cubic meters per month or 12.0 million liters per day.

<u>Notice of Award from Ilagan City Water District (ICWD) and JVA with ICWD</u>
On January 25, 2018, the Parent Company and MWPV (collectively the "Consortium") received the Notice of Award from ICWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the "Ilagan Project").

On November 16, 2018, the Consortium signed and executed a JVA with the ICWD. Under the JVA, the Consortium and ICWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project.

Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with ICWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

Share Purchase Agreement (SPA) with Electricity Generating Public Company Limited (EGCO)
On February 19, 2018, the Parent Company signed a SPA with EGCO to acquire EGCO's 18.72% equity in Eastern Water Resources Development and Management Public Company Limited (East Water). East Water is a publicly listed company whose shares are traded in the Stock Exchange of Thailand. It is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.30 billion to finance MWTC's acquisition of shares in East Water (see Note 14).

On March 14, 2018, MWTC acquired 311,443,190 ordinary shares in East Water representing 18.72% equity of East Water (see Note 11).

SPA with PT. Triguna Rapindo Mandiri
On March 8, 2018, PTMWI signed a SPA with PT. Triguna Rapindo Mandiri to acquire 4,478 shares of PT. Sarana Tirta Ungaran (PT STU) which allowed PTMWI to own twenty percent (20%) of the outstanding capital stock of PT STU (see Note 11).

PT STU is a bulk water supply company servicing PDAM Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.5 million liters per day.

Notice of Award from Balagtas Water District (BWD)
On April 25, 2018, the Parent Company and MWPV (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Bulacan Water District (BuWD) and JVA with BuWD
On April 30, 2018, the Parent Company and MWPV (collectively the "Consortium") received the Notice of Award from BuWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BuWD in the Municipality of Bulakan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10% ownership, respectively, which shall be granted a concession by BuWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the BuWD in the municipality of Bulacan. On October 16, 2018, the joint venture company was incorporated and was registered with the SEC under the name of Bulakan Water Company, Inc.

Notice to Proceed from the Municipality of Sta. Barbara, Pangasinan
On June 14, 2018, MWPV received a Notice to Proceed from the municipality of Sta. Barbara, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Pagsanjan Water District (PAGWAD)
On July 10, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD's service area.

Incorporation of EcoWater
On July 27, 2018, MWPV incorporated EcoWater MWPV Corp. which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ) (see Note 20). Out of 75.00 million authorized shares, 25.00 million shares at ₱1.00 par value or ₱25.00 million was initially paid by MWPV for the 100.00% equity interest.

Notice of Award from Tanauan Water District
On October 10, 2018, MWPV received the Notice of Award from Tanauan Water District for the implementation of the joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of Tanauan Water District, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in Tanauan Water District's service area.

Notice to Proceed from the Municipality of San Fabian, Pangasinan
On October 15, 2018, MWPV received a Notice to Proceed from the municipality of San Fabian, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV to establish, construct, operate, manage, repair, and maintain water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Lambunao Water District
On November 27, 2018, the Parent Company received a Notice of Award from Lambunao Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Lambunao Water District in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, the Parent Company and Lambunao Water District shall enter into a JVA for the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calinog Water District
On November 27, 2018, the Parent Company received a Notice of Award from Calinog Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Calinog Water District in the Municipality of Calinog, Iloilo.

Upon completion of conditions precedent specified in the notice, the Parent Company and Calinog Water District shall enter into a JVA for the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

On December 11, 2018, Laguna Water entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

Notice of Award from San Jose City Water District
On December 21, 2018, the consortium of MWPV and TPEI received a Notice of Award from San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the notice of award, the consortium partners and the water district would enter into a JVA that will grant them as contractor to perform certain functions and as agent for the exercise of its right and powers, the sole right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities in the service area, including the right to bill and collect tariff for water and sanitation services supplied in the service area of SJCWD.

Notice of Award from Calbayog City Water District
On December 27, 2018, the Parent Company received the Notice of Award from Calbayog City Water District for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of Calbayog City Water District in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the Calbayog City Water District in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, the Parent Company shall enter into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a twenty-five (25)-year contract period.

Approval for the Issuance of the Consolidated Financial Statements
The BOD approved and authorized the issuance of the consolidated financial statements on February 28, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis. The Parent Company's presentation and functional currency is the Philippine Peso (₱, Peso, or PHP). Amounts are rounded off to the nearest Peso, except otherwise stated. The consolidated financial statements of the Group provide comparative information in respect of the previous periods.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018.

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 financial statements 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 noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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 noncontrolling 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'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.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted in the preparation of the 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, 2018. Unless otherwise stated, the new standards and amendments did not have any material impact to the Group.

a. Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and has not made any modification to the terms and conditions of its share-based payment transactions. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

b. PFRS 9, *Financial Instruments*

PFRS 9, *Financial Instruments*, replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment and hedge accounting.

The Group adopted PFRS 9 prospectively, with an initial application date as of January 1, 2018. The Group has not restated comparative information for the year ended December 31, 2017, which was reported under PAS 39. The adoption of PFRS 9 did not result to differences requiring adjustment to the Group's opening retained earnings.

i. Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through OCI (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. All financial assets held at amortized costs under PAS 39 continue to be measured at amortized costs and are classified and measured as debt instruments at amortized cost beginning January 1, 2018. Also, the adoption of PFRS 9 did not have a material impact on the Group's other comprehensive income and its operating, investing, and financing cash flows.

In summary, upon the adoption of PFRS 9, the Group had the following required or elected reclassifications for financial assets:

	At January 1, 2018	
	PAS 39	PFRS 9
	Carrying Value	At Amortized Cost
PAS 39 measurement category:		
Loans and receivables		
Cash and cash equivalents	₱9,020,744,089	₱9,020,744,089
Receivables	1,848,857,580	1,848,857,580
Concession financial receivable	1,177,227,847	1,177,227,847

The Group has not designated any financial assets or liabilities as at FVPL. The adoption has no impact on the classification and measurement of the Group's financial liabilities.

ii. Impairment

The adoption of PFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets. The Group has applied the simplified approach and recorded lifetime ECLs on all trade receivables. Adoption of ECL approach under PFRS 9 did not result to changes in the impairment loss allowance to the Group's financial assets as of January 1, 2018.

iii. Hedge accounting

Under PAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under PFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change is not applicable to the Group because it does not have cash flow hedging arrangements.

c. Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance nor does the Group issue insurance contracts.

d. PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with January 1, 2018 as the date of initial application. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

Before the adoption of PFRS 15, the Group has been recognizing revenue from connection fee when the customer is connected to the Group's water or sewer network. Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. Accordingly, connection fees previously recognized for all active water service connections will have to be recognized over time. Management invoked the impracticability of retrospective restatement under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and has accounted for the change in accounting for connection fees prospectively starting on the date of initial application as allowed under PAS 8 (see Note 3).

The adoption of PFRS 15 did not result to differences requiring adjustment to the Group's opening retained earnings. The comparative information was not restated and continues to be reported under PAS 11, PAS 18, and related interpretations.

The effect of adopting PFRS 15 in the consolidated statements of financial position as at January 1, 2018 is as follows:

	Reference	Increase (Decrease)
Assets:		
Receivables	(a)	(₱195,480,288)
Contract assets - current portion	(a)	195,480,288
Total current assets		–
Contract assets - net of current portion	(a), (b)	258,870,410
Concession financial receivable - net of current portion	(b)	(206,851,634)
Other noncurrent assets	(a)	(52,018,776)
Total noncurrent assets		–
Total assets		₱–

The adoption of PFRS 15 did not have a material impact on total liabilities, total comprehensive income, and the Group's operating, investing, and financing cash flows.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated statement of financial position as at December 31, 2018 are described below:

a. Accrued receivable for supervision fees and for performance fees – before the adoption of PFRS 15, the Group recognized receivables even if the receipt of the total consideration was conditional on the final acceptance and milestone completion of the related services. Under PFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than a receivable. Therefore, upon the adoption of PFRS 15, the Group reclassified ₱247.50 million (inclusive of the noncurrent portion amounting to ₱52.02 million) from "Receivables" to "Contract assets" as at January 1, 2018.

b. Concession financial receivables – before the adoption of PFRS 15, the Group recognized revenue from rehabilitation works and finance income earned during the construction phase as concession financial receivable. Under PFRS 15, during the construction phase, any amount earned is classified as a contract asset. Contract assets are derecognized when construction is completed, and the consideration to be received is recognized as concession financial receivable. Therefore, upon the adoption of PFRS 15, the Group reclassified ₱206.85 million from "Concession financial receivables" to "Contract assets" as at January 1, 2018.

There were no adjustments made to the consolidated statement of comprehensive income for the year ended December 31, 2018.

e. Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments are not applicable to the Group as the Group does not include an entity that is considered as a venture capital organization or other qualifying entity under the amendments.

f. Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments are not applicable to the Group as the Group does not have assets classified as investment property.

g. Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Retrospective application of this interpretation is not required.

The interpretation did not have any significant impact on the Group's consolidated financial statements.

h. Philippine Interpretation Committee (PIC) Question and Answer (Q&A) 2018-15, PAS 1 – *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Noncurrent*

Upon the adoption of PIC Q&A 2018-15, advances to contractors and suppliers that have been previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage or realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment).

The Group adopted PIC Q&A 2018-15 starting January 1, 2018. The impact adoption is applied retrospectively which resulted to the decrease in other current assets and increase in other noncurrent assets by ₱940.85 million as of December 31, 2017. The adoption of the PIC also resulted to an increase in cash flows from operating activities and corresponding decrease in cash flows from investing activities amounting to ₱458.64 million and ₱718.04 million for the years ended 2017 and 2018, respectively.

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

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

Under PFRS 9, a debt instrument can be measured at amortized cost or FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

The amendments are not expected to have any significant impact on the consolidated financial statements.

b. PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

c. Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

d. Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associates and joint ventures, the amendments will not have an impact on its consolidated financial statements.

e. Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and,
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of
December 31, 2018 and 2017.

f. Annual Improvements to PFRSs 2015- 2017 Cycle

- Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A Group's party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

a. Amendments to PFRS 3, *Definition of a Business*

   The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

   These amendments will apply on future business combinations of the Group.

b. Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

   The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

   An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply to future financial statements of the Group.

Effective beginning on or after January 1, 2021

a. PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The standard is not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

Interpretation with Deferred Effective Date

a. Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>Significant Accounting Policies</u>

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated 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 noncurrent.

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 (12) months after the reporting period, or
d. there is no unconditional right to defer the settlement of the liability for at least twelve (12) 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: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
c. Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 nonrecurring 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.

Recognition and Measurement of Financial Instruments (Effective January 1, 2018)
Financial assets
a. *Initial recognition*
Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or at FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is referred to as the 'solely payments of principal and interest test' and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

As of December 31, 2018, the Group's financial assets comprise of financial assets at amortized cost.

b. *Subsequent measurement – Financial assets at amortized cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group classified cash in banks and cash equivalents, receivables, and concession financial receivable as financial assets at amortized cost (see Notes 5, 8, and 10).

c. *Derecognition*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

d. *Impairment*

The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate (EIR). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are ninety (90) up to one hundred eighty (180) days past their due dates. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

a. *Initial recognition*

Financial liabilities are classified, at initial recognition, either as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

As of December 31, 2018, the Group's financial liabilities comprise of financial liabilities at amortized cost.

b. *Subsequent measurement*

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized under the "Other income (expenses)" account in the consolidated statements of comprehensive income when the liabilities are derecognized or impaired, and through the "Interest expense" account when the gains and losses are amortized.

This accounting policy applies to the Group's accounts and other payables, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities, income tax payable, and other statutory liabilities).

c. *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or canceled or has expired. When an existing financial liability is replaced by another 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 the Group's comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements 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, to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Recognition and Measurement of Financial Instruments (Prior to Adoption of PFRS 9)

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statements 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
All financial assets are initially recognized at fair value. Except for financial assets and liabilities at 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.

As of December 31, 2017, the Group's financial instruments primarily consist of loans and receivables and other financial liabilities.

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 do 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 (12) 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 EIR 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 receivables, deposits under other current assets and other noncurrent assets, and advances and receivable from related parties.

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 effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

This accounting policy applies primarily to the Group's long-term debt, service concession obligation, accounts and other payables except statutory liabilities, customers' guaranty deposits and other deposits under other noncurrent liabilities, 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).

<u>Derecognition of Financial Assets and Financial Liabilities (Prior to Adoption of PFRS 9)</u>
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:

a. the right to receive cash flows from the asset has expired;
b. 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
c. 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.

<u>Offsetting Financial Instruments (Prior to Adoption of PFRS 9)</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements 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.

<u>Impairment of Financial Assets (Prior to Adoption of PFRS 9)</u>
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.

<u>Inventories</u>
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.

<u>Prepaid Expenses</u>
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.

<u>Property, Plant and Equipment</u>
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:

Leasehold improvements	5 years or lease term, whichever is shorter
Plant and technical equipment	5 years or the term of the related management contract, whichever is shorter
Office furniture and equipment	3 to 5 years
Transportation equipment	5 years

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, CDC, DWD, and CWD 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 transfer to MWSS, PGL, TIEZA, CDC, DWD, and CWD at the end of the concession period.

On the other hand, the concession arrangements with PBC 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 Tagum Water are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period.

During the construction phase of the arrangements, the Group's contract asset (representing its accumulating right to be paid for rehabilitation works) is presented as part of "Service concession assets" (SCA) for Intangible Asset model and under "Contract Assets" for Financial Asset model. The SCA also include the fair value of the service concession obligations at drawdown date and other local component costs and cost overruns paid by the Group.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight-line basis over the remaining concession period. Beginning May 1, 2017, the Parent Company, Boracay Water, Clark Water, and Laguna Water's water and used water assets are amortized using the units of production (UOP) method over the estimated total billable volume for the remaining period of the respective concession agreements to better reflect the usage of these assets, which is directly related to its estimated total billable volume and is aligned with industry practice. This change in method resulted to a ₱[illegible].98 million reduction of amortization expense from May 1 to December 31, 2017.

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 those 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 consolidated 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 consolidated 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 noncontrolling 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.

<u>Business Combinations and Goodwill</u>
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 noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related 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. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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 (12) 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 where cost is the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss and included under "Other income (expenses)."

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*

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured exceeds the aggregate of the consideration transferred.

Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts to be recognized at the acquisition date for all of the following:

a. the identifiable assets acquired and liabilities assumed;
b. the non-controlling interest in the acquiree, if any;
c. for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
d. the consideration transferred.

If that excess remains after applying the requirements above, the acquirer shall recognize the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.

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.

<u>Water Banking Rights</u>
Water banking rights are accounted for as an intangible asset with indefinite useful life. These pertain to the permit acquired separately, and are recognized as an intangible asset as these were issued by the National Water Resources Board (NWRB) without an explicit provision on the period of effectivity. Costs incurred for the acquisition of water banking rights are capitalized and measured on initial recognition at cost.

Presidential Decree No. 1067, also known as the Water Code, states that water permits shall continue to be valid as long as water is beneficially used. The rights may be suspended or revoked based on certain grounds such as non-compliance with approved plans and specifications or schedules of water distribution, and use of water for a purpose other than that for which it was granted.

All water permits are subject to modification or cancellation by the NWRB, after due notice and hearing, in favor of a project of greater beneficial use or for multi-purpose development, and a water permittee who suffers thereby shall be duly compensated by the entity or person in whose favor the cancellation was made.

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property, plant, and equipment, SCA, investments in associates, water banking rights, and other current and noncurrent assets. The Group assesses these nonfinancial assets, excluding water banking rights, 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.

Water banking rights with indefinite useful life are tested for impairment annually at the CGU level. Such intangibles are not amortized. The life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the life from indefinite to finite is made on a prospective basis.

An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less cost of disposal 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. When 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 costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, 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 (Upon the Adoption of PFRS 15)
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Revenue recognized over time using output method

The Group recognizes revenue from water and sewerage services, environmental charge, operation and maintenance services and performance fees over time using output method. As a practical expedient allowed under PFRS 15, the Group recognizes revenue in the amount to which the Group has a right to invoice since the Group bills a fixed amount for every cubic meter of water delivered or NRW recovered.

- *Water and sewer revenue*
  Water and sewer revenue are recognized over time as the customer receives and consumes the benefit from the performance of the related water and sewerage services. 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.

- *Operation and maintenance services*
  Revenue from operation and maintenance services is recognized over time as the operation, maintenance and management services are rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

- *Performance fees*
  Performance fees are recognized as revenue over time as the NRW are recovered as agreed in the NRWSA with ZCWD.

The Group has determined that the output method is the appropriate method in measuring the progress of the connection services, project management services, and pipeworks and integrated used water services since this depicts the Group's performance in managing and providing service connection from water and used water facilities to the developments.

- *Connection fees*
  Connection fees are amounts paid by customers in exchange for the set-up of a connection from the customer's establishment to the Group's water or sewer network. Revenue from connection fees is recognized over time using the output method based on time elapsed over the period when the related water and sewer services are expected to be provided.

- *Supervision fees*
  Supervision fees arise from MWPV, Aqua Centro, and Laguna Water's assurance for potable water and effective used water services for new developments, functions includes, but not limited to the provision of design and project management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time using an output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor and reviewed and approved by the project management head.

- *Revenue from pipeworks and integrated used water services*
  Revenue from pipeworks and integrated used water services is recognized over time as the water and wastewater network related services are rendered using an output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved by the project management head.

Revenue recognized over time using input method

The Group determined that the input method is the appropriate method in measuring progress of the rehabilitation works, construction revenue, and service fees because there is a direct relationship between the Group's effort (i.e., actual cost incurred incurred) and the transfer of service to the customer.

- *Revenue from rehabilitation works and Cost of rehabilitation works*
  Revenue from rehabilitation works is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of contract assets included under SCA or concession financial receivables and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

- *Construction revenue*
  Construction revenue arise from the NRWSA with ZCWD for the establishment of district metering areas. Revenue from construction services is recognized over time, using input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and overhead relative to the total project costs.

- *Service fees*
  Service fees for technical assistance extended to ZCWD are recognized over time, using input method, when the related services have been rendered to the ZCWD. Under this method, progress is measured based on actual costs incurred on manpower and overhead relative to the total project costs.

Revenue recognized at a point in time

- *Distributors' fee*
  Distributors' fee is recognized as revenue at a point in time when control of the trade assets has been transferred to the distributor, generally upon delivery of the related assets.

- *Revenue from packaged water*
  Revenue from packaged water and other water related products is recognized at the point in time when control of the goods is transferred to the distributor, generally upon receipt of the related product, to the customer.

- *Other operating income*
  Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized at a point in time when the control over these good or services have been transferred to the customer.

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 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 consolidated statement of comprehensive income.

Contract Balances
Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to a customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Revenue Recognition (Prior to Adoption of PFRS 15)
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.

Connection fees
Revenue from connection fee is recognized outright upon when the customer's establishment is connected to the Group's water or sewer network.

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.

Supervision fees
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.

Construction revenue
Construction revenue arising from the MRWSA with ZCWD is recognized by reference to the stage of completion of the construction activity at the end of the reporting period.

Revenue from pipeworks and integrated used water services
Revenue from pipeworks and integrated used water services 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. 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.

Operation and maintenance services
Service fee income is recognized when the operation, maintenance and management services have been rendered for water and waste water facilities of BWC.

Performance fees
Performance fees are recognized when the NRW has been recovered based on specific targets and schedule as agreed in the MRWSA with ZCWD.

Service fees
Service fees for technical assistance extended to ZCWD are recognized when the related services have been rendered.

Other operating income
Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

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 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 consolidated statement of comprehensive income.

Cost of Services and Operating Expenses
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. These are recognized:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or,
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Cost of services and operating expenses are measured at the amount paid or payable.

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 P[illegible]/US$1.00 based on the latest rate rebasing exercise effective January 1, 2018.
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 rates; 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 rates.

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 by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot 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 rates 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" 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, KDWH, MBEA, and MWTH is the United States Dollar (US$ or USD), while Asia Water's functional currency is the Vietnamese Dong (VND), PTMWI's is the Indonesian Rupiah (IDR), and MWTC's is the Thailand Baht (THB). 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 "Cumulative translation adjustment" relating to that particular foreign operation shall be recognized in profit or loss.

<u>Borrowing Costs</u>
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 "Short-term and Long-term debt" account in the consolidated statement of financial position and are amortized using the effective interest rate method.

<u>Provisions</u>
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.

<u>Contingencies</u>
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.

<u>Defined Benefit Plan</u>
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:

a. service cost,
b. net interest on the net defined benefit liability or asset, and
c. 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.

<u>Termination Benefit</u>
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.

<u>Short-term Employee Benefits</u>
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 (12) 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 Group during the reporting period, the Group 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.

<u>Employee Leave Entitlement</u>
Employee leave entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for employee leaves expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Share-based Payment</u>
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.

<u>Equity</u>
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__

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 income tax

Current income tax assets and liabilities 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 at the reporting date.

Deferred tax

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

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 differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward 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 and associates, 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.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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, if any, during the period. The net income attributable to common stock is net of the dividends on preferred shares including the participating preferred shares' participation in earnings. 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, if any, 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, CDC, OWD, and CWD 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 (see Note 29).

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 the Domestic Subsidiaries segment and Foreign Subsidiaries segment, even if the subsidiaries cater to different customers, since management has 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. Financial information on business segments is presented in Note 24 to the consolidated financial statements.

Events after the Reporting Date
Any event after the reporting date up to the date of the auditors' report that provide additional information about the Group's financial position at the reporting date (adjusting events) is reflected in the consolidated financial statements. Any event after the reporting date that is not an adjusting event is disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements, in conformity with PFRS, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. The estimates and assumptions used in the 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 arrangements

In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with MWSS, PEL, TIEZA, CDC, OWD, and CWD qualify under the Intangible Asset model as it receives the right (license) to charge users of public service (see Notes 2 and 10).

On the other hand, the Group has made a judgment that the bulk water sale and purchase agreements with MCWD 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 MCWD and TWD (see Notes 2 and 10).

Investments in associates

The Group has determined that it has significant influence over East Water despite holding less than 20% of East Water's outstanding shares of stock. The Group considers several factors including its representation in East Water's BOD, representation in East Water's Investment Committee, and its voting power through share ownership to determine the Group's power to participate in the financial and operating policy decisions of East Water.

As of December 31, 2018, the Group owns 18.72% of East Water (see Note 11).

Revenue recognized using the input and output method

The Group recognizes revenue from rehabilitation works, construction revenue, and service fees using the input method while it recognizes supervision fees and revenue from pipeworks and integrated used water services using the output method. The input or output method of recognizing revenue over the period covered by the separate contracts with customers requires the Group to base the level of transfer of control over these services based on the Group's review and concurrence with work accomplishment reports prepared by project managers or submitted by independent project contractors.

Operating lease commitments - Group as lessee

The Group entered into various lease arrangements for its Healthy Family plant sites, stockyard, office areas, and water and used water facilities. 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 (see Notes 29 and 27).

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 the 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 December 31, 2018 and 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 (see Note 24).

Provisions and contingencies

The Group is currently involved in various legal proceedings and exposures 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 that these proceedings and exposures will have a material or adverse effect on the Group's financial position and results of operations (see Note 28).

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 Group's revenue from rehabilitation works are recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date. 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. The Group's revenue from and cost of rehabilitation works amounted to ₱3,881.58 million and ₱1,672.14 million in 2018 and 2017, respectively (see Notes 8 and 10).

Provision for expected credit losses of receivables from customers

The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increase in prices of basic goods and services, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

As of December 31, 2018 and 2017, allowance for expected credit losses of receivables from customers amounted to ₱1,288.78 million and ₱1,084.89 million, respectively (see Note 8).

Accounting for connection fees

Under PFRS 15, the connection fee and the related water and sewer services are accounted for as arising from a single performance obligation that will be satisfied over the period when the related services are expected to be provided. The adoption of PFRS 15 requires that the connection fee collected for all active water service connections as at January 1, 2018 to be recognized as revenue over time. Management has made a judgment that it is impracticable to restate revenue from connection fee retrospectively given the impracticality in obtaining all the relevant information to properly and accurately estimate the cumulative impact of the change in accounting for connection fees, including among others, sources and number of active service connections, amount of connection fee paid per connection, and the related cost.

Considering impracticability of retrospective restatement, the Group adopted the change in accounting for connection fees prospectively starting on January 1, 2018, as allowed under PAS 8.

Estimating the period over which control over services is transferred to the customer

For each group of similar customer contracts that result in revenues recognized over a period of the time, the Group makes an estimate of each period over which the Group transfers the control of the services provided to the customer. For revenue from rehabilitation works, construction revenue, service fees, supervision fees, and revenue from pipeworks and integrated used water services, the Group has determined that the period of revenue recognition is the term of the customer contract. For connection fees revenue, the Group has estimated that the customer receives control over the remaining concession period or remaining corporate life.

Estimating useful lives of water banking rights

Cebu Water and NWPV estimate that the useful lives of the water banking rights to be indefinite, considering that the water permits remain valid for as long as water is beneficially used. It is possible that future results of operations could be materially affected by changes in Cebu Water and NWPV's estimates. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances (see Note 12).

Impairment of nonfinancial assets
The Group assesses the impairment of nonfinancial assets (property, plant and equipment, SCA, investments in associates, 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;
- significant negative industry or economic trends;
- significant decline in net worth or market capitalization; and
- significant decline in distributed profits or increase in losses.

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.

In 2018, MWTS closed three (3) water bottling plants. As a result, the Group recognized impairment loss on its property, plant and equipment amounting to P71.45 million, representing the write-down of leasehold improvements and water treatment equipment to its recoverable amounts as of December 31, 2018 (see Note 9). This is presented as part of "Other income - net" in the consolidated statements of comprehensive income.

For the year ended December 31, 2018, the Group recognized impairment loss on its investment in Saigon Water amounting to ₱95.41 million due to market capitalization. This is presented as part of "Other income - net" in the consolidated statements of comprehensive income.

As of December 31, 2018 and 2017, the Group has determined that there are no indicators of impairment on its investments in Thu Duc Water, Kenh Dong Water, Cu Chi Water, East Water, and PT STU (see Note 11).

As of December 31, 2018, there were no indicators of impairment on the Group's SCA, other current assets, and other noncurrent assets. As of December 31, 2017, there were no indicators of impairment on the Group's investment in nonfinancial assets (see Notes 9, 10, and 11).

Impairment of goodwill on the acquisition of Clark Water
Goodwill impairment testing requires an estimation of 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 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 using a discounted cash flow model. The 2018 cash flows for the next twenty-two (22) years assume a steady growth rate and is are derived from Clark Water's latest business plan. The Parent Company used the remaining concession life of Clark Water when testing for impairment. 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 11.45% and 8.97% in 2018 and 2017, respectively.

The carrying value of goodwill on the acquisition of Clark Water in the consolidated statements of financial position amounted to ₱130.30 million as of December 31, 2018 and 2017. No impairment loss was recognized as a result of the impairment testing performed.

Estimating billable water volume
Starting May 1, 2017, the SCAs related to the Group's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. The Group considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. For the years ended December 31, 2018 and 2017, SCA amortization expense based on the UOP method amounted to ₱2,049.04 million and ₱1,194.45 million, respectively (see Note 10).

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" 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. As of December 31, 2018 and 2017, the Parent Company and Boracay Water's deferred FCDA classified under "Other noncurrent assets" amounted to ₱2,820.92 million and ₱1,929.55 million (see Note 12).

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.

Deferred tax assets
The Group reviews the carrying amounts of deferred 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. Significant management judgement is required to determine the amounts that could be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning.

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 (see Note 18).

Pension assets and liabilities
The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, incapacity rates, retirement rate, and termination rates. The amounts of defined benefit obligations are highly sensitive to changes due to the complexity of the valuation and its long-term nature. Discount rate, salary increase rate, retirement rate, and termination rate assumptions are reviewed at each reporting date. The net pension liability amounted to ₱109.39 million and ₱95.89 million as of December 31, 2018 and 2017, respectively (see Notes 12 and 15).

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 are based on expected future inflation rates for the specific country. Retirement and termination rates are based on expected rates at which employees are assumed to retire or leave the employment of the Group.

Further details about the assumptions used are provided in Note 15.

4. Business Combination and Goodwill

2018 Business Combinations

EHCB
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EHCB's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

On January 9, 2019, Aqua Centro paid 50% of the total contract price amounting to total consideration of ₱24.87 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date.

On December 11, 2018, Laguna Water entered into four (4) APAs with EBCB's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EBCB subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp. Total acquisition cost amounted to ₱100.48 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date .

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Aqua Centro			
First Advance Development Corporation	₱40,810,000	₱20,789,400	(₱20,020,600)
Earth Aspire Corporation	3,755,000	1,298,000	(2,457,000)
Ambition Land Inc.	5,528,000	4,558,550	(969,450)
Prosperity Builders Resources Inc.	11,604,000	12,475,200	871,200
Tahanang Yaman Homes Corporation	7,448,000	10,138,110	2,690,110
Laguna Water			
Earth Prosper Corporation	15,952,000	8,880,570	(7,071,430)
Earth + Style Corporation	23,503,000	17,517,590	(5,985,410)
Extraordinary Development Corp.	5,785,000	113,160	(5,671,840)
Earth Aspire Corporation	18,278,000	16,618,910	(1,659,090)

No identifiable liabilities were assumed by Aqua Centro and Laguna Water in these acquisitions. Total gain on bargain purchase amounting to ₱45.75 million is presented as part of "Other income - net" in the 2018 consolidated statement of comprehensive income.

As of December 31, 2018, the purchase price allocations of Aqua Centro and Laguna Water for the acquisitions are provisional as the valuation of property, plant and equipment is yet to be finalized.

2017 Business Combinations

<u>Asian Land</u>

On January 4, 2017, MWPV entered into an APA with 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 MWPV was to assign the rights under the APA to BMDC, its wholly owned subsidiary.

On July 31, 2017, MWPV assigned all its rights and obligations on the APA to BMDC under a Deed of Assignment. On the same day, the Deed of Absolute Sale has also been executed between Asian Land and BMDC. Total consideration paid by BMDC to Asian Land amounted to ₱54.00 million, inclusive of VAT.

<u>Solar Resources</u>

On July 28, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar developments in the province of Bulacan. On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC. Total consideration paid by BMDC to Solar Resources amounted to ₱21.00 million, inclusive of VAT.

<u>Borland</u>

On December 14, 2017, Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey its assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC. Total consideration paid by BMDC to Borland amounted to ₱7.28 million, exclusive of VAT.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Asian Land	P103,122,000	P48,214,286	(P54,907,714)
Solar Resources	17,544,000	18,750,000	1,206,000
Borland	6,050,400	7,280,000	1,229,600

No identifiable liabilities were assumed by MWC in these acquisitions. The gain on bargain purchase is presented as part of "Other income - net" in the 2017 consolidated statement of comprehensive income.

The rollforward of goodwill is as follows:

	2018	2017
Balance at beginning of year	P133,155,075	P130,719,475
Additions from business combination	[illegible]	2,435,600
Balance at end of year	[illegible]	P133,155,075

The goodwill balance is attributable to acquisitions of the following businesses:

	2018	2017
Clark Water	P130,719,475	P130,719,475
Tahanang Yaman Homes Corporation	[illegible]	–
San Vicente Homes	[illegible]	1,229,600
Las Palmas Subdivisions Phases 1 to 7	[illegible]	1,206,000
Prosperity Builders Resources Inc.	[illegible]	–
Balance at end of year	[illegible]	P133,155,075

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks (Note 31)	[illegible]	P1,200,626,004
Cash equivalents (Note 31)	[illegible]	7,820,118,085
	[illegible]	P9,020,744,089

Cash in banks earn interest at the respective bank deposit rates ranging from 0.01% to 3.25%, 0.01% to 2.50%, and 0.01% to 2.50% in 2018, 2017, and 2016, respectively. Cash equivalents are highly liquid investments with varying periods of up to three (3) months and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to P255.55 million, P118.52 million, and P82.14 million in 2018, 2017, and 2016, respectively (see Note 17).

8. Receivables and Contract Assets

a. *Receivables*

This account consists of receivables from:

	2018	2017
Customers of:		
Water and used water services:		
Residential	[illegible]	₱1,634,829,492
Commercial	[illegible]	778,506,197
Semi-business	[illegible]	61,699,869
Industrial	[illegible]	80,519,458
Pipework services	[illegible]	298,497,701
Distributor's fees	[illegible]	141,852,490
Supervision fees	[illegible]	281,780,208
BWC	[illegible]	501,014,249
ZCWD	[illegible]	111,198,803
Employees	[illegible]	84,776,786
Interest from banks	[illegible]	18,406,781
Others (Note 14)	[illegible]	115,848,980
	[illegible]	3,672,090,189
Less allowance for ECLs	[illegible]	1,024,865,100
	[illegible]	2,647,225,189
Less noncurrent portion of:		
Receivable from BWC (Note 12)	[illegible]	451,220,564
Receivable from ZCWD (Note 12)	–	52,048,778
	[illegible]	₱2,143,815,803

The classes of the Group's receivables arising from water and sewer services rendered to customers, collectible within thirty (30) days from billing date, follow:

- Residential - pertains to receivables from residential households.
- Commercial - pertains to receivables from commercial customers.
- Semi-business - pertains to receivables from small businesses.
- Industrial - pertains to receivables from customers for industrial and manufacturing purposes.

Trade receivables from pipework services pertain to pipelaying, pipe replacements, and other services related to water and used water treatment facilities. These receivables are collectible within twelve (12) months.

Trade receivables from distributors' fees arise from the Exclusive Distributorship Agreement (EDA) entered into by MWTS with distributors of its Healthy Family drinking water and are collectible within the period that is agreed with the distributors.

Trade receivables arising from supervision fees on the development of water and used water facilities are collectible within thirty (30) days from billing date.

Receivable from ZCWD pertains to billed charges for service fees, construction revenue, and performance fees arising from Zamboanga Water's NRWSA. Zamboanga Water classifies as current the portion of the gross receivable from ZCWD that is collectible within the next twelve (12) months (see Note 12).

Receivable from BWC pertains to the assigned receivable between the Parent Company and VWPI covered by the Share Purchase Agreement related to the acquisition of VWPI's interest in Clark Water in 2011 (see Note 1).

The assigned receivable will be paid by BWC at an amount equal to 50% of the product consumed by all of BWC's customers and the tariff imposed by the Parent Company on its customers falling under the corresponding classification pursuant to the Concession Agreement and all amounts received by BWC as connection fees from customers and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest-bearing and the Parent Company classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

Receivable from employees arise from car, salary, and other loans which are due and demandable based on an agreed payment schedule and are collected through salary deductions.

Interest from banks are accrued interest arising from the Group's cash in banks and cash equivalents.

Other receivables include receivables from Land Bank of the Philippines in relation to the MWHP Loan (see Note 14), and receivables from shared facilities, and collection facilities.

Movements in the Group's allowance for ECLs follows:

	2018					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-business	Industrial	Receivables	Total
Balance at beginning of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Provision (Note 17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reversal (Note 17)	–	–	–	[illegible]	–	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	2017					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-business	Industrial	Receivables	Total
Balance at beginning of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Provision (Note 17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reversal (Note 17)	[illegible]	–	–	–	–	[illegible]
Write-off	[illegible]	[illegible]	[illegible]	–	–	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

b. Contract assets

As of December 31, 2018, contract assets consist of:

Contract assets from:	
Supervision fees	₱280,208,448
NRWSA with ZCWD	68,476,161
Bulk Water Sales and Purchase Agreement with TWD (Note 10)	89,770,280
Current portion	438,447,879
Bulk Water Sales and Purchase Agreement with TWD (Note 10)	415,673,332
NRWSA with ZCWD	77,169,570
Noncurrent portion	492,842,902
	₱931,290,781

Contract assets from supervision fees are initially recognized for revenue earned arising from the provision of design and project management services in the development of water and used water facilities. These contract assets are reclassified to "Receivables" upon acceptance and reaching certain construction milestones for the related water and used water facilities.

Contract assets from the NRWSA with ZCWD are initially recognized for revenue earned arising from construction revenue and performance fees for NRW reduction services. These contract assets are reclassified to "Receivables" upon acceptance of and billing to the customer.

Contract assets arising from the Bulk Water Sales and Purchase Agreement with TWD consist of the cost of rehabilitation works which will be reclassified to "Concession financial receivables" upon completion of construction of the related facilities. The rollforward of these contract assets follows:

Balance at January 1, 2018	₱–
Impact of adoption of PFRS 15 (Note 2)	[illegible]
Rehabilitation works	219,077,8[illegible]
Finance income (Note 17)	70,847,[illegible]
Reclassification to concession financial receivables (Note 10)	([illegible])
Balance at December 31, 2018	[illegible]

7. Inventories

This account consists of:

	2018	2017
Maintenance materials	[illegible]	₱98,148,458
Raw materials and finished goods	[illegible]	48,025,458
Water meters and connection supplies	[illegible]	58,055,084
Water treatment chemicals	[illegible]	8,520,551
	[illegible]	₱210,759,559

Finished goods consist of 500-milliliter and 500-milliliter bottled water, five (5)-gallon packaged water, and dispenser while raw materials consist of the cap seals for the 5-gallon packaged water bottles.

The Group's inventories are carried at cost except for its maintenance materials, raw materials, and finished goods which are carried at NRV. Allowance for obsolescence amounted to ₱4.50 million and ₱1.48 million as of December 31, 2018 and 2017, respectively.

In 2018, 2017, and 2016, MWTS recognized ₱[illegible] million, ₱17.09 million, and ₱[illegible] million, respectively, as part of its cost of sales of packaged water.

8. Other Current Assets

This account consists of:

	2018	2017
Net input VAT	[illegible]	[illegible]
Prepaid expenses	[illegible]	257,838,497
Guaranty deposits	[illegible]	[illegible]
Security bonds	[illegible]	18,235,850
	[illegible]	[illegible]

Net input VAT pertains to the Group's excess input VAT over the output VAT as of the end of the reporting period.

Prepaid expenses consist of prepayments for transaction costs for undrawn credit facilities, loan guarantee fees, regulatory costs, business taxes, insurance, rent, interest, and employee health care expenses and other employee benefits.

Guaranty deposits consist of rental deposits and other advance payments that can be recovered within one (1) year.

13. Property, Plant and Equipment

The rollforward analysis of this amount follows:

				2018			
	Land	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Additions	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transfers (Note 10)	–	[illegible]	[illegible]	–	[illegible]	[illegible]	[illegible]
Disposals	–	[illegible]	[illegible]	[illegible]	–	–	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accumulated depreciation, amortization, and impairment							
Balance at beginning of year	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Depreciation and amortization (Note 17)	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Impairment loss	–	[illegible]	–	–	[illegible]	–	[illegible]
Disposals	–	[illegible]	[illegible]	[illegible]	–	–	[illegible]
Balance at end of year	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Net book value	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

				2017			
	Land	Plant and Technical Equipment	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Additions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transfers (Note 10)	–	–	–	–	[illegible]	–	[illegible]
Disposals	–	–	[illegible]	[illegible]	–	–	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Accumulated depreciation and amortization							
Balance at beginning of year	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Depreciation and amortization (Note 17)	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Transfers (Note 10)	–	–	–	–	[illegible]	–	[illegible]
Disposals	–	–	[illegible]	[illegible]	–	–	[illegible]
Balance at end of year	–	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]
Net book value	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The net book value of noncash transfers to SEA in 2018 and 2017 amounted to ₱[illegible] million and ₱[illegible] million, respectively (see Note 10).

As of December 31, 2018 and 2017, noncash acquisitions of property, plant and equipment amounted to ₱[illegible] million and ₱[illegible] million, respectively.

As of December 31, 2018, the impairment loss of ₱[illegible] million pertains to the write-down of leasehold improvements and water treatment equipment of [illegible] to its recoverable amount arising from the closure of several of its water bottling plants during the year.

As of December 31, 2018 and 2017, fully depreciated property, plant and equipment that are still in use by the Group amounted to ₱[illegible] million and ₱[illegible] million, respectively.

16. Service Concession Assets and Obligations

a. *Service concession assets*

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	₱98,574,822,298	₱87,000,558,588
Additions:		
Rehabilitation works	[illegible]	11,474,141,845
Concession fees	[illegible]	81,418,802
Transfers (Note 8)	[illegible]	2,552,258
Local component cost	[illegible]	4,449,405
Balance at end of year	[illegible]	98,574,822,298
Accumulated amortization		
Balance at beginning of year	24,426,781,817	22,347,249,894
Amortization	[illegible]	2,075,944,112
Transfers (Note 8)	–	413,911
Balance at end of year	[illegible]	24,426,781,817
Net book value	[illegible]	₱74,150,045,581

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, of the Parent Company, Laguna Water, Boracay Water, Clark Water, Obando Water, and Calasiao Water pursuant to the Group's concession agreements, and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the concession arrangements. As of December 31, 2018 and 2017, SCA includes assets under construction amounting to ₱25,082.31 million and ₱19,525.40 million in 2018 and 2017, respectively.

SCA also includes prepaid concession fees which represents the thirty percent (30%) ownership of the PGL in Laguna Water. These are amortized based on the terms set forth in Laguna Water's concession agreement (see Note 1). As of December 31, 2018 and 2017, the unamortized portion of prepaid concession fees presented as part of SCA amounted to ₱84.98 million.

Contract assets arising from concession agreements consist of the cost of rehabilitation works covered by the concession agreements of the Parent Company, Laguna Water, Boracay Water, Clark Water, and Calasiao Water.

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱1,018.80 million, ₱719.22 million, and ₱654.30 million in 2018, 2017, and 2016, respectively. The capitalization rates used ranged from 0.84% to 7.57% in 2018, 5.12% to 9.15% in 2017, and 2.82% to 9.15% in 2016.

As of December 31, 2018 and 2017, non-cash acquisitions of SCA amounted to ₱92.77 million and ₱9.55 million.

b. *Service concession obligations*

The breakdown of service concession obligations follows:

	2018	2017
Current	[illegible]	₱800,981,858
Noncurrent	[illegible]	6,646,714,054
	[illegible]	₱7,447,695,910

<u>MWSS Concession Fees</u>

The aggregate concession fees of the Parent Company are equal to the sum of the following:

i. 10% of the aggregate Peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;

ii. 10% of the aggregate Peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
iii. 10% of the local component costs and cost overruns related to the UATP;
iv. 100% of the aggregate Peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by the Parent Company for continuation;
v. 100% of the local component costs and cost overruns related to existing projects;
vi. Parent Company's share in the repayment of MWSS loan for the financing of new projects; and
vii. one-half of MWSS annual corporate operating budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II. Total loan facility amounted to $116.60 million with a maturity of twenty (20) years including a five (5)-year grace period. The interest rate is 3.00% per annum.

MWSS subsequently entered into a MOA with the Parent Company and Maynilad for the Parent Company and Maynilad to equally shoulder the repayment of the loan with such repayment to form part of the concession fees.

On May 10, 2015, MWSS entered into a MOA with the Parent Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2018, the Parent Company paid MWSS ₱300.00 million as compensation for additional water allocation in the Angat reservoir.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency-Denominated Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2019	$9,750,894	₱385,714,977	₱906,416,516
2020	9,549,549	385,714,977	887,188,819
2021	6,711,781	385,714,977	748,849,300
2022	6,492,158	385,714,977	726,234,780
2023	6,557,891	385,714,977	741,040,845
2024 onwards	51,715,018	5,540,008,835	8,227,898,079
	$89,918,115	₱7,518,576,720	₱12,248,214,818

*Peso equivalent is translated using the closing rate as of December 31, 2018 amounting to ₱52.58 to US$1.

PGL Concession Fees

Under Laguna Water's concession agreement with PGL, Laguna Water is required to pay concession fees to PGL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Seventy percent (70%) of the concession fees shall be applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, starting on the first operational period, which begins upon the expiration of the transition period. Advances as of December 31, 2018 and 2017 amounted to ₱24.38 million.

TIEZA Concession Fees
The aggregate concession fees pursuant to Boracay Water's concession agreement with TIEZA is equal to the sum of the following:

i. servicing the aggregate Peso equivalent of all liabilities of BWSS as of commencement date;
ii. 5% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes which are for the account of Boracay Water; and
iii. payment of annual operating budget of the TIEZA-RO starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.00 million. For the year 2012 and beyond, Boracay Water shall pay not more than ₱20.00 million, subject to annual CPI adjustments.

CDC Concession Fees
The aggregate concession fees pursuant to Clark Water's concession agreement with CDC is equal to the sum of the following:

i. annual franchise fee of ₱1.50 million; and
ii. semi-annual rental fees of ₱2.77 million for leased facilities from CDC.

As a result of the extension of the concession agreement of Clark Water, payment of rental fees on the CDC existing facilities was extended by an additional fifteen (15) years from October 1, 2025 to October 1, 2040 (see Note 1).

OWD Concession Fees
The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD and 2% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

For the year ended December 31, 2018, concession fees recognized as part of SCA and SCO arising from the concession agreement with OWD amounted to ₱470.94 million (nil as of December 31, 2017).

CWD Concession Fees
Under Calasiao Water's concession agreement with CWD, concession fees are based on a fixed schedule of annual payments over the twenty-five (25) year concession period.

For the year ended December 31, 2017, concession fees recognized as part of SCA and SCO arising from the concession agreement with CWD amounted to ₱80.11 million (nil as of December 31, 2018).

a. *Concession financial receivables*

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	₱1,325,814,771	₱1,214,410,292
Additions:		
Rehabilitation works	–	107,805,108
Service income	[illegible]	73,158,815
Finance income (Note 17)	[illegible]	181,085,184
Reclassification to contract assets (Notes 2 and 8)	([illegible])	–
Reclassification from contract assets (Note 8)	71,438,484	–
Collections	([illegible])	(278,745,228)
Balance at end of year	[illegible]	1,325,814,771
Allowance for ECL		
Balance at beginning of year	(11,282,189)	(8,558,614)
Provisions (Note 17)	([illegible])	(2,686,575)
Balance at end of year	([illegible])	(11,282,189)
Net book value	₱[illegible]	₱1,314,532,582

The breakdown of concession financial receivables follows:

	2018	2017
Current	₱[illegible]	₱[illegible]
Noncurrent	[illegible]	1,167,507,874
	₱1,047,041,[illegible]	₱[illegible]

MCWD Bulk Water Supply Agreement

On December 15, 2015, Cebu Water received a Notice of Award for the bulk supply of water to the MCWD. In relation to this, Cebu Water and MCWD signed a twenty (20)-year Bulk Water Supply Agreement for the supply of eighteen (18) million liters per day of water for the first year and thirty-five (35) million liters per day of water for years two (2) up to twenty (20).

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between Cebu Water and MCWD, whereby the facilities constructed by Cebu Water shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of eighteen (18) million liters per day for the first year and thirty-five (35) million liters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter.

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 the Bulk Water Supply Agreement 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 2016 until September 2016. Due to this change in the timing of the implementation of the thirty-five (35) million liters of guaranteed volume, Cebu Water recognized in 2016 an impairment loss amounting to ₱6.60 million on its concession financial receivable (see Note 17).

In 2018 and 2017, Cebu Water invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required thirty-five (35) million liters of water to MCWD. As a result, Cebu Water recognized ₱9.54 million and ₱0.67 million impairment loss for the years ended December 31, 2018 and 2017, respectively (see Note 17).

As of December 31, 2018 and 2017, concession financial receivable from the Bulk Water Supply Agreement of Cebu Water amounted to ₱1,047.04 million and ₱1,177.80 million, respectively.

TWD Bulk Water Sales and Purchase Agreement

The concession financial receivable arising from the Bulk Water Sales and Purchase Agreement between Tagum Water and TWD is accounted for in accordance with IFRIC 12. As of December 31, 2018 and 2017, Tagum Water was constructing water treatment facilities which shall be used for the delivery of potable water to TWD at an aggregate volume of twenty-six (26) million liters per day for the 1st to 3rd years; thirty-two (32) million liters per day for the 4th to 6th years; and thirty-eight (38) million liters per day for the remaining years of the agreement. There shall be a tariff rate adjustment of fifteen percent (15%) every three (3) years starting on the 4th year from the Operations Start Date as defined in the Bulk Water Sale and Purchase Agreement.

As of December 31, 2018, the net balance of rehabilitation works and finance income earned during the construction phase and recognized as part of contract assets amounted to ₱485.45 million and is presented as part of contract assets in the 2018 consolidated statements of financial position (see Note 8). As of December 31, 2017, concession financial receivable arising from the Bulk Water Sales and Purchase Agreement of Tagum Water amounted to ₱208.55 million (see Notes 2 and 8).

11. Investments in Associates

This account consists of the following:

	2018	2017
Acquisition cost	₱13,443,606,385	₱[illegible]
Accumulated equity in net earnings	1,547,479,451	[illegible]
Cumulative translation adjustments	1,003,863,210	[illegible]
	₱15,994,949,046	₱[illegible]

Details of the Group's investments in associates are shown below.

Thu Duc Water

Thu Duc Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October [illegible], [illegible], TDWH and Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) entered into a share sale and purchase agreement whereby CII will sell to TDWH its [illegible]% interest (equivalent to [illegible] million common shares) in Thu Duc Water. On December [illegible], [illegible], TDWH completed the acquisition of CII's interest in the common shares of Thu Duc Water after which TDWH obtained significant influence in Thu Duc Water.

The acquisition cost of the investment amounted to ₱[illegible] billion (VND[illegible] billion). The investments in associate account includes a notional goodwill amounting to ₱[illegible] billion arising from the acquisition of shares of stock in Thu Duc Water.

The financial information of Thu Duc Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	[illegible]	[illegible]
Noncurrent assets	[illegible]	[illegible]
Current liabilities	[illegible]	[illegible]
Noncurrent liabilities	[illegible]	[illegible]
Revenue	851,034,996	[illegible]
Net income	520,193,273	[illegible]

The conversion rates used were [illegible]

The share of the Group in the net income of Thu Duc Water for the years ended December 31, 2018, 2017 and 2016 amounted to ₱[illegible] million, ₱[illegible] million, and ₱[illegible] million, respectively.

Kenh Dong Water

Kenh Dong Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On May [illegible], [illegible], the Parent Company, through KDWH, entered into a sale and purchase agreement with CII for the purchase of [illegible]% of CII's interest in Kenh Dong Water. The payment for the shares was done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱[illegible] billion.

As of December 31, [illegible], considerations paid by the Parent Company for its investment in Kenh Dong Water amounted to ₱[illegible] billion (VND[illegible] billion). The share purchase transaction was completed on July [illegible], [illegible] and KDWH gained significant influence in Kenh Dong Water.

In [illegible], Kenh Dong Water finalized its purchase price allocation which resulted in a final notional goodwill amounting to ₱[illegible] billion.

The financial information of Kenh Dong Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	₱689,947,464	[illegible]
Noncurrent assets	3,900,613,345	[illegible]
Current liabilities	406,157,481	[illegible]
Noncurrent liabilities	1,348,948,908	[illegible]
Revenue	511,661,133	[illegible]
Net income	322,399,454	[illegible]

The conversion rates used were [illegible]

The share of the Group in the net income of Kenh Dong Water for the years ended December 31, 2018, 2017, and 2016 amounted to ₱[illegible] million, ₱[illegible] million, and ₱[illegible] million, respectively.

The Group's share in net income from its investments in Thu Duc Water and Kenh Dong Water resulted from concession arrangements with the People's Committee of Ho Chi Minh City (the Grantor). These concession arrangements are accounted for under the Financial Asset model of IFRIC 12 as these associates have an unconditional contractual right to receive fixed and determinable amounts of payment for its construction services at the direction of the Grantor.

Saigon Water
Saigon Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam. Saigon Water is listed in the Ho Chi Minh City Stock Exchange.

On October 8, 2013, the Parent Company, through MWSAH, entered into an Investment Agreement for the acquisition of a 31.47% stake in Saigon Water. The acquisition cost of the investment amounted to ₱842.78 million (VND390.45 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH gained significant influence in Saigon Water.

In 2014, MWSAH finalized the notional goodwill amounting to ₱288.84 million arising from the acquisition of shares of stock in Saigon Water by the Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water for ₱229.38 million (VND109.87 billion), which increased MWSAH's holding in Saigon Water's outstanding capital stock to 37.59% from 31.47%. The notional goodwill arising from the additional subscription amounted to ₱33.47 million.

In 2018, MWSAH recognized impairment on its investment in Saigon Water amounting to ₱85.41 million arising from the decline in the market capitalization of Saigon Water shares. This is presented as part of "Other income - net" in the consolidated statements of comprehensive income for the year ended December 31, 2018.

The financial information of Saigon Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	₱1,142,618,444	₱340,272,878
Noncurrent assets	4,249,526,730	8,808,872,528
Current liabilities	414,854,016	2,258,875,288
Noncurrent liabilities	2,787,278,878	8,428,828,174
Revenues	827,746,748	88,111,509
Net income	78,496,784	212,504,820

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the consolidated net income of Saigon Water for the years ended December 31, 2018, 2017, and 2016 amounted to ₱27.47 million, ₱88.89 million, and ₱12.40 million, respectively. Closing share price of Saigon Water as of December 28, 2018 was VND17,150 per share.

Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)
Cu Chi Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water in the total amount of ₱118.38 million (VND54.55 billion). Pursuant to the Capital Transfer Agreement, Saigon Water 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, 2018 and 2017, no trigger event has occurred and the value of the put option was determined to be nil.

The financial information of Cu Chi Water as of and for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Current assets	₱146,541	₱108,777
Noncurrent assets	1,488,782,457	1,411,807,852
Current liabilities	115,868	111,527

The conversion rates used were ₱0.0023 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

The share of the Group in the net income of Cu Chi Water amounted to nil in both 2018 and 2017, and [illegible] in 2016.

PT STU
PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia.

On March 8, 2018, PTMWI acquired [illegible] ordinary shares in PT STU to own 20% of the outstanding capital stock.

The financial information of PT STU as of December 31, 2018 and for the period March 8 to December 31, 2018 follows:

Current assets	[illegible]
Noncurrent assets	[illegible]
Current liabilities	[illegible]
Noncurrent liabilities	[illegible]
Revenue	[illegible]
Net income	[illegible]

The conversion rates used was [illegible] to IDR as of December 31, 2018.

The acquisition cost of the investment amounted to [illegible] million (IDR[illegible] billion). The investment in associate account includes a notional goodwill amounting to [illegible] million arising from the acquisition of shares of stock in PT STU. The share in the net identifiable assets of PT STU on the date of acquisition amounted to [illegible] million.

The share of the Group in the net income of STU amounted to [illegible] million in 2018.

East Water
East Water is incorporated in Thailand with principal place of business in Bangkok, Thailand. East Water is listed in the Stock Exchange of Thailand.

On March 14, 2018, MWTC acquired [illegible] million ordinary shares in East Water representing [illegible]% equity of East Water.

The financial information of East Water as of December 31, 2018 and for the period from March 14 to December 31, 2018 follows:

Current assets	[illegible]
Noncurrent assets	[illegible]
Current liabilities	[illegible]
Noncurrent liabilities	[illegible]
Revenue	[illegible]
Net income	[illegible]

The conversion rate used was [illegible] to THB as of December 31, 2018.

The acquisition cost of the investment amounted to [illegible] billion (THB[illegible] billion). The investment in associate account includes a notional goodwill amounting to [illegible] billion arising from the acquisition of shares in East Water. Share in net identifiable assets on date of acquisition amounted to [illegible] billion.

The share of the Group in the net income of East Water amounted to [illegible] million in 2018. Closing share price of East Water as of December 28, 2018 was THB[illegible] per share.

The reconciliation of the net assets of the associates to the carrying amounts of the investments in associates recognized in the consolidated financial statements follows:

		December 31, 2018			
Associate	Net Assets of Associate*	Proportionate Ownership Interest	Share in Net Identifiable Assets	Notional Goodwill	Carrying Values
Thu Duc Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kenh Dong Water	[illegible]	47.35%	[illegible]	[illegible]	[illegible]
Saigon Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cu Chi Water	[illegible]	24.50%	[illegible]	–	[illegible]
PT STU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
East Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]		[illegible]	[illegible]	[illegible]

*Attributable to common shareholders.

		December 31, 2017			
Associate	Net Assets of Associate*	Proportionate Ownership Interest	Share in Net Identifiable Assets	Notional Goodwill	Carrying Values
Thu Duc Water	₱2,878,200,291	49.00%	₱1,411,198,143	₱1,418,851,852	₱2,730,049,795
Kenh Dong Water	2,504,887,422	47.35%	1,185,681,582	1,378,777,452	2,574,259,334
Saigon Water	2,169,254,782	37.99%	820,258,389	326,308,151	1,150,548,514
Cu Chi Water	1,411,844,708	24.50%	345,801,852	–	345,801,851
Total	₱8,777,587,185		₱3,875,080,020	₱3,120,877,298	₱6,798,027,298

*Attributable to common shareholders.

The rollforward of acquisition cost follows:

	2018	2017
Balance at beginning of year	₱4,637,870,238	₱4,408,315,817
Acquisitions during the year	8,871,042,180	229,554,421
Impairment loss	(65,406,033)	–
Balance at end of year	₱13,443,506,385	₱4,637,870,238

The rollforward of accumulated equity in net earnings follows:

	2018	2017
Balance at beginning of year	₱1,262,156,536	₱989,992,850
Equity in net earnings	698,142,026	457,208,214
Dividend income	(413,819,111)	(185,044,528)
Balance at end of year	₱1,547,479,451	₱1,262,156,536

14. Other Noncurrent Assets

This account consists of:

	2018	2017
Deferred FCDA	[illegible]	₱1,229,280,908
Advances to contractors	[illegible]	340,654,519
Receivable from BWC - net of current portion (Note 8)	[illegible]	451,524,564
Deposits (Note 27)	[illegible]	1,470,194,842
Water banking rights	[illegible]	80,087,225

(Forward)

	2018	2017
Receivable from Ayala Multi-Purpose Cooperative (AMPC)	P54,040,000	P23,969,674
Receivable from ZCWD – net of current portion (Notes 2 and 6)	–	52,016,778
Pension assets – net (Note 19)	–	18,111,900
Miscellaneous	[illegible]	56,719,872
	P[illegible]	P4,450,277,787

Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This amount also covers the unrealized gains or losses from loan valuations.

Advances to contractors are being recouped against progress billings based on contract provisions and are advance payments for the construction of the Group's property and equipment and service concession assets.

Deposits pertain to those made for land acquisition, for leased properties, and for guaranty deposits with Manila Electric Company for electric connections and its related deferred charges. In 2018, deposit for land acquisition amounting to P1,299.85 million which was outstanding as of December 31, 2017 was reclassified to rehabilitation works under SCA (see Note 10).

Water banking rights pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River, and Agno River. On August 22, 2014, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 18241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows Cebu Water to use for its project. As of December 31, 2018 and 2017, Cebu Water's water banking right amounted to P95.00 million.

In 2018 and 2017, MWPV incurred costs to acquire conditional water permits from the NWRB amounting to P5.73 million and P15.07 million, respectively. A conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring device and water distribution system, and environmental compliance certification by the Department of Environment and Natural Resources, among others. In 2018, the NWRB granted MWPV the permits to use the water from the Pampanga River, Abacan River, and Pasig-Potrero River. These permits supersede the conditional water permits granted to MWPV in 2017. As of December 31, 2018, the Group believes that the remaining requirements for the Agno River are ministerial and is certain that it will be able to comply with the conditions required.

The Group 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. The water banking rights is assessed for impairment.

Receivable from AMPC pertains to the term loan and credit line facility agreement.

Miscellaneous noncurrent assets include Cebu Water's advances to the Carmen Development Fund for its permit to extract water at the Carmen property in Cebu amounting to P28.18 million and P28.11 million in 2018 and 2017, respectively.

19. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payables	P[illegible]	P6,798,858,519
Accrued expenses:		
Salaries, wages, and employee benefits	455,165,714	375,047,288
Management and professional fees	[illegible]	258,411,769
Contractual services	[illegible]	84,150,960
Utilities	[illegible]	118,458,767
Repairs and maintenance	[illegible]	149,057,152

(Forward)

	2018	2017
Wastewater costs	[illegible]	P70,290,794
Occupancy costs (Note 27)	[illegible]	55,115,007
Collection fees	[illegible]	80,519,872
Water service connections	[illegible]	20,833,072
Rental of equipment	[illegible]	14,335,585
Water treatment chemicals	[illegible]	18,152,988
Miscellaneous	[illegible]	148,588,809
Interest payable (Note 14)	[illegible]	552,448,178
Contractors' payable	[illegible]	278,872,525
Contract Liabilities	[illegible]	–
Others	[illegible]	147,580,452
	[illegible]	P5,860,548,281

Trade payables and accrued expenses are non-interest bearing and are normally settled on fifteen (15) to sixty (60)-day terms.

Miscellaneous accrued expenses include accruals for communication, advertising, insurance, transportation and travel, postage, telephone and supplies.

Interest payable pertains to the unpaid portion of interest arising from the short-term and long-term debts of the Group.

Contractors' payable pertains to the accrual of expenses which requires the Group to pay the contractor based on progress billings. Contracts payable are normally settled within one (1) year.

Other payables are non-interest bearing and are normally settled within one (1) year.

14. Short-term and Long-term Debt

a. Short-term debt

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.50 billion to finance MWTC's acquisition of the shares in East Water (see Note 11). The loan bears interest of BIBOR plus margin and is guaranteed by the Parent Company.

As of December 31, 2018, the carrying value of the short-term debt amounted to ₱8,598.54 million.

b. Long-term debt

The composition of the Group's long-term debt follows:

	2018	2017
USD loans:		
NEXI Loan	[illegible]	P2,742,858,587
MWMP Loan	[illegible]	5,097,191,189
Japanese Yen (JPY) loans:		
JP¥10.00 billion Loan	[illegible]	14,988,078,082
MTSP Loan	[illegible]	872,747,524
First IFC Loan	–	89,229,112
Canadian Dollar (CAD) loan:		
CAD0.87 million Laguna Water Loan	[illegible]	52,848,890

(Forward)

	2018	2017
PHP loans:		
₱5.00 billion Metrobank Loan	[illegible]	P4,887,246,888
₱5.00 billion PNB Loan	[illegible]	–
Fixed Rate Corporate Notes	[illegible]	4,880,883,900
₱0.50 billion Laguna Water Loan	[illegible]	189,078,857
₱0.50 billion Laguna Water BPI Loan	[illegible]	480,252,587
₱0.85 billion Laguna Water DBP Loan	[illegible]	728,440,867
₱2.50 billion Laguna Water SBC Loan	[illegible]	2,482,687,720
₱0.50 billion Boracay Water DBP-SBC Loan	[illegible]	400,797,828
₱0.50 billion Boracay Water DBP-SBC Loan	[illegible]	426,898,298
₱0.85 billion Boracay Water DBP-SBC Loan	[illegible]	841,822,570
₱0.40 billion Boracay Water BPI Loan	[illegible]	–
₱1.15 billion Clark Water RCBC Loan	[illegible]	1,141,884,988
₱0.10 billion Clark Water RCBC Loan	[illegible]	–
₱0.75 billion Cebu Water BPI Loan	[illegible]	822,288,581
₱85.00 million Zamboanga Water BPI Loan	[illegible]	84,719,870
₱4.00 billion MWPV Loan	[illegible]	894,424,880
₱0.45 billion Tagum Water PNB Loan	[illegible]	129,254,880
	[illegible]	38,724,273,458
Less current portion	[illegible]	4,814,057,448
	[illegible]	P33,710,221,008

Unamortized debt discounts and issuance costs of the Group's long-term debt as of December 31, 2018 and 2017 follow:

	2018	2017
USD loans	[illegible]	₱80,083,544
JPY loans	[illegible]	288,854,871
PHP loans	[illegible]	58,871,881
	[illegible]	P398,388,298

The rollforward analysis of unamortized debt discounts and issuance costs of long-term debt follows:

	2018	2017
Balance at beginning of year	[illegible]	₱340,528,505
Additions	[illegible]	280,390,481
Amortization (Note 17)	[illegible]	(224,780,187)
Foreign exchange adjustments	[illegible]	2,287,127
Balance at end of year	[illegible]	P398,388,298

Parent Company Loans

NEXI Loan

On October 21, 2010, the Parent Company entered into a term loan agreement (NEXI Loan) amounting to US$150.00 million to partially finance capital expenditures within the Manila Concession. The loan has a tenor of ten (10) years and is financed by a syndicate of four (4) banks, namely, ING N.V Singapore, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd., and Sumitomo Mitsui Banking Corporation, and is insured by Nippon Export and Investment Insurance. The first, second, and third drawdowns of the loan amounted to US$84.00 million, US$50.00 million, and US$16.00 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to US$[illegible] million and US$[illegible] million, respectively.

MWMP Loan

On October 2, 2012, the Parent Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank (MWMP Loan). The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty-five (25) years and was made available in United States Dollar in the aggregated principal amount of US$137.5 million, payable via semi-annual installments after the seven (7)-year grace period. The Parent Company has made four (4) drawdowns in 2015 with an aggregate amount of US$22.80 million, three (3) drawdowns in 2018 with an aggregate amount of US$17.48 million, and three (3) drawdowns in 2017 with a total amount of US$20.40 million.

In 2018, the Parent Company made an additional drawdown amounting to US$[illegible] million. The carrying value of the MWMP loan as of December 31, 2018 and 2017 is US$70.88 million and US$62.05 million, respectively.

Summary of financial transactions related to the MWMP Loan for the years ended December 31, 2018 and 2017 are shown below (in thousands):

	2018	2017
Balance at beginning of year	$28	$100
Amounts received during the year	8,[illegible]	21,400
Expenditures during the year	(8,777)	(21,472)
Balance at end of year	$[illegible]	$28

The US$0.19 million and US$0.03 million as at December 31, 2018 and 2017, respectively, represents the outstanding balance of the Land Bank of the Philippines designated account No. 3404-0152-85, under the account name MWMP - Category 1 - MWCI, and is presented as part of "Other receivables" under the "Receivables" account (see Note 8). The proceeds of the MWMP Loan will be expended in accordance with the intended purposes as specified in the loan agreement.

JPY40 billion Loan

On September 30, 2015, the Parent Company signed a seven (7)-year JPY40.00 billion term loan facility, payable semi-annually, with three (3) international banks: MUFJ Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan will be used to finance the Parent Company's capital expenditures. The Parent Company made its first drawdown on March 3, 2016 amounting to JPY13.40 billion. In 2017, the Parent Company made two (2) additional drawdowns totaling JPY 26.60 billion. The Parent Company has not made any drawdown in 2018. The loan's carrying value as of December 31, 2018 and 2017 is JPY27,219.01 million and JPY33,971.54 million, respectively.

MTSP Loan

On October 20, 2005, the Parent Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (MTSP Loan) to finance the improvement of the sewerage and sanitation conditions in the Manila Concession. The loan has a term of seventeen (17) years and was made available in Japanese Yen in the aggregate principal amount of JPY6.59 billion payable via semi-annual installments after the five (5)-year grace period.

The Parent Company made its last drawdown on October 28, 2011. The total drawn amount from the loan is JPY4.59 billion. As of December 31, 2018 and 2017, the outstanding balance of the MTSP loan amounted to JPY1.18 billion and JPY1.52 billion, respectively.

First IFC Loan

On March 28, 2003, the Parent Company entered into a loan agreement with IFC (First IFC Loan) to partially finance the Parent Company's investment program from 2002 to 2005 to expand water supply and sanitation services, for improvement of the existing facilities of the Parent Company, and for concession fee payments. The First IFC Loan was made available in Japanese Yen in the aggregate principal amount of JPY3.59 billion equivalent to US$30.00 million and payable in twenty-five (25) semi-annual installments, within twelve (12) years starting on July 15, 2006.

On July 15, 2018, the Parent Company paid the outstanding balance of the loan as scheduled. As of December 31, 2018 and 2017, the carrying value of the loan amounted to nil and JPY149.19 million, respectively.

₱5.00 billion Metrobank Loan

On August 18, 2015, the Parent Company entered into a Credit Facility Agreement (₱5.00 billion Metrobank Loan) with Metropolitan Bank and Trust Company (Metrobank) having a fixed nominal rate of 4.41% and with a term of seven (7) years from the issue date and is payable annually. The Parent Company may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱4,888.87 million and ₱4,887.25 million, respectively.

₱5.00 billion Philippine National Bank (PNB) Loan

On May 11, 2018, the Parent Company signed a ₱5.0 billion, ten (10)-year term loan facility with the PNB. The loan will be used to finance general corporate requirements and capital investment programs in the Manila Concession as well as to refinance existing concessionaire loans. On July 31, 2018, the Parent Company made its first and only drawdown amounting to ₱5.0 billion. The carrying value of the loan as of December 31, 2018 amounted to ₱4,840.36 million.

Fixed Rate Corporate Notes
On April 8, 2011, the Parent Company issued ₱10.00 billion notes (Fixed Rate Corporate Notes) with ₱5.00 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.00 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date, both of which is payable quarterly. The Parent Company may repay the whole and not a part only of the Ten-Year FXCN Note on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter.

On April 8, 2016, the Parent Company repaid the outstanding balance of the Five-Year FXCN in bullet as scheduled. The carrying value of the fixed rate corporate notes as of December 31, 2018 and 2017 amounted to ₱4,894.28 million and ₱4,882.89 million, respectively.

Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements
On July 17, 2008, the Parent Company, together with all of its lenders, signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligations of the Parent Company to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the Parent Company in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by the Parent Company, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released the Parent Company from the assignment of its present and future fixed assets, receivables, and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where the Parent Company is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, the Parent Company agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either the Parent Company or MWSS. Currently, all lenders of the Parent Company are considered Concessionaire Lenders and are on pari passu status with one another.

In November and December 2014, the Parent Company signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing the Parent Company more operational and financial flexibility. The loan amendments include the shift to the use of the Parent Company from consolidated financial statements for the purposes of calculating the financial covenant ratios, the increase in maximum debt to equity ratio to 3:1 from 2:1 and the standardization of the definition of debt service coverage ratio at a minimum of 1.2:1 across all loan agreements.

Laguna Water Loans
On September 7, 2010, Laguna Water entered into a loan agreement with two (2) local banks for the financing of its construction, operation, maintenance, and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to Laguna Water up to ₱500.00 million, the principal payments of which will be made in thirty (30) consecutive equal quarterly installments starting August 2013. The first and second drawdowns from the loan were made in November 2010 and June 2011 amounting to ₱250.00 million each. The carrying value of this loan amounted to ₱152.91 million and ₱199.08 million as of December 31, 2018 and 2017, respectively.

On April 23, 2015, Laguna Water entered into a loan agreement with DBP to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.00 million bearing an effective interest rate of 7.25%. The first and second drawdowns were made in July and November 2015 which amounted to ₱250.00 million each. The carrying value of this loan as of December 31, 2018 and 2017 amounted to ₱452.95 million and ₱482.28 million, respectively.

On January 9, 2014, Laguna Water exercised its option to avail of the second tranche of its loan agreement with DBP, to finance its water network and supply projects, including the development of a well-field network in the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, the lender provided additional loans to Laguna Water in the aggregate principal amount of ₱993.00 million. The first and second drawdowns were made in January and May 2014, respectively, amounting to ₱496.50 million each. The carrying value of the loan amounted to ₱793.19 million and ₱795.44 million as of December 31, 2018 and 2017, respectively.

On October 23, 2015, Laguna Water entered into a loan agreement with Security Bank Corp. (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.50 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015 amounting to ₱500.00 million bearing an effective interest rate of 6.14%. The second drawdown was made in two tranches in April 2016 amounting to ₱150.00 million and ₱300.00 million bearing effective interest rates of 5.98% and 6.35%, respectively. The third drawdown was made in September 2016 amounting to ₱400.00 million bearing an effective interest rate of 5.95%. The fourth drawdown was made in three (3) tranches, the first tranche in March amounting to ₱400.00 million bearing an effective interest rate of 6.34% and the second and third tranches in April 2017 amounting to ₱50.00 million and ₱350.00 million bearing an effective interest rate of 6.50% and 6.54%, respectively. The fifth drawdown was made in two (2) tranches in September 2017 amounting to ₱150.00 million and ₱400.00 million bearing an effective interest rate of 6.51% and 6.47%, respectively. The carrying value of the loan amounted to ₱2,299.63 million and ₱2,389.70 million as of December 31, 2018 and 2017, respectively.

On March 28, 2017, Laguna Water entered into a loan agreement with Grand Challenges Canada to fund a project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CAD$75,000. The project supported by the loan is the "Bundling water and sanitation services for the poor in informal urban communities." As of December 31, 2018 and 2017, the carrying value of the loan amounted to CAD$75,000 and CAD$27,044, respectively.

Boracay Water Loans
On July 29, 2011, Boracay Water entered into an Omnibus Loan and Security Agreement with DBP and SBC to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for its service area under its concession agreement with TIEZA, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱900.00 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

Omnibus loan and security agreement – Sub-tranche 1
The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱450.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 1B, the loan in the amount of ₱225.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱225.00 million to be provided by SBC and funded through its internally-generated funds.

The first, second, and final loan drawdowns amounted to ₱450.00 million on August 25, 2011, ₱225.00 million on August 25, 2012, and ₱225.00 million on August 29, 2013, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱771.77 million and ₱800.75 million, respectively.

Omnibus loan and security agreement – Sub-tranche 2
The Agreement provided Boracay Water the option to borrow additional loans from the lenders. On November 14, 2016, Boracay Water entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱900.00 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱450.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 2B, the loan in the amount of ₱225.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 2C, the loan in the amount of ₱225.00 million to be provided by SBC and funded through its internally-generated funds.

The first, second, and final loan drawdowns amounted to ₱75.00 million on November 23, 2012, ₱200.00 million on August 28, 2014, and ₱225.00 million on November 25, 2015, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱357.71 million and ₱428.70 million, respectively.

Omnibus Loan and Security Agreement – Sub-tranche 3
On October 9, 2014, Boracay Water signed a Third Omnibus Loan and Security Agreement amounting to ₱650.00 million with SBC. The loan will be used to fund the capital expenditures which will be used to provide water and sewerage services in the concession area of Boracay Water. The first, second, and third drawdowns on this loan were made on November 25, 2016, May 25, 2017, and September 25, 2017, amounting to ₱200.00 million, ₱250.00 million, ₱200.00 million, respectively. The carrying value of loan as of December 31, 2018 and 2017 amounted to ₱640.73 million and ₱641.84 million, respectively.

Omnibus Loan and Security Agreement – Bank of the Philippine Islands (BPI)
On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The loan will be used to finance the general corporate and capital expenditures requirements of Boracay Water. The first, second, and third drawdowns on this loan were made on April 30, 2018, September 25, 2018, and December 20, 2018, amounting to ₱250.00 million, ₱250.00 million, ₱100.00 million, respectively. The carrying value of loan as of December 31, 2018 amounted to ₱595.85 million.

Clark Water Loans
On April 10, 2015, Clark Water entered into a loan agreement with Rizal Commercial Banking Corporation (RCBC), whereby RCBC extended credit to Clark Water for up to ₱1.15 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate ranging from 6.15% to 6.97%, and principal payments will be made in forty-eight (48) consecutive equal quarterly installments starting December 2018.

The first and second drawdowns on the loan were made in September and December 2015, amounting to ₱500.00 million and ₱300.00 million, respectively. The third drawdown was made in August 2018 for ₱350.00 million. The carrying value of the loan amounted to ₱1,118.65 million and ₱1,141.68 million as of December 31, 2018 and 2017, respectively.

On December 19, 2018, Clark Water availed of a fifteen (15)-month term loan with RCBC amounting to ₱100.00 million to finance its working capital requirements. Under the agreement, the loan bears interest at the rate of 7.55% payable monthly. The loan's principal payment is due on March 19, 2020. The carrying value of the loan amounted to ₱100.00 million as of December 31, 2018.

Cebu Water Loan
On December 19, 2013, Cebu Water entered into an Omnibus Loan and Security Agreement with the Development Bank of the Philippines (DBP) to partially finance the construction works in relation to its bulk water supply project in Cebu. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.00 million or up to 70% of the total project cost, whichever is lower. Principal payments will be made in twenty (20) equal quarterly installments starting December 2017.

The first, second, and final drawdowns on the loan facility amounted to ₱571.19 million on December 20, 2013, ₱135.84 million on May 20, 2014, and ₱93.02 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱635.51 million and ₱689.18 million, respectively.

Zamboanga Water Loan
On June 30, 2016, Zamboanga Water signed a term loan agreement amounting to ₱65.00 million with DBP. The proceeds of the loan will be used to partially finance Zamboanga Water's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The first, second, and third loan drawdowns were made on July 29 and September 1, 2016 and September 29, 2017 amounting to ₱20.00 million for the first and second drawdowns and ₱25.00 million for the third drawdown. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱64.71 million and ₱64.72 million, respectively.

NWPV Loan
On October 5, 2018, NWPV signed a fifteen (15)-year fixed rate term loan facility amounting to ₱4.00 billion with SBC and Metrobank. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.00 billion. The proceeds of the loan will be used to finance NWPV's capital expenditures, future acquisitions and other general corporate requirements.

On February 24, 2017, MWPV made a bridge loan drawdown amounting to P450.00 million each from SBC and Metrobank. These bridge loans had a fixed rate of 2.75% and a 119-day term. On June 23, 2017, these bridge loans were rolled-over for additional 180 days with a rate of 2.50%, repriced monthly. On November 9, 2017, MWPV repaid its P900.0 million bridge loan and made the first drawdown on its loan facility amounting to P450.00 million from each bank.

On October 5 and December 19, 2018, MWPV made its subsequent drawdowns amounting to P50.00 million and P175.00 million from each bank, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to P1,340.97 million and P894.42 million, respectively.

These loan drawdowns have a term of fourteen (14) to fifteen (15) years, with interest payable semi-annually and principal repayments starting on November 9, 2022.

Tagum Water Loan
On October 6, 2016, Tagum Water signed an Omnibus Loan and Security Agreement in the amount of P450.00 million with the PNB. The loan will be used to partially finance the construction works in relation to the Tagum Bulk Water Supply Project. Nominal interest is at 5.50% per annum, payable quarterly. Principal payments will be made in forty-eight (48) equal quarterly installments starting December 2020. The first, second, and third drawdowns on this loan were made on September 25, 2017, April 18, 2018, and November 29, 2018, amounting to P130.00 million, P120.00 million, and P154.00 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to P401.24 million and P129.15 million, respectively.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Group which include compliance with certain financial ratios such as the debt-to-equity and debt-service-coverage ratios. As of December 31, 2018 and 2017, the Group was in compliance with all the loan covenants required by the creditors and has not received any written notice of default from lenders or the trustees.

19. Retirement Plan

The Parent Company, Clark Water, Laguna Water, Boracay Water and MWPV have funded and noncontributory defined benefit pension plans covering substantially all of their respective regular employees. The benefits are based on current salaries and years of service and compensation as of the last year of employment. The latest actuarial valuations were made on December 31, 2018.

RA No. 7641, the existing regulatory framework, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under law. The law does not require minimum funding for the plan.

The Parent Company's funding policies state that equivalent target funding ratio must always be at least 80% and should the ratio reach 120%, the Retirement and Welfare Plan Committee may opt to declare a funding holiday. In the event there is an extraordinary increase in defined benefit obligation, which may arise from benefit improvement, massive hiring and the other extraordinary personnel movements, the Parent Company has a maximum of three (3) years to comply with the required minimum funding ratio of 80%.

The retirement plans of Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPV are each covered by a retirement fund administered by trustee banks, which are under the supervision of their respective Retirement and Welfare Plan Committees (the Committees). The Committees, which are composed of six (6) to seven (7) members appointed by management, defines the investment strategy of the fund and regularly reviews the strategy based on market developments and changes in the plan structure. When defining the investment strategy, the Committees take into account the plan's objectives, benefit obligations, and risk capacity. The Committees review, on a quarterly basis, the performance of the funds managed by trustee banks.

Changes in net defined benefit liability of funded funds are as follows:

	2018		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities (assets)
Balance at beginning of year	[illegible]	[illegible]	[illegible]
Net benefit costs in profit or loss:			
Current service cost	[illegible]	–	[illegible]
Net interest (Note 17)	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	–	[illegible]	[illegible]
Actuarial changes arising from experience adjustments	[illegible]	–	[illegible]
Actuarial changes arising from changes in financial assumptions	[illegible]	–	[illegible]
	[illegible]	[illegible]	[illegible]
Benefits paid	[illegible]	[illegible]	–
Contributions	–	[illegible]	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]

	2017		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities (assets) (Note 11)
Balance at beginning of year	[illegible]	[illegible]	[illegible]
Net benefit costs in profit or loss:			
Current service cost	71,558,400	–	71,558,400
Net interest (Note 17)	34,225,600	[illegible]	[illegible]
	105,584,000	[illegible]	[illegible]
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in interest)	–	[illegible]	[illegible]
Actuarial changes arising from experience adjustments	8,292,300	–	8,292,300
Actuarial changes arising from changes in financial assumptions	[illegible]	–	[illegible]
	[illegible]	[illegible]	[illegible]
Benefits paid	[illegible]	[illegible]	–
Contributions	–	[illegible]	[illegible]
Balance at end of year	[illegible]	[illegible]	[illegible]

The fair value of net plan assets by each class is as follows:

	2018	2017
Assets		
Cash and cash equivalents	[illegible]	₱8,842,580
Debt investments - domestic	[illegible]	652,180,778
Equity investments - domestic	[illegible]	226,187,517
Interest receivable	[illegible]	5,081,192
Other receivable	[illegible]	–
	[illegible]	893,079,042
Liabilities		
Accrued trust fees	671,484	677,202
Other payables	[illegible]	–
	[illegible]	677,202
Fair value of plan assets	[illegible]	₱892,401,840

All equity and debt investments held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in active markets.

The plan assets are invested in different financial instruments and do not have any concentration risk.

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions. The principal assumptions used in determining pension obligations for the defined benefit plans are shown below:

	2018	2017	2016
Discount rate	[illegible]	4.50% to 5.75%	4.50% to 5.00%
Salary increase rate	5.00% to 7.00%	3.00% to 6.00%	5.00% to 6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (Decrease)	Effect on Defined Benefit Obligation 2018	2017
Discount rate	1.00%	(₱55,980,700)	(₱70,078,305)
	(1.00%)	48,894,208	85,172,875
Salary increase rate	1.00%	48,258,874	80,907,441
	(1.00%)	(64,572,187)	(71,082,975)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than 1 year	[illegible]	₱88,834,400
More than 1 year and up to 5 years	[illegible]	478,198,500
More than 5 years and up to 10 years	[illegible]	442,875,800
	[illegible]	₱988,008,500

The average duration of the defined benefit obligation at the end of the reporting period is 12.85 years and 19.50 years as of December 31, 2018 and 2017, respectively.

The asset allocation of the plan is set and reviewed from time to time by the Committee taking into account the membership profile and the liquidity requirements of the plan. This also considers the expected benefit cash flows to be matched with asset durations.

Contributions to the plan are recommended by the Retirement and Welfare Plan Committee and approved by the Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPV in consideration of the contribution advice from the actuary. The Parent Company, Clark Water, Laguna Water, Boracay Water, and MWPV are expected to contribute a total of ₱85.00 million to their respective defined benefit pension plans in 2019 based on the latest actuarial valuation report.

16. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	2018	2017
Deferred credits	[illegible]	₱425,098,105
Customers' guaranty deposits and other deposits	[illegible]	458,886,545
	[illegible]	₱883,984,650

Deferred credits pertain to the unamortized discounts of the customers' guaranty deposits. The rollforward analysis of the deferred credits follows:

	2018	2017
Balance at beginning of year	[illegible]	₱408,814,407
Additions	[illegible]	27,476,845
Amortization	[illegible]	(11,193,147)
Balance at end of year	[illegible]	₱425,098,105

Customers' guaranty deposits and other deposits pertain to the deposits paid by the Group's customers for the set-up of new connections which will be refunded to the customers upon termination of the customers' water service connections or at the end of the concession, whichever comes first.

17. Other Operating Income, Operating Expenses, Interest Income and Interest Expense

Other operating income consist of:

	2018	2017	2016
Supervision fees (Note 21)	[illegible]	₱298,414,181	₱680,217,888
Connection fees from water and service connections and pipeworks	[illegible]	550,720,105	447,788,686
Sale of packaged water	[illegible]	208,891,058	101,475,281
Integrated used water services	[illegible]	16,554,778	28,788,808
Operations and maintenance services	[illegible]	90,249,851	87,833,875
Reconnection fee	[illegible]	80,676,542	28,198,585
Septic sludge disposal and bacteriological water analysis	[illegible]	24,886,051	18,780,807
Performance fees	[illegible]	71,665,758	2,102,758
Construction revenue	[illegible]	7,558,164	6,129,880
Income from customer late payments	[illegible]	13,605,217	18,587,498
Service fees	[illegible]	16,195,854	17,488,117
Miscellaneous	[illegible]	87,171,808	85,477,810
	[illegible]	[illegible]	₱1,207,211,554

Miscellaneous includes income from rental of equipment, other customer related fees, consultancy services and sale of signages.

Operating expenses consist of:

	2018	2017	2016
Salaries, wages and employee benefits (Notes 15 and 21)	[illegible]	P985,551,[illegible]	P930,355,247
Management, technical and professional fees (Note 21)	[illegible]	525,276,050	491,786,879
Depreciation and amortization (Notes 9 and 10)	[illegible]	550,845,521	624,718,572
Taxes and licenses	[illegible]	218,984,571	179,052,558
Occupancy costs (Notes 21, 25 and 27)	[illegible]	197,075,070	142,754,858
Repairs and maintenance	[illegible]	110,884,507	80,504,108
Contractual services	184,[illegible]	85,505,374	50,477,084
ECL on receivables and concession financial receivables (Notes 6 and 10)	[illegible]	286,892,219	54,885,089
Transportation and travel	[illegible]	88,386,891	65,720,141
Insurance	[illegible]	65,725,410	61,085,741
Printing and communication (Note 21)	[illegible]	54,880,875	44,722,882
Business meetings and representation	[illegible]	58,116,186	45,256,981
Donations	[illegible]	51,844,501	26,866,748
Advertising	[illegible]	29,460,448	58,626,570
Other expenses	[illegible]	155,884,781	186,458,990
	[illegible]	P3,342,548,747	P3,677,721,851

Other expenses include expenses incurred for bank charges and equipment rental.

Interest income consists of:

	2018	2017	2016
Interest income on:			
Cash and cash equivalents (Note 5)	P255,350,212	P118,518,581	P80,188,251
Finance income from concession financial receivables and contract assets (Notes 8 and 10)	125,905,858	181,095,189	151,589,219
Receivable from BWC (Note 8)	28,083,490	84,841,129	21,772,027
Others	2,543,455	12,451,948	1,828,980
	P411,883,015	P395,757,798	P257,125,482

Interest expense consists of:

	2018	2017	2016
Interest expense on:			
Service concession obligations, deposits and others (Notes 10 and 18)	P789,711,898	P814,718,581	P685,044,000
Long-term debt:			
Coupon interest	853,283,533	882,071,455	715,727,810
Amortization of debt discount, issuance costs and premium (Notes 14)	138,892,431	124,780,187	98,227,258
Pension liabilities (Note 15)	1,920,740	887,500	4,057,700
	P1,783,808,602	P1,[illegible]	P1,[illegible]

Other income – net includes gain on bargain purchase amounting to ₱45.75 million and ₱54.91 million, in 2018 and 2017, respectively (nil in 2016, see Note 4). In 2016, this amount also includes income from refund from a utility provider and reversal of excess accruals amounting to ₱208.25 million; and impairment loss on property, plant and equipment and investment in associates amounting to ₱158.84 million.

18. Income Tax

Provision for income tax consists of:

	2018	2017	2016
Current	[illegible]	₱1,329,989,822	₱1,972,808,189
Final	10,488,451	2,858,724	910,328
Deferred	([illegible])	(1,692,284)	(227,321,985)
	[illegible]	₱1,341,198,570	₱1,745,774,542

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2018	2017	2016
Statutory income tax rate	[illegible]	30.00%	30.00%
Tax effects of:			
Change in unrecognized deferred tax	0.62	(0.28)	0.55
Excess of 40% Optional Standard Deduction (OSD) against allowable deductions	([illegible])	1.45	(5.80)
Interest income subjected to final tax	0.41	(0.88)	(0.30)
Nontaxable equity in net earnings	(1.44)	(1.70)	(1.88)
Nondeductible expense	51.72	33.01	21.48
Income exempt from tax	(30.44)	(36.85)	(26.81)
Others – net	([illegible])	(5.49)	(1.00)
Effective income tax rate	[illegible]	24.05%	22.01%

The net deferred tax assets of the Group pertain to the deferred income tax effects of the following:

	2018	2017
Deferred tax assets:		
Service concession obligations – net	[illegible]	₱1,247,579,454
Allowance for ECL	[illegible]	88,718,458
Provisions/accruals	[illegible]	2,058,447
Pension liabilities	[illegible]	5,412,418
Others	[illegible]	–
	[illegible]	1,321,718,776
Deferred tax liabilities:		
Difference between amortization expense of SCA per straight line method and per UOP	([illegible])	(118,984,376)
	[illegible]	₱1,202,734,482

The components of the net deferred tax liabilities of the Group as of December 31, 2018 and 2017 represent the deferred income tax effects of the following:

	2018	2017
Deferred tax liabilities:		
Concession financial receivable	[illegible]	P76,758,818
Difference between amortization expense of SCA per straight line method and per UOP	[illegible]	10,149,424
Gain on bargain purchase	[illegible]	16,988,849
Accrued receivables	[illegible]	51,184,888
Others	–	109,097
	[illegible]	158,224,588
Deferred tax assets:		
Allowance for ECLs	[illegible]	(14,858,524)
Net Operating Loss Carryover (NOLCO)	[illegible]	(8,854,522)
Pension liabilities	[illegible]	(3,480,084)
Provisions/accruals	[illegible]	(10,898,418)
MCIT	–	(5,910,580)
Others	[illegible]	(875,185)
	[illegible]	(44,681,854)
	[illegible]	P111,542,884

Parent Company
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the OSD for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by the Parent Company for the years ended December 31, 2018, 2017 and 2016.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. The Parent Company forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

The effective tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

Deferred taxes on allowance for ECL and pension liability were not recognized by the Parent Company. The net reduction in deferred tax assets from applying the 18% effective tax rate to the recognized deferred taxes on net service obligation and the derecognition of the deferred taxes relating to the amounts with temporary differences which are not considered in determining gross income for income tax purposes by the Parent Company amounted to P[illegible]88.21 million and P[illegible]12.77 million as of December 31, 2018 and 2017, respectively.

Subsidiaries
In addition to the deferred tax assets and liabilities that have not been recognized as a consequence of the OSD availment, the Parent Company's subsidiaries, namely, MWPV, EcoWater, [illegible], MW Consortium, Tagum Water, Davao Water, Calasiao Water, and Filipinas Water, have total NOLCO amounting to P107.49 million and P87.82 million as of December 31, 2018 and 2017, respectively, that are available for offset against future taxable income, for which no deferred tax assets have been recognized. As of December 31, 2018 and 2017, the unrecognized deferred tax assets on NOLCO amounted to P32.25 million and P20.34 million, respectively.

Clark Water
Clark Water as a duly registered CFZ enterprise under RA No. 9400, An Act Amending RA No. 7227 otherwise known as the Bases Conversion and Development Act of 1992, is entitled to all the rights, privileges and benefits established there under including tax and duty-free importation of capital equipment and special income tax rate of 5% of gross income earned.

Boracay Water
On January 25, 2011, Boracay Water filed an application for registration with the BOI under Executive Order (EO) No. 226, as amended, as a new operator of water supply and distribution for the Boracay Island on a non-pioneer status. The application was ratified on February 3, 2011.

On June 17, 2011, Boracay Water's application was registered with the BOI under Book 1 of EO 226. The ITH is for four (4) years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH entitlement shall be limited to the water sales schedule reflected in specific terms and condition of the registration. Further, the ITH entitlement for the wastewater or sewerage services shall be limited only to 10% of the total revenue derived from its water supply.

In June 2015, the BOI approved the bonus year under Boracay Water's Certificate of Registration No. 2011-127 from June 17, 2015 to June 16, 2016 using the indigenous raw material criterion pursuant to Article 39(1)(ii) of EO 226 subject to the following conditions:

- At the time of actual availment of the ITH incentive, the derived ratio of the cost of indigenous raw materials shall be at least 50% of the total raw materials cost; and
- The grantee shall undertake Corporate Social Responsibilities (CSR) activities which shall be completed on the actual availment of the bonus year. The CSR activity shall be aligned with the priority programs/projects of the National Anti-Poverty Commission and/or other special laws such as R.A. 7942 or the Mining Act and DOE Energy Regulation 1-94. The amount spent for the CSR activities shall be reflected in the notes to the audited financial statements. Failure to complete the CSR activity shall mean forfeiture of the approved ITH bonus year.

Beginning June 17, 2016, Boracay Water was already subject to Regular Corporate Income Tax.

Laguna Water
Laguna Water availed of the OSD and the effective tax rate of 18% for the years in which OSD is projected to be utilized. The said rate was then used in computing the deferred income taxes of Laguna Water.

Other subsidiaries
All other domestic subsidiaries are subject to the higher of Regular Corporate Income Tax rate of 30% and Minimum Corporate Income Tax rate of 2%, while foreign subsidiaries are subject to tax rates applicable in their respective countries.

NOLCO
The movements of the Group's NOLCO as of December 31, 2018, which are available for offset against future taxable income for three (3) succeeding years and for which no deferred tax assets have been recognized are as follows:

Year Incurred	Amount	Applied/Expired	Balance	Expiry Year
2015	₱8,372,271	₱8,372,271	₱–	2018
2016	24,180,008	–	24,180,008	2019
2017	24,218,723	–	24,218,723	2020
2018	49,041,811	–	49,041,811	2021
	₱105,812,813	₱8,372,271	₱97,440,542	

MCIT
The movements of the Group's MCIT as of December 31, 2018 which can be claimed against future taxable income for three (3) succeeding years are as follows:

Year Incurred	Amount	Applied/Expired	Balance	Expiry Year
2015	₱970,180	₱970,180	₱–	2018
2016	6,952,958	–	6,952,958	2019
2017	7,042,589	–	7,042,589	2020
2018	6,417,118	–	6,417,118	2021
	₱21,382,845	₱970,180	₱20,412,665	

19. Equity

The Parent Company's capital stock consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Common stock - ₱1 per share				
Authorized	3,100,000,000	₱3,100,000,000	3,100,000,000	₱3,100,000,000
Issued and subscribed	2,064,839,617	2,064,839,617	2,053,688,578	2,053,688,578
Outstanding	2,030,732,360	2,030,732,360	2,026,087,122	2,026,087,122
Preferred stock - ₱0.10 per value, 10% cumulative, voting, participating, nonredeemable and nonconvertible				
Authorized, issued and outstanding - 4,000,000,000 shares	4,000,000,000	400,000,000	4,000,000,000	400,000,000

On March 18, 2005, the Parent Company launched its Initial Public Offering where a total of 745.33 million common shares were offered at an offering price of ₱6.50 per share. The Parent Company has 343 and 300 existing certificated shareholders as of December 31, 2018 and 2017, respectively. The Scripless shareholders are counted under PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino).

On March 1, 2018, the Board of Directors (BOD) approved the following:

a. amendment of the Parent Company's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders, and endorsed the said amendment for approval by the stockholders; and
b. allotment and subsequent issuance of up to 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of the Parent Company.

On April 16, 2018, the stockholders of the Parent Company approved the amendment of the Seventh Article of the Articles of Incorporation to exempt from pre-emptive rights 300.00 million unissued common shares ("carved-out shares") which are reserved or allocated for issuance in one or more transactions or offerings, (i) for properties or assets needed for the business of the Parent Company, or (ii) for cash to acquire properties or assets needed for the business of the Parent Company. The issuance of all or any of the carved-out shares does not require the approval of stockholders.

The movement of the Parent Company's outstanding common stock follows:

	2018	2017
Number of shares at beginning of year	₱2,026,087,122	₱2,024,354,090
Additions	4,645,238	1,733,032
Number of shares at end of year	₱2,030,732,360	₱2,026,087,122

Dividends
The following table shows the cash dividends declared by the Parent Company's BOD on the outstanding capital stock for each of the three (3) years ended December 31, 2018:

		Amount Per Share		
Declaration Date	Record Date	Common Shares	Participating Preferred Shares	Payment Date
February 25, 2016	March 11, 2016	₱0.41870	₱0.04187	March 29, 2016
October 3, 2016	October 17, 2016	0.41870	0.04187	October 28, 2016
November 22, 2016	December 7, 2016	–	0.01000	December 16, 2016
March 1, 2017	March 15, 2017	0.4244	0.04244	March 31, 2017
October 5, 2017	October 19, 2017	0.4244	0.04244	November 2, 2017
November 23, 2017	December 6, 2017	–	0.01000	December 20, 2017
March 1, 2018	March 15, 2018	0.4502	0.04502	March 28, 2018
October 4, 2018	October 17, 2018	0.4283	0.04283	October 31, 2018
November 20, 2018	December 6, 2018	–	0.01000	December 20, 2018

There are no dividends in arrears for the Parent Company's participating preferred shares as of December 31, 2018, 2017, and 2016.

Retained earnings
The approved Business Plan includes planned capital expenditures on (i) service continuity, (ii) service accessibility, (iii) water security, and (iv) environmental sustainability described as follows:

- Service continuity projects are endeavored to maintain the level of service provided to its customers even in times of calamity;

- Service accessibility projects would enable the Parent Company to expand its service coverage;

- Water security projects include two components: (1) new water source development and, (2) existing water source rehabilitation and improvement; and

- Projects under the Environmental Sustainability Investment category are comprised of wastewater projects endeavored to achieve the Parent Company's wastewater coverage targets.

On November 20, 2018, November 23, 2017, and November 10, 2016, the Parent Company's BOD approved the appropriation of P9.75 billion, P7.80 billion, and P11.10 billion, respectively, to ensure the completion of the Parent Company's large system projects included in its approved Business Plan. The implementation of these projects is consistent with the timeline of the approved Business Plan which covers until the end of the concession period.

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates accounted for under the equity method amounting to P5,287.74 million and P4,985.80 million as of December 31, 2018 and 2017, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

In accordance with SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to P7.12 billion and P7.02 billion, respectively.

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP, and ESOWN
The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule.

For the unsubscribed shares of the ESOWN grants in 2015 and 2013, the employee still has the option to subscribe within seven (7) years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follows:

	Grant Dates			
	March 7, 2018	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	16,054,873	7,381,647	8,827,100	4,772,414
Number of unsubscribed shares	5,171,140	884,873	351,880	480,000
Fair value of each option	P5.74	P11.58	P10.58	P11.78
Weighted average share price	P28.45	P31.55	P25.00	P26.24
Exercise price	P27.51	P28.00	P21.92	P24.07
Expected volatility	24.59%	28.55%	24.90%	30.88%
Dividend yield	2.80%	1.65%	1.47%	2.58%
Risk-free interest rate	3.45%	3.78%	1.88%	4.57%

To enjoy the rights provided for in the ESOWN, the grantee should be with the Parent Company at the time the holding period expires. The holding period of the ESOWN shares granted follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

For the 2015 and previous years' grants, the ESOWN grantees were allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another three (3)-year holding period. For the 2016 and 2015 grants, unsubscribed shares were forfeited.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2018	Weighted average exercise price	2017	Weighted average exercise price
Balance at beginning of year	171,980	₱12.45	4,672,730	₱25.49
Cancellation	(100,480)	–	(4,500,750)	–
Balance at end of year	71,500	₱12.45	171,980	₱25.49

Total expense arising from equity-settled share-based payment transactions amounted to ₱23.97 million, ₱12.17 million, and ₱33.20 million in 2018, 2017, and 2016, respectively.

On March 8, 2018, the Remuneration Committee of the Parent Company's Board of Directors approved the grants of ESOWN equivalent to 18,054,873 shares at the subscription price of ₱27.31 per share. The subscription price is equivalent to the average closing price of Parent Company's common shares at the PSE for twenty (20) consecutive trading days ending March 8, 2018.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The Parent Company's expected volatility was used as an input in the valuation of the outstanding options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

Other equity reserves
On May 13, 2012, the Parent Company sold portion of its investment in MW Consortium to Vicsal Development Corporation (VDC) which decreased its ownership by 10% without loss of control. Proceeds from the sale amounted to ₱15.00 million and the gain of ₱7.50 million was presented as part of "Other equity reserves" in the consolidated statement of financial position.

In 2018, MWPV increased its ownership interest in MW Consortium from 51.00% to 57.22% and MW Consortium in Cebu Water from 51.00% to 70.57% arising from the issuance of redeemable preferred shares. This resulted to a corresponding increase in effective ownership of MWPV in Cebu Water from 26.01% to 40.39%. The Group recognized gain on dilution of non-controlling interest amounting to ₱38.31 million and presented this as part of "Other equity reserves" in the consolidated statements of financial position.

30. Earnings per Share

Earnings per share amounts attributable to equity holders of the Parent Company for the years ended December 31, 2018, 2017, and 2016 were computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	₱[illegible]	₱6,148,608,517	₱6,085,220,845
Less dividends on preferred shares*	[illegible]	1,037,507,638	1,062,030,487
Net income attributable to common shareholders for basic and diluted earnings per share	₱[illegible]	₱5,111,100,879	₱5,023,190,358
Weighted average number of shares for basic earnings per share	[illegible]	2,052,688,578	2,052,688,578
Dilutive shares arising from stock options	[illegible]	1,779,478	3,282,992
Adjusted weighted average number of common stocks for diluted earnings per share	[illegible]	2,054,468,056	2,055,971,570
Basic earnings per share	₱[illegible]	₱2.49	₱2.45
Diluted earnings per share	₱[illegible]	₱2.49	₱2.44

*Including participating preferred shares' participation in earnings

31. Related Party Transactions

Parties are considered to be related to the Group if it has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

In the normal course of business, the Group has transactions with related parties. The sales and investments to related parties and service agreements are based on rates agreed upon by the parties. Outstanding balances at year-end are unsecured and interest-free. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and 2017, the Group has not recognized any ECL relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties follow:

a. The Parent Company entered into an Administrative and Support Services Agreement (ASSA) with Ayala in 1997, being its sponsor as required during the privatization process. The ASSA was initially effective for ten (10) years and automatically renewable every five (5) years. Under the agreement, Ayala shall provide technical and other knowledge, experience and skills as reasonably necessary for the development, administration and operation of the concession, for which the Parent Company shall pay an annual base fee of US$[illegible] million and adjusted for the effect of CPI. As a result, certain key management positions are occupied by employees of Ayala.

   On March 1, 2017, the BOD confirmed the automatic renewal of the ASSA between the Parent Company and Ayala for another five (5) years until July 30, 2022 and approved the amendment reducing the base fee to ₱1.00 per year beginning August 1, 2017.

   Total management and professional fees charged to operations arising from these agreements amounted to ₱209.22 million, ₱278.20 million, and ₱233.84 million in 2018, 2017 and 2016, respectively. Total outstanding payables amounted to nil as of December 31, 2018 and 2017.

b. The following tables provide the total amount of all other transactions that have been entered into with the Parent Company's shareholders and affiliates for the relevant financial year:

	Cash in Banks and Cash Equivalents (Note 5)		Trade Receivables (Note 8)	
	2018	2017	2018	2017
Shareholder				
Ayala	₱–	₱–	[illegible]	₱9,778
Affiliates				
ALI and subsidiaries	–	–	[illegible]	281,829,351
AC Industrial Technology Holdings, Inc. (AITHI) and subsidiaries	–	–	[illegible]	10,480
Globe Telecom, Inc. (Globe) and subsidiaries	–	–	[illegible]	33,097
BPI and subsidiaries	[illegible]	2,686,044,031	[illegible]	119,108
	[illegible]	2,686,044,031	[illegible]	282,712,582
	[illegible]	₱2,686,044,031	[illegible]	₱282,722,360

Cash in banks and cash equivalents pertain to deposits and investments with original maturities of three (3) months or less from the date of original acquisition.

Trade receivables are primarily composed of receivables for water and sewerage services rendered by the Group. These are non-interest bearing and are collectible within thirty (30) days from bill generation. No allowance for ECL was provided for receivables from related parties as of December 31, 2018 and 2017.

	Trade Payables (Note 13)		Long-term Debt (Note 14)	
	2018	2017	2018	2017
Affiliates				
ALI and subsidiaries	[illegible]	₱4,354,124	₱–	₱–
BPI and subsidiaries	[illegible]	–	[illegible]	–
	[illegible]	₱4,354,124	[illegible]	₱–

Trade payables pertain to retentions deducted from contractors' billings and are normally paid within a year after project acceptance.

Long-term debt pertains to loans made by Boracay Water with BPI (see Note 14). There was no long-term debt with related parties as of December 31, 2017.

	Revenue		Purchases	
	2018	2017	2018	2017
Shareholder				
Ayala	[illegible]	₱8,558,165	[illegible]	₱278,204,418
Affiliates				
ALI and subsidiaries	[illegible]	[illegible]	[illegible]	[illegible]
BPI and subsidiaries	[illegible]	[illegible]	[illegible]	1,157,858
Globe and subsidiaries	[illegible]	8,500,278	[illegible]	[illegible]
Integrated Microelectronics, Inc. (IMI) and subsidiaries	[illegible]	[illegible]	–	–
AITHI and subsidiaries	[illegible]	5,780,811	[illegible]	[illegible]
AC Energy Holdings, Inc. (AC Energy)	–	–	[illegible]	[illegible]
HCX Technology Partners, Inc.	–	–	[illegible]	5,877,427
	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]

Revenue is mainly attributable to water and used water services and facilities, and supervision fees rendered by the Group to its shareholder and affiliates.

Purchases from related parties arise from the following transactions:

- Ayala for management fees;
- ALI and subsidiaries for rental of office space;
- BPI for banking transactions and financial services such as insurance;
- Globe for telecommunication services;
- AC Energy for purchase of power;
- AITHI and its subsidiaries for acquisition of transportation equipment; and
- HCX Technology Partners, Inc. for payroll management services.

c. On January 15, 2018, MWPV entered into a MOA with ALI and its subsidiaries and affiliates (the ALI Group) whereby MWPV shall exclusively provide water and used water services and facilities to all ALI Group property development projects in the Philippines. Revenue earned by MWPV from the agreement, included under "Supervision fees", amounted to ₱920.15 million and ₱971.82 million in 2018 and 2017, respectively (see Note 17).

d. On April 18, 2018, MWPV entered into a MOA with Laguna Technopark Inc. (LTI), whereby through its division, Estate Water, MWPV shall exclusively provide water and used water services to LTI's Cavite Technopark located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA. For and in consideration of the construction and development of the water facilities and used water facilities and the rendition of the services by MWPV, LTI shall pay a capacity charge. Capacity charge, included under "Supervision fees," amounted to ₱5.11 million and ₱41.72 million in 2018 and 2017, respectively (see Note 17).

e. On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The loan will be used to finance the general corporate and capital expenditures requirements of Boracay Water. The carrying value of loan as of December 31, 2018 and 2017 amounted to ₱995.85 million and nil, respectively.

f. In September 2017, the Parent Company entered into an Open Access Contract with AC Energy which will cover a two (2)-year supply of electricity to five (5) of the Parent Company's facilities currently enrolled under Open Access. As of December 31, 2018 and 2017, the Group has guaranty deposits with AC Energy amounting to ₱9.29 million.

g. On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004, July 22, 2005, and June 30, 2015) with PGL, one of its shareholders. Concession fees paid to PGL amounted to ₱92.17 million and ₱7.34 million in 2018 and 2017, respectively (see Notes 1 and 27).

h. On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA. Concession fees paid to TIEZA amounted to ₱28.40 million and ₱29.38 million in 2018 and 2017, respectively (see Notes 1 and 27).

i. One of the trustee banks which manages the Group's retirement fund is BPI, an affiliate. The Group's plan assets under BPI amounted to ₱485.42 million and ₱557.14 million as of December 31, 2018 and 2017, respectively (see Note 25).

j. Compensation of key management personnel of the Group by benefit type, included as part of "Salaries, wages and employee benefits," are as follows:

	2018	2017
Short-term employee benefits	[illegible]	₱304,869,917
Post-employment benefits	[illegible]	16,404,047
Share-based payment	[illegible]	10,843,090
	[illegible]	₱332,118,054

33. Significant Contracts with the West Zone Concessionaire

In relation to the Concession Agreement, the Parent Company entered into the following contracts with Maynilad:

a. Interconnection Agreement wherein the two Concessionaires formed an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.

b. Joint Venture Arrangement that will operate, maintain, renew, and as appropriate, decommission common purpose facilities, and perform other functions pursuant to and in accordance with the provisions of the Agreement and perform such other functions relating to the concession (and the concession of the West Zone Concessionaire) as the Concessionaires may choose to delegate to the joint venture, subject to the approval of MWSS.

c. In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Project). Total loan facility is US$116.60 million with maturity of twenty (20) years, including five (5) years of grace period. Interest rate is 3% per annum. MWSS then entered into a MOA with the Parent Company and Maynilad for the Parent Company and Maynilad to shoulder equally the repayment of the loan, with such repayment to be part of the concession fees (see Note 10).

d. On May 10, 2015, MWSS entered into a MOA with the Parent Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered in to a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

34. Assets Held in Trust

<u>MWSS</u>

The Parent Company is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company.

The Concession Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both the East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Parent Company on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 billion.

In 2015, the Parent Company engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by the Parent Company as of 2014, based on the asset registry as of December 31, 2013. Total reproduction cost as of December 31, 2015 amounted to ₱123.47 billion, with a sound value of ₱69.10 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. The lease was last renewed on October 27, 2008. On August 28, 2012, additional office space was leased by the Parent Company. Rent expense amounted to ₱31.25 million, ₱27.75 million, and ₱18.98 million in 2018, 2017, and 2016, respectively. These are included under "Occupancy costs" in the consolidated statements of comprehensive income.

In March 2015, the Parent Company and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by the Parent Company as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2018 to 2016 amounted to ₱8.20 million each year which is included under "Occupancy costs" in the consolidated statement of comprehensive income.

PSL
Laguna Water is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PSL. The legal title of all property in existence at the commencement date shall be retained by PSL. Upon expiration of the useful life of any such property as may be determined by Laguna Water, such property shall be returned to PSL in its then condition at no charge to PSL or Laguna Water.

In 2014, Laguna Water engaged the services of Cuervo Appraisers to conduct a re-appraisal of PSL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2,398.58 million with a sound value of ₱1,598.19 million.

TIEZA
Boracay Water is granted the right to operate, maintain in good working order, repair, decommission and refurbish all fixed and movable property (except retained assets) required to provide the water and sewerage services under its concession agreement with TIEZA. The legal title to all these assets in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of such assets as may be determined by Boracay Water, such assets shall be returned to TIEZA in its then-current condition at no charge to TIEZA or Boracay Water.

The net book value of the facilities transferred to Boracay Water on commencement date based on TIEZA's closing audit report amounted to ₱618.24 million.

In 2015, Boracay Water engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.11 billion with a sound value of ₱755.41 million.

OWD
On October 10, 2017, Obando Water is granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD
On October 23, 2017, Calasiao is granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

24. Segment Information

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. Accordingly, the segment information is reported based on geographic location.

The Group's BOD and Management Committee monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the consolidated statement of financial position which is in accordance with PFRS.

The segments where the Group operates follow:

- Manila Concession and Head Office – represents the operations of the Manila Concession (East Zone) of the Parent Company in accordance with its Concession Agreement.
- Domestic Subsidiaries – represents the financial results of the Philippine businesses such as MWTS, Calasiao Water, and MWPV (including Laguna Water, Clark Water, Boracay Water, Filipinas Water, Obando Water, Bulakan Water, MW Consortium, Cebu Water, Davao Water, Tagum Water, BMDC, Aqua Centro, MWRB, EcoWater, Leyte Water, and Zamboanga Water).
- Foreign Subsidiaries – consists of businesses outside the Philippines under MWAP (MWSAH, Asia Water, TDWH, KDWH, MWTH, MWTC, MSEA, and FTMWI).

Details of the Group's operating segments as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
	(In Thousands)			
Revenue				
Sales to external customers	[illegible]	[illegible]	[illegible]	[illegible]
Operating expenses (excluding depreciation and amortization)	[illegible]	[illegible]	[illegible]	[illegible]
Other income (expenses) – net				
Equity share in net income of associates	–	–	[illegible]	[illegible]
Revenue from rehabilitation works	[illegible]	[illegible]	–	[illegible]
Cost of rehabilitation works	[illegible]	[illegible]	–	[illegible]
Other income – net	[illegible]	[illegible]	[illegible]	[illegible]
EBITDA	[illegible]	[illegible]	[illegible]	[illegible]
Depreciation and amortization	[illegible]	[illegible]	[illegible]	[illegible]
Income before interest income (expense)	[illegible]	[illegible]	[illegible]	[illegible]
Interest income	[illegible]	[illegible]	[illegible]	[illegible]
Interest expense	[illegible]	[illegible]	[illegible]	[illegible]
Income before income tax	[illegible]	[illegible]	[illegible]	[illegible]
Provision for income tax	[illegible]	[illegible]	[illegible]	[illegible]
Net income	[illegible]	[illegible]	[illegible]	[illegible]
Other comprehensive income				
Cumulative translation adjustment	–	–	[illegible]	[illegible]
Actuarial gain (loss) on pension liabilities – net	[illegible]	[illegible]	–	[illegible]
Income tax effect	–	[illegible]	–	[illegible]
Total comprehensive income	[illegible]	[illegible]	[illegible]	[illegible]
Total net income attributable to:				
Equity holders of the Parent Company	[illegible]	[illegible]	[illegible]	[illegible]
Non-controlling interests	–	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]
Total comprehensive income attributable to:				
Equity holders of the Parent Company	[illegible]	[illegible]	[illegible]	[illegible]
Non-controlling interests	–	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]

(Forward)

	2018			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
	(In Thousands)			
Other Information				
Segment assets, exclusive of investments in associates and deferred tax assets	[illegible]	[illegible]	[illegible]	[illegible]
Investments in associates	–	–	[illegible]	[illegible]
Deferred tax assets	1,195,584	292,080	–	1,487,664
	[illegible]	[illegible]	[illegible]	[illegible]
Segment liabilities, exclusive of deferred tax liabilities	[illegible]	[illegible]	[illegible]	[illegible]
Deferred tax liabilities	–	149,145	–	149,145
	[illegible]	[illegible]	[illegible]	[illegible]
Segment additions to property, plant and equipment and SCA	[illegible]	[illegible]	[illegible]	[illegible]
Depreciation and amortization	[illegible]	[illegible]	[illegible]	[illegible]
Noncash expenses (income) other than depreciation and amortization	[illegible]	[illegible]	[illegible]	[illegible]

	2017			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
	(In Thousands)			
Revenue				
Sales to external customers	₱15,308,455	₱3,283,982	₱27,315	₱18,616,772
Operating expenses (excluding depreciation and amortization)	4,636,384	2,560,287	184,089	7,380,760
Other income (expenses) – net				
Equity share in net income of associates	–	–	457,808	457,808
Revenue from rehabilitation works	10,154,197	1,518,000	–	11,672,197
Cost of rehabilitation works	(10,154,197)	(1,518,000)	–	(11,672,197)
Other income	59,497	54,087	189	113,773
EBITDA	10,605,918	762,791	520,723	11,889,432
Depreciation and amortization	2,247,207	308,192	659	2,556,058
Income before interest income (expense)	8,358,711	454,599	520,064	9,333,374
Interest income	147,668	195,878	2,182	345,728
Interest expense	(1,147,544)	(255,852)	–	(1,403,396)
Income before income tax	7,358,830	394,780	522,258	8,075,878
Provision for income tax	1,665,613	278,414	2	1,943,949
Net income	5,693,217	116,578	522,254	6,132,947
Other comprehensive income				
Cumulative translation adjustment	–	–	108,488	108,488
Actuarial gain (loss) on pension liabilities - net	(58,488)	1,327	–	(57,161)
Income tax effect	807	(31)	–	776
Total comprehensive income	₱5,635,758	₱117,822	₱440,742	₱6,192,120

(Forward)

	2017			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
		(In Thousands)		
Total net income attributable to:				
Equity holders of the Parent Company	₱5,494,317	₱125,858	₱529,833	₱6,148,008
Non-controlling interests	–	(9,289)	2,822	(6,467)
	₱5,494,317	₱116,575	₱532,655	₱6,143,547
Total comprehensive income attributable to:				
Equity holders of the Parent Company	₱5,699,758	₱125,858	₱438,121	₱6,187,535
Non-controlling interests	–	(8,097)	2,822	(5,415)
	₱5,699,758	₱117,821	₱440,743	₱6,182,120
Other information				
Segment assets, exclusive of investments in associates and deferred tax assets	₱78,108,002	₱48,852,848	₱455,819	₱95,885,867
Investments in associates	–	–	6,798,067	6,798,067
Deferred tax assets	1,095,372	107,880	–	1,203,752
	₱79,204,374	₱48,981,208	₱7,251,898	₱108,884,498
Segment liabilities, exclusive of deferred tax liabilities	₱45,970,556	₱10,571,581	₱180,059	₱54,722,198
Deferred tax liabilities	–	111,548	–	111,548
	₱45,970,556	₱10,683,104	₱180,059	₱54,833,719
Segment additions to property, plant and equipment and SCA	₱10,400,000	₱1,550,781	₱898	₱11,951,679
Depreciation and amortization	₱2,247,207	₱308,125	₱853	₱2,556,185
Noncash expenses (income) other than depreciation and amortization*	(₱16,557)	₱605,449	₱–	₱588,892

	2018			
	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
		(In Thousands)		
Revenue				
Sales to external customers	₱14,978,224	₱2,733,687	₱–	₱17,711,911
Operating expenses (excluding depreciation and amortization)	4,840,182	1,457,858	124,744	6,422,585
Other income (expenses) – net				
Equity share in net income of associates	–	–	388,830	388,830
Revenue from rehabilitation works	6,794,431	1,510,477	–	8,304,908
Cost of rehabilitation works	(6,794,431)	(1,510,477)	–	(8,304,908)
Other income	54,111	(3,878)	88,187	69,025
EBITDA	10,192,153	1,271,955	377,288	11,871,491
Depreciation and amortization	2,525,612	340,178	152	2,866,041
Income before interest income (expense)	7,667,541	930,777	377,080	8,975,498
Interest income	85,100	169,517	507	257,124
Interest expense	(1,259,740)	(183,467)	–	(1,423,207)

(Forward)

	2018			
	Manila Commission and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Consolidated
		(In Thousands)		
Income before income tax	₱6,764,901	₱892,927	₱277,537	₱7,935,365
Provision for income tax	1,545,817	202,558	–	1,748,375
Net income	5,219,084	690,369	277,537	6,186,990
Other comprehensive income				
Cumulative translation adjustment	–	–	288,592	288,592
Actuarial gain (loss) on pension liabilities - net	176,046	11,044	–	187,090
Income tax effect	–	(1,193)	–	(1,193)
Total comprehensive income	₱5,395,130	₱700,220	₱566,129	₱6,661,479
Total net income attributable to:				
Equity holders of the Parent Company	₱5,219,084	₱569,452	₱276,685	₱6,065,221
Non-controlling interests	–	120,917	852	121,769
	₱5,219,084	₱690,369	₱277,537	₱6,186,990
Total comprehensive income attributable to:				
Equity holders of the Parent Company	₱5,395,130	₱577,803	₱565,277	₱6,538,210
Non-controlling interests	–	122,417	852	123,269
	₱5,395,130	₱700,220	₱566,129	₱6,661,479
Other information				
Segment assets, exclusive of investments in associates and deferred tax assets	₱64,739,774	₱11,816,150	₱598,532	₱77,154,456
Investments in associates	–	–	8,199,517	8,199,517
Deferred tax assets	1,101,108	84,681	–	1,185,789
	₱65,840,882	₱11,900,831	₱8,798,049	₱86,539,762
Segment liabilities, exclusive of deferred tax liabilities	₱33,392,278	₱7,571,321	₱29,551	₱40,993,150
Deferred tax liabilities	–	104,584	–	104,584
	₱33,392,278	₱7,675,905	₱29,551	₱41,097,734
Segment additions to property, plant and equipment and SCA	₱5,564,948	₱1,466,070	₱–	₱7,031,018
Depreciation and amortization	₱2,525,812	₱340,178	₱52	₱2,866,042
Noncash expenses (income) other than depreciation and amortization*	(₱200)	₱55,085	₱–	₱54,885

The Group does not have a single customer contributing more than 10% of its total revenue.

Disaggregated revenue information

The following are the disaggregation of the Group's revenue from contracts with customers for the year ended December 31, 2018:

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Revenue from contracts with customers:				
Water	P11,986,891	P2,284,888	P–	P15,281,519
Sewer	246,558	278,806	–	520,404
Environmental charges	2,691,508	28,345	–	2,719,853
Other operating income	443,298	588,518	29,007	1,054,721
	[illegible]	[illegible]	[illegible]	[illegible]
Timing of revenue recognition:				
Revenue recognized over time	P16,106,484	P3,089,280	P–	P19,195,764
Revenue recognized at a point in time	247,499	584,022	29,007	840,528
	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]. Fair Value Measurement

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial assets and financial liabilities as of December 31, 2018 and 2017:

	2018 Carrying Value	2018 Fair Value Significant Unobservable Inputs (Level 3)	2017 Carrying Value	2017 Fair Value Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Financial assets at amortized cost				
Concession financial receivable	P1,427,441	P1,400,488	P1,564,551	P3,188,284
Other financial liabilities				
Short-term loan	P5,[illegible]	P5,[illegible]	P–	P–
Long-term debt	[illegible]	[illegible]	39,724,578	40,844,809
Service concession obligations	[illegible]	[illegible]	7,447,878	8,227,158
Customers' guaranty deposits and other deposits	[illegible]	[illegible]	258,887	852,100
	[illegible]	[illegible]	[illegible]	[illegible]

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

a. The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

b. The discount rates used for PHP-denominated loans were 5.22% to 7.53% in 2018 and 2.90% to 3.58% in 2017 while the discount rates used for foreign currency-denominated loans ranged from 5.31% to 7.41% in 2018 and 1.45% to 5.87% in 2017.

<u>Fair Value Hierarchy</u>
There were no financial assets measured at fair value as of December 31, 2018 and 2017. During the periods ended December 31, 2018, 2017, and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

28. Financial Risk Management Objectives and Policies

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

The Parent Company's 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 December 31, 2018 and 2017, the Group's mix of fixed interest and floating interest rate of long-term debt are 85.31% to 14.69% and 71.43% to 28.57%, respectively.

As of December 31, 2018, the fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.55% to 1.97% and are from 4.42% to 9.28% for Peso denominated long-term debt. As of December 31, 2017, fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.55% to 4.88% and are from 4.88% to 9.00% for Peso denominated long-term debt. Floating interest rates are based on 6-month LIBOR plus margin as of December 31, 2018 and 2017.

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total in Original Currency [illegible]	Total in Original Currency [illegible]	Total in Original Currency [illegible]	Total [illegible]
Liabilities										
Long-Term Debt										
[illegible]										
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]										
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total in Original Currency								[illegible]	[illegible]	[illegible]
Total in PHP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

	2017									
	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due after 2022	Total in Original Currency (in PHP)	Total in Original Currency (in JPY)	Total in Original Currency (in USD)	Total (in PHP)
Liabilities:										
Long-Term Debt										
Fixed Rate (exposed to fair value risk)										
First IFC Loan	[illegible]	¥–	¥–	¥–	¥–	¥–	P–	[illegible]	$–	[illegible]
Fixed Rate Corporate Notes	[illegible]	[illegible]	[illegible]	[illegible]	P–	P–	[illegible]	¥–	$–	[illegible]
[illegible] billion Metrobank Loan	[illegible]	[illegible]	[illegible]	P–	P–	P–	[illegible]	¥–	$–	[illegible]
JPY[illegible] billion Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	P–	[illegible]	$–	[illegible]
[illegible] billion Clark Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion Cebu Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] Laguna Water Loan	[illegible]	[illegible]	[illegible]	P–	P–	–	[illegible]	¥–	$–	[illegible]
[illegible] Laguna Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] Laguna Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] Laguna Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion Boracay Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion Boracay Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion Boracay Water [illegible] Loan	P–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] million Zamboanga Water Loan	P–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion Tagum Water [illegible] Loan	P–	P–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
[illegible] billion MWPV Loan	P–	P–	P–	P–	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
Floating Rate (exposed to cash flow risk)										
[illegible] Loan	[illegible]	[illegible]	[illegible]	$–	$–	$–	P–	¥–	[illegible]	[illegible]
First IFC Loan	[illegible]	¥–	¥–	¥–	¥–	¥–	P–	[illegible]	$–	[illegible]
[illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	P–	[illegible]	$–	[illegible]
[illegible] Loan	$–	[illegible]	[illegible]	[illegible]	[illegible]	$–	P–	¥–	[illegible]	[illegible]
[illegible] billion Boracay Water [illegible] Loan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	¥–	$–	[illegible]
Total in Original Currency							[illegible]	[illegible]	[illegible]	[illegible]
Total in PHP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

The following tables demonstrate the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates on December 31, 2018 and 2017, with all variables held constant (through the impact on floating rate borrowings).

	2018	
	Changes in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
Floating rate borrowings	100	[illegible]
	(100)	[illegible]

	2017	
	Changes in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
Floating rate borrowings	100	(P220,054)
	(100)	220,054

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 53.81% and 44.07% of debt as of December 31, 2018 and 2017, respectively, are denominated in foreign currency.

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

	2018		2017	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
	(In Thousands)		(In Thousands)	
Assets				
Cash and cash equivalents:				
USD	[illegible]	[illegible]	USD28,784	P1,398,392
CAD	[illegible]	[illegible]	CAD388	14,650
THB	[illegible]	[illegible]	–	–
IDR	[illegible]	[illegible]	IDR517,143	1,958
VND	[illegible]	[illegible]	VND1,551,558	4,288
SGD	[illegible]	[illegible]	SGD12	450
JPY	[illegible]	[illegible]	JPY558	248
MNK	–	–	MNK14,844	544
		[illegible]		[illegible]
Liabilities				
Amounts payable:				
JPY	[illegible]	[illegible]	–	P–
IDR	[illegible]	[illegible]	[illegible]	[illegible]
USD	[illegible]	[illegible]	USD1,491	74,489
THB	[illegible]	[illegible]	–	–
SGD	[illegible]	[illegible]	SGD3	98
VND	[illegible]	724	–	–
RMB	[illegible]	47	–	–
MYR	–	[illegible]	–	–
MNK	–	–	[illegible]	[illegible]
Short-term debt:				
THB	[illegible]	[illegible]	–	–

(Forward)

	2018		2017	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
Long-term debt:				
JPY	[illegible]	[illegible]	JPY65,575,758	₱6,725,157
USD	[illegible]	[illegible]	USD117,107	5,847,151
CAD	[illegible]	[illegible]	CAD807	32,847
Service concession obligations:				
USD	[illegible]	[illegible]	US$62,839	3,137,257
JPY	[illegible]	[illegible]	JPY752,817	332,871
French Franc (FRF)	FRF4	[illegible]	FRF508	2,785
		[illegible]		₱5,187,575
Net foreign currency-denominated liabilities		([illegible])		(₱25,808,384)

[illegible]

Under their respective concession agreements, the Parent Company and Boracay Water have a natural hedge on foreign exchange risks on their loans and concession fee payments through a recovery mechanism in their respective tariffs (see Notes 1 and 12). Thus, the Group does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group has no significant concentration of credit risk. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The information about the credit risk exposure on the Group's receivables and contract assets using a provision matrix is as follows:

	Current	December 31, 2018					
		Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	Expected Credit Loss	Total
				(In thousands)			
Receivables							
Trade receivables:							
Manila (Outside East Zone)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
East Zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Boracay	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Clark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Laguna	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Others	[illegible]	–	–	–	–	[illegible]	[illegible]
BWC	[illegible]	–	–	–	–	–	[illegible]
Employees	[illegible]	–	–	–	–	–	[illegible]
Interest from banks	[illegible]	–	–	–	–	–	[illegible]
Others	[illegible]	–	–	–	–	–	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Concession financial receivables	[illegible]	–	–	–	–	[illegible]	[illegible]
Contract assets	[illegible]	–	–	–	–	–	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Current	January 1, 2018					
		Days Past Due					
	Standard Grade	Less than 30 Days	30 to 60 Days	61 to 90 Days	91 to 120 Days	Expected Credit Loss	Total
				(In thousands)			
Receivables							
Trade receivables:							
Manila (Outside East Zone)	P519,193	P71,895	P95,025	P7,878	P19,145	P71,820	P724,502
East Zone	195,852	298,190	77,849	39,949	69,322	510,858	1,085,208
Boracay	44,018	14,052	6,807	4,604	6,118	38,905	172,804
Clark	38,977	8,258	61	30	61	6,808	53,873
Laguna	248,122	–	–	–	–	316,911	565,044
Others	274,843	–	–	–	–	80,475	355,339
BWC	501,014	–	–	–	–	–	501,014
Employees	54,778	–	–	–	–	–	54,778
Interest from banks	18,408	–	–	–	–	–	18,408
Others	115,818	–	–	–	–	–	115,818
	1,948,775	387,115	108,898	58,891	98,257	1,064,855	3,870,050
Concession financial receivables	1,554,221	–	–	–	–	11,269	1,565,514
	P3,501,267	P387,115	P108,898	P58,891	P98,257	P1,076,148	P5,227,854

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty limits are reviewed and approved by the BOD and are updated when necessary.

Cash and cash equivalents are placed in various banks. Material amounts are held by banks which belong to the top five (5) banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. These are considered to be low credit risk investments.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and debentures. The Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claims 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:

	2018			
	Within 1 year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱[illegible]	₱–	₱–	₱[illegible]
Receivables:				
Customers	2,141,[illegible]	–	–	2,141,[illegible]
Employees	51,155,[illegible]	–	–	51,155,[illegible]
Interest from banks	[illegible]	–	–	[illegible]
ZDWD	14,[illegible]			14,[illegible]
Others	[illegible]	–	–	[illegible]
Concession financial receivable	[illegible]	[illegible]	1,[illegible]	[illegible]
	₱[illegible]	₱[illegible]	₱1,[illegible]	₱[illegible]

	2017			
	Within 1 year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱9,020,734,089	₱–	₱–	₱9,020,734,089
Receivables:				
Customers	2,891,884,818	–	–	2,891,884,818
Employees	84,775,785	–	–	84,775,785
Interest from banks	18,405,788	–	–	18,405,788
ZDWD	60,277,047	52,018,778	–	112,295,825
Others	115,848,980	–	–	115,848,980
Concession financial receivable	137,049,808	1,169,[illegible]	4,169,[illegible]	[illegible]
	₱12,328,798,885	₱1,221,408,019	₱4,169,[illegible]	₱17,874,504,028

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

	2018			
	Within 1 year	1 to 5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱7,[illegible]	₱–	₱–	₱7,[illegible]
Short-term debt*	[illegible]	–	–	[illegible]
Long-term debt*	7,[illegible]	[illegible]	14,[illegible]	[illegible]
Service concession obligation*	1,[illegible]	[illegible]	[illegible]	[illegible]
Customers' guaranty deposits and other deposits	–	–	774,[illegible]	774,[illegible]
	₱[illegible]	₱[illegible]	₱[illegible]	₱[illegible]

*Includes contractual interest cash flows

	2017			
	Within 1 year	1 to 5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱5,880,548,281	₱–	₱–	₱5,880,548,281
Long-term debt*	6,120,749,778	31,858,847,189	10,913,803,811	48,893,400,778
Service concession obligation*	914,750,854	2,856,852,187	7,887,818,315	11,659,421,734
Customers' guaranty deposits and other deposits	–	–	685,984,850	685,984,850
	₱12,921,048,413	₱35,335,700,326	₱19,271,806,824	₱67,728,555,463

*Includes contractual interest cash flows

Changes in liabilities arising from financing activities:

	2018				
	Short-term Debt	Long-term Debt	Service Concession Obligations	Interest Payable	Total
Balance at beginning of year	₱–	₱22,714,572,458	₱7,447,875,910	₱502,448,178	₱[illegible]
Cash flows	2,854,455,143	1,884,246,222	([illegible])	([illegible])	[illegible]
Accretion	–	[illegible]	[illegible]	–	[illegible]
Interest	–	–	–	1,[illegible]	1,[illegible]
Concession fees	–	–	[illegible]	–	[illegible]
Foreign exchange losses	([illegible])	1,[illegible]	[illegible]	–	1,[illegible]
	₱[illegible]	₱[illegible]	₱7,[illegible]	₱[illegible]	₱[illegible]

	2017			
	Long-term Debt	Service Concession Obligations	Interest Payable	Total
Balance at beginning of year	₱27,818,501,480	₱7,893,844,883	₱508,475,087	₱36,[illegible]
Cash flows	(1,[illegible])	(898,954,447)	(1,857,068,484)	([illegible])
Accretion	124,780,187	485,098,104	–	610,[illegible]
Interest	–	–	1,807,040,575	1,807,040,575
Concession fees	–	31,418,802	–	31,418,802
Foreign exchange losses	191,834,065	55,540,788	–	191,[illegible]
	₱22,714,572,458	₱7,447,875,910	₱502,448,178	₱[illegible]

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

	2018	2017
Total liabilities	₱[illegible]	₱54,892,758,580
Less service concession obligations	7,[illegible]	7,447,875,910
	[illegible]	47,[illegible]
Total stockholders' equity	[illegible]	48,[illegible]
Total	₱[illegible]	₱95,[illegible]
Gearing ratio	[illegible]%	49%

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 service concession obligations and cash and cash equivalents. To compute its total capital, the Group uses the total stockholders' equity.

	2018	2017
Total liabilities	[illegible]	₱54,892,738,580
Less:		
Service concession obligations	[illegible]	7,447,675,910
Cash and cash equivalents	[illegible]	9,040,744,089
	[illegible]	16,488,419,999
Net debt	[illegible]	38,404,318,581
Total stockholders' equity	[illegible]	48,980,697,403
Total net debt and stockholders' equity	[illegible]	₱87,385,015,984
Total net debt to equity ratio	45%	44%

27. Commitments

__Parent Company's Concession Agreement__

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

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of the Parent Company's obligations under the 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.

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

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. With the Extension, the Parent Company agreed to increase its annual share in MWSS operating budget by 100% from ₱100.00 million to ₱200.00 million, subject to annual CPI;

d. To 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. To 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. To repair and correct, on a priority basis, any defect in the facilities that would adversely affect public health or welfare, or cause damage to persons or third-party property;

g. To 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. To 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. To pay PGL concession fees;

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

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

d. To provide and manage the services;

e. To bill and collect payment from the customers for all services;

f. To extract raw water exclusively from all sources of raw water; and

g. To 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 MWPV signed an amendment to their JVA dated November 10, 2000. Simultaneously, and consequent to the amendment of the JVA of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:

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

b. Inclusion 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.

Laguna Water's APA with LTI
On December 23, 2013, Laguna Water entered an APA with LTI to acquire and operate its water operations division in Laguna. The significant commitments of Laguna Water under the agreement 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

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

<u>Boracay Water's Concession Agreement</u>
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-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 2011, payable semi-annually and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000

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

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	Previous year, subject to annual CPI adjustment

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 bank security in the amount of US$2.90 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 by the Parent Company following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.90
Second	2.90
Third	1.10
Fourth	1.10
Fifth	1.10

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 ten (10) days written notice period to Boracay Water, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing 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.

<u>Clark Water's Concession Agreement</u>
The significant commitments of Clark Water under its concession agreement with CDC are follows:

a. Pay franchise and lease 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 CFZ;

e. Provide and manage all water and wastewater related services like assisting locator in relocating of pipes and assess 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 RA No. 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 CFZ 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 fifteen (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 (4) years starting 2014;

d. Reduction in tariff rates by 2.9% (from ₱25.36/m³ to ₱24.63/m³) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   i. ₱0.41/m³ (from ₱24.63/m³ to ₱25.04/m³) in 2018
   ii. ₱0.42/m³ (from ₱25.04/m³ to ₱25.45/m³) in 2019
   iii. ₱0.42/m³ (from ₱25.45/m³ to ₱25.87/m³) in 2020
   iv. ₱0.43/m³ (from ₱25.87/m³ to ₱26.30/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 ₱98.68 million. Further, the recovery period of the Clark Water's investment is now extended by another fifteen (15) years from 2025 to 2040.

<u>Cebu Water's Bulk Water Supply Agreement</u>
On December 18, 2015, Cebu Water entered into a bulk water supply agreement with MCWD. The significant commitments of Cebu Water under its 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 20 years at ₱24.59 per cubic meter;

b. Ensure that the source shall be sustainable and 100% reliable at any day for the duration of the agreement; and

c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.

<u>Zamboanga Water's NRWSA</u>
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 ten (10)-year period. The significant provisions under the agreement with ZCWD consist of:

a. Zamboanga Water is required to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system; and

b. Zamboanga Water has the right to restructure and maintain the facilities in the ZCWD service area but legal title to these assets remains with ZCWD. The legal title to 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 an early termination date) at which time all rights, titles and interest in such assets will automatically vest in ZCWD.

<u>MWPV's MOA with ALI</u>
On January 12, 2018, MWPV executed a MOA with ALI 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 exemptions as provided in the MOA.

<u>MWPV's MOA with the SM Group</u>
On December 6, 2018, MWPV entered into a MOA with SM Prime Holdings, Inc., SM Development Corporation and SM Residences Corporation. Pursuant to the MOA, MWPV, will provide water and/or used water services and facilities to the property development projects of the SM Group identified in each MOA; the rights, duties and obligations of which has been transferred to Aqua Centro.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPV has one (1) signed MOA with SM Group as of December 31, 2018.

<u>Tagum Water's Bulk Water Supply Agreement</u>
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.

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.

<u>MWPV's Lease Agreement with Philippine Economic Zone Authority (PEZA)</u>
On December 18, 2017, MWPV entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPV agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ. The lease agreement has a term of twenty-five (25) years from signing of the contract.

<u>MWPV's MOA with LTI</u>
On April 18, 2018, the MWPV entered into a MOA with LTI, whereby through its division, Estate Water, MWPV shall exclusively provide water and used water services to LTI's Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

<u>Obando Water's Concession Agreement</u>
The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;

b. To upgrade existing water and sanitation facilities;

c. To operate, manage, and maintain water and sanitation facilities and services; and

d. To bill and collect tariff for water and sanitation services.

<u>Calasiao Water's Concession Agreement</u>
The significant commitments of Calasiao Water under its concession agreement with CWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;

b. To upgrade existing water and sanitation facilities;

c. To operate, manage, and maintain water and sanitation facilities and services; and

d. To bill and collect tariff for water and sanitation services.

Operating Leases – as a Lessee
The Group leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period. As of December 31, 2018 and 2017, the Group's future minimum lease payments are as follows:

	2018	2017
Within one year	[illegible]	[illegible]
After one year but not more than five years	[illegible]	[illegible]
More than five years	[illegible]	[illegible]
	[illegible]	[illegible]

Total rent expense recognized in 2018 and 2017 amounted to ₱54.02 million and ₱53.18 million, respectively. Security deposits amounted to ₱40.92 million and ₱41.87 million as of December 31, 2018 and 2017, respectively.

[illegible] Provisions and Contingencies

On October 15, 2005, the Municipality of Norzagaray, Bulacan assessed the Parent Company and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.11 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.71 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On January 28, 2011, the Supreme Court issued a Temporary Restraining Order enjoining the local government of Quezon City from levying the real properties, machineries and equipment of MWSS. Total provision for these assessments amounted to ₱718.29 million as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the remaining provision for estimated probable losses pertains to various legal proceedings and exposures arise in the ordinary course of business. Management believes that any amount the Group may have to pay in connection with any of these matters will not have a material adverse effect on the Group's financial position or operating results. The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

[illegible] Events after the Reporting Period

Laguna Water JVA with the PAGWAD
On January 21, 2019, Laguna Water signed and executed a contractual JVA with the PAGWAD.

Under the agreement, Laguna Water shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna. Upon completion of conditions precedents in the agreement, Laguna Water and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035.

Notice to Proceed from the Municipality of Manaoag
On January 25, 2019, MWPV received a Notice to Proceed from the Municipality of Manaoag, Pangasinan, granting MWPV a franchise for the provision and improvement of the water supply operation, maintenance, management, financing and expansion, and the provision of septage management in the Municipality of Manaoag.

The franchise granted to MWPV shall be for a term of twenty-five (25) years, excluding two (2) years of construction.

Parent Company and MWPV JVA with the Tanauan Water District
On February 4, 2019, the Parent Company and MWPV (collectively, the "Consortium") signed and executed a JVA with the Tanauan Water District for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of the Tanauan Water District in Tanauan City, Batangas (the Tanauan Project).

Upon completion of the conditions precedent set out in the JVA, the Consortium, through a SPV, and the Tanauan Water District shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

Parent Company Declaration of Cash Dividends
On February 28, 2019, the Parent Company's BOD approved the declaration of cash dividends of ₱0.4551 per share on outstanding common shares and ₱0.0455 per share on outstanding participating preferred shares with date of record on March 14, 2019 and payment date of March 28, 2019.