C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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C O M P A N Y   N A M E

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

MWSS ADMINISTRATION BUILDING, 489 KATIPUNAN ROAD, BALARA, QUEZON CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
corporatesecretary@manilawater.com	(632) 917-5900	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
904	04/07	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Luis Juan B. Oreta	luis-juan.oreta@manilawater.com	(632) 981-8156	

CONTACT PERSON's ADDRESS

2nd floor, MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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Tel: (632) 891 0307
Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Water Company, Inc.
MWSS Administration Building, Katipunan Road
Balara, Quezon City

We have audited the accompanying consolidated financial statements of Manila Water Company, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, 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, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Water Company, Inc. and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-1 (Group A),
June 30, 2015, valid until June 29, 2018
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-98-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5321694, January 4, 2016, Makati City

February 26, 2016

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 21 and 27)	**₱6,849,955,679**	₱6,452,553,832
Receivables - net (Notes 5, 21 and 27)	**1,864,847,935**	1,694,446,688
Concession financial receivable - current portion (Notes 9, 26 and 27)	**209,010,713**	76,914,317
Inventories - net (Note 6)	**177,027,271**	186,290,061
Other current assets (Note 7)	**847,456,833**	683,859,757
Total Current Assets	**9,948,298,431**	9,094,064,655
Noncurrent Assets		
Property, plant and equipment (Note 8)	**1,254,887,558**	2,131,965,618
Service concession assets - net (Notes 9, 21 and 23)	**60,192,856,303**	55,835,665,758
Concession financial receivable - net of current portion (Notes 9, 26 and 27)	**989,072,850**	899,069,520
Available-for-sale financial assets (Notes 10, 26 and 27)	**2,409,290**	2,409,290
Investments in associates (Note 11)	**5,723,534,022**	4,961,499,753
Goodwill (Note 3)	**130,319,465**	130,319,465
Deferred tax assets - net (Note 18)	**924,501,972**	881,182,911
Other noncurrent assets (Note 12)	**1,442,605,891**	923,726,626
Total Noncurrent Assets	**70,660,187,351**	65,765,838,941
	₱80,608,485,782	₱74,859,903,596
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13 and 27)	**₱4,433,087,387**	₱3,846,824,496
Current portion of:		
Long-term debt (Notes 14, 26 and 27)	**6,259,416,860**	2,495,629,251
Service concession obligation (Notes 9, 26 and 27)	**1,255,676,876**	1,019,515,457
Income tax payable (Note 18)	**440,797,122**	484,703,087
Payables to related parties (Notes 21 and 27)	**10,834,774**	11,490,133
Total Current Liabilities	**12,399,813,019**	7,858,162,424
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 26 and 27)	**19,960,955,809**	22,975,121,467
Service concession obligation - net of current portion (Notes 9, 23, 26 and 27)	**6,671,193,814**	6,981,693,612
Pension liabilities (Note 15)	**102,346,600**	38,769,100
Deferred tax liabilities - net (Note 18)	**71,912,390**	68,949,798
Provisions (Note 29)	**1,003,512,442**	1,013,824,883
Other noncurrent liabilities (Notes 16 and 26)	**679,759,302**	821,812,248
Total Noncurrent Liabilities	**28,489,680,357**	31,900,171,108
Total Liabilities	**40,889,493,376**	39,758,333,532

(Forward)

	December 31	
	2015	2014
Equity		
Attributable to equity holders of Manila Water Company, Inc.		
Capital stock (Note 19)		
Common stock	**₱2,053,666,576**	₱2,047,270,452
Preferred stock	**400,000,000**	400,000,000
	2,453,666,576	2,447,270,452
Additional paid-in capital	**4,193,022,955**	3,969,016,591
Subscriptions receivable	**(346,017,395)**	(251,543,666)
Total paid-up capital	**6,300,672,136**	6,164,743,377
Common stock options outstanding (Note 19)	**20,818,325**	16,206,572
Retained earnings	**32,120,480,845**	28,202,654,069
Remeasurement loss on defined benefit plans (Note 15)	**(123,583,985)**	(103,140,677)
Other equity reserve (Note 19)	**7,500,000**	7,500,000
Cumulative translation adjustment (Note 2)	**498,830,099**	220,209,709
	38,824,717,420	34,508,173,050
Non-controlling interests (Note 1)	**894,274,986**	593,397,014
Total Equity	**39,718,992,406**	35,101,570,064
	₱80,608,485,782	₱74,859,903,596

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
REVENUE			
Water (Note 21)			
East Zone	**₱11,897,119,383**	₱11,772,381,095	₱11,322,404,038
Outside East Zone	**1,323,110,432**	1,074,829,358	673,289,068
Environmental charges (Note 21)	**2,374,388,215**	2,303,873,152	2,250,482,542
Sewer (Note 21)			
East Zone	**269,456,863**	271,008,639	265,462,739
Outside East Zone	**165,292,277**	148,710,996	131,201,229
Revenue from management contracts (Note 22)	**–**	25,488,456	174,938,833
Other operating income (Notes 16 and 17)	**906,515,470**	760,853,355	1,108,039,013
	16,935,882,640	16,357,145,051	15,925,817,462
COST OF SERVICES			
Depreciation and amortization (Notes 8 and 9)	**2,303,707,042**	2,135,943,763	2,384,936,194
Salaries, wages and employee benefits (Notes 15, 19 and 21)	**1,183,972,052**	1,049,288,817	960,101,617
Power, light and water	**911,444,002**	1,009,782,892	814,227,751
Contractual services	**432,550,207**	270,242,113	215,824,474
Management, technical and professional fees (Note 21)	**383,996,024**	409,090,595	412,606,429
Repairs and maintenance	**365,645,322**	384,165,387	358,204,520
Occupancy costs (Note 24)	**280,036,911**	98,763,316	98,618,208
Regulatory costs (Note 1)	**126,288,346**	99,493,003	65,882,799
Collection fees	**110,420,035**	109,241,055	114,102,430
Cost of water service connections	**108,904,080**	119,147,381	104,861,585
Wastewater costs	**104,063,441**	92,601,779	84,042,255
Water treatment chemicals	**83,546,019**	71,179,346	79,103,032
Insurance	**56,056,426**	45,775,658	49,702,630
Postage, telephone and supplies	**21,278,116**	18,342,226	23,020,977
Transportation and travel	**18,170,276**	26,154,855	40,531,449
Taxes and licenses	**12,881,411**	14,679,755	22,505,452
Other expenses	**173,814,720**	55,534,248	44,560,692
	6,676,774,430	6,009,426,189	5,872,832,494
GROSS PROFIT	**10,259,108,210**	10,347,718,862	10,052,984,968
OPERATING EXPENSES (Note 17)	**1,772,425,207**	1,522,320,184	1,275,539,592
INCOME BEFORE OTHER INCOME (EXPENSES)	**8,486,683,003**	8,825,398,678	8,777,445,376
OTHER INCOME (EXPENSES)			
Revenue from rehabilitation works (Notes 1, 2 and 9)	**5,219,358,277**	3,435,789,320	5,071,257,510
Cost of rehabilitation works (Notes 1, 2 and 9)	**(5,219,358,277)**	(3,435,789,320)	(5,071,257,510)
Foreign currency differentials (Note 1)	**517,463,433**	(174,789,330)	545,916,143
Foreign exchange gains (losses)	**(413,741,038)**	167,614,258	(539,490,917)
Interest expense (Notes 14 and 17)	**(1,457,535,361)**	(1,636,136,708)	(1,733,400,506)
Interest income (Note 17)	**316,944,042**	185,635,301	172,825,432
Equity share in net income of associates (Note 11)	**403,514,812**	357,298,362	293,975,032
Gain on disposal of property, plant and equipment	**24,952,444**	42,524	13,448
Amortization of deferred credits (Note 16)	**8,432,177**	7,240,954	6,167,676
Loss on revaluation of receivable from Bonifacio Water Corporation (Notes 5 and 12)	**–**	–	(1,411,856)
Other income (loss) (Notes 11, 14 and 16)	**42,250,317**	(66,057,375)	70,093,853
	(557,719,174)	(1,159,152,014)	(1,185,311,695)
INCOME BEFORE INCOME TAX	**7,928,963,829**	7,666,246,664	7,592,133,681
PROVISION FOR INCOME TAX (Note 18)	**1,794,923,838**	1,836,298,011	1,811,572,574
NET INCOME	**6,134,039,991**	5,829,948,653	5,780,561,107

(Forward)

	Years Ended December 31		
	2015	2014	2013
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit and loss in subsequent periods:			
Unrealized fair value gain (loss) on available-for-sale financial assets (Note 10)	**₱–**	(₱3,300,716)	(₱3,502,145)
Realized fair value gain on available-for-sale transferred to profit or loss (Note 10)	**–**	–	(15,065,800)
Cumulative translation adjustment (Note 11)	**278,620,390**	101,970,215	127,109,003
	278,620,390	98,669,499	108,541,058
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain (loss) on pension liabilities (Note 15)	**(20,727,744)**	37,227,700	(68,194,900)
Income tax effect (Note 18)	**285,264**	(257,680)	499,830
	(20,442,480)	36,970,020	(67,695,070)
TOTAL COMPREHENSIVE INCOME	**₱6,392,217,901**	₱5,965,588,172	₱5,821,407,095
Net income attributable to:			
Equity holders of Manila Water Company, Inc.	**₱5,957,780,447**	₱5,813,088,880	₱5,752,361,946
Non-controlling interests (Note 1)	**176,259,544**	16,859,773	28,199,161
	₱6,134,039,991	₱5,829,948,653	₱5,780,561,107
Total comprehensive income attributable to:			
Equity holders of Manila Water Company, Inc.	**₱6,215,957,529**	₱5,948,616,019	₱5,793,304,768
Non-controlling interests (Note 1)	**176,260,372**	16,972,153	28,102,327
	₱6,392,217,901	₱5,965,588,172	₱5,821,407,095
Earnings per Share (Note 20)			
Net income attributable to common equity holders of Manila Water Company, Inc.			
Basic	**₱2.41**	₱2.36	₱2.34
Diluted	**₱2.41**	₱2.36	₱2.34

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31		
	2015	2014	2013
ATTRIBUTABLE TO EQUITY HOLDERS OF MANILA WATER COMPANY, INC.			
CAPITAL STOCK (Note 19)			
Common stock - ₱1 par value			
Authorized - 3,100,000,000 shares			
Issued and outstanding - 2,018,209,523 in 2015, 2,016,708,607 in 2014, and 2,015,301,474 in 2013	**₱2,018,209,523**	₱2,016,708,607	₱2,015,301,474
Subscribed common stock - 35,457,053 shares in 2015, 30,561,845 shares in 2014, and 31,968,978 shares in 2013			
Balance at beginning of year	**30,561,845**	31,968,978	36,009,267
Additions during the year	**6,396,124**	–	5,817,220
Issuance of shares	**(1,500,916)**	(1,407,133)	(9,857,509)
Balance at end of year	**35,457,053**	30,561,845	31,968,978
Preferred stock - ₱0.10 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
	2,453,666,576	2,447,270,452	2,447,270,452
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**3,969,016,591**	3,908,364,990	3,750,425,522
Additions during the year	**224,006,364**	60,651,601	157,939,468
Balance at end of year	**4,193,022,955**	3,969,016,591	3,908,364,990
SUBSCRIPTIONS RECEIVABLE			
Balance at beginning of year	**(251,543,666)**	(283,527,324)	(221,425,456)
Additions during the year	**(166,316,124)**	–	(113,151,413)
Collections during the year	**71,842,395**	31,983,658	51,049,545
Balance at end of year	**(346,017,395)**	(251,543,666)	(283,527,324)
COMMON STOCK OPTIONS OUTSTANDING (Note 19)			
Balance at beginning of year	**16,206,572**	13,806,787	13,578,433
Cost of share-based payment during the year	**68,698,117**	63,051,386	50,833,629
Exercised during the year	**(64,086,364)**	(60,651,601)	(50,605,275)
Balance at end of year	**20,818,325**	16,206,572	13,806,787
RETAINED EARNINGS (Note 19)			
Appropriated for capital expenditures:			
Balance at beginning of year	**–**	7,000,000,000	7,000,000,000
Transferred to unappropriated retained earnings	**–**	(7,000,000,000)	–
Balance at end of year	**–**	–	7,000,000,000
Unappropriated:			
Balance at beginning of year	**28,202,654,069**	17,402,675,096	13,555,773,394
Net income	**5,957,780,447**	5,813,088,880	5,752,361,946
Transferred from appropriated retained earnings (Note 19)	**–**	7,000,000,000	–
Dividends declared (Note 19)	**(2,039,953,671)**	(2,013,109,907)	(1,905,460,244)
Balance at end of year	**32,120,480,845**	28,202,654,069	17,402,675,096
	32,120,480,845	28,202,654,069	24,402,675,096

(Forward)

	Years Ended December 31		
	2015	2014	2013
UNREALIZED GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS			
Balance at beginning of year	**₱–**	₱3,300,716	₱21,868,661
Other comprehensive income:			
Unrealized fair value loss on available-for-sale financial assets (Note 10)	**–**	(3,300,716)	(3,502,145)
Realized fair value gain on available-for-sale financial assets transferred to profit and loss (Note 10)	**–**	–	(15,065,800)
Balance at end of year	**–**	–	3,300,716
REMEASUREMENT LOSS ON DEFINED BENEFIT PLANS (Note 15)			
Balance at beginning of year	**(103,140,677)**	(140,372,917)	(72,774,681)
Actuarial gain (loss) on pension liabilities	**(20,728,572)**	37,602,300	(68,094,610)
Income tax effect	**285,264**	(370,060)	496,374
Balance at end of year	**(123,583,985)**	(103,140,677)	(140,372,917)
OTHER EQUITY RESERVE (Note 19)	**7,500,000**	7,500,000	7,500,000
CUMULATIVE TRANSLATION ADJUSTMENT (Notes 2 and 11)			
Balance at beginning of year	**220,209,709**	118,239,494	(8,869,509)
Other comprehensive income	**278,620,390**	101,970,215	127,109,003
Balance at end of year	**498,830,099**	220,209,709	118,239,494
NON-CONTROLLING INTERESTS (Notes 1 and 2)			
Balance at beginning of year	**593,397,014**	576,799,461	266,739,634
Additions	**124,617,600**	–	281,957,500
Remeasurement gain (loss) on defined benefit plans	**828**	(262,220)	(96,834)
Share in net income of non-controlling interests	**176,259,544**	16,859,773	28,199,161
Balance at end of year	**894,274,986**	593,397,014	576,799,461
	₱39,718,992,406	₱35,101,570,064	₱31,054,056,755

See accompanying Notes to Consolidated Financial Statements.

MANILA WATER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱7,928,963,829**	₱7,666,246,664	₱7,592,133,681
Adjustments for:			
Depreciation and amortization (Notes 8 and 9)	**2,600,212,924**	2,443,987,307	2,494,762,992
Interest expense (Notes 14 and 17)	**1,457,535,361**	1,636,136,708	1,733,400,506
Equity share in net income of associates (Note 11)	**(403,514,812)**	(357,298,362)	(293,975,032)
Interest income (Note 17)	**(316,944,042)**	(185,635,301)	(172,825,432)
Provision for probable losses and doubtful accounts (Note 17)	**76,525,809**	188,034,322	171,294,230
Share-based payments (Note 19)	**68,698,117**	63,051,387	50,833,629
Pension expense, net of contribution and benefit payment	**42,252,955**	(324,173,020)	(68,614,844)
Gain on disposal of property, plant and equipment	**(24,952,444)**	(42,524)	(13,448)
Amortization of deferred credits (Note 16)	**(8,432,177)**	(7,240,954)	(6,167,676)
Loss on revaluation of receivable from Bonifacio Water Corporation (Notes 5 and 12)	**–**	–	1,411,856
Operating income before changes in operating assets and liabilities	**11,420,345,520**	11,123,066,227	11,502,240,462
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(178,664,379)**	(291,607,402)	40,374,240
Materials and supplies	**9,262,790**	(82,692,799)	7,704,418
Service concession assets (Note 9)	**(4,449,379,786)**	(3,252,081,286)	(4,677,183,266)
Concession financial receivable	**(13,254,662)**	(212,288,640)	(681,363,724)
Other current assets	**(255,161,602)**	(158,105,895)	391,470,005
Increase (decrease) in:			
Accounts and other payables	**243,998,576**	(197,048,448)	(640,874,433)
Payables to related parties	**(655,359)**	(127,528,720)	111,459,197
Net cash provided by operations	**6,776,491,098**	6,801,713,037	6,053,826,899
Income tax paid	**(1,787,621,757)**	(1,777,131,404)	(1,714,907,911)
Net cash provided by operating activities	**4,988,869,341**	5,024,581,633	4,338,918,988
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**107,602,321**	58,444,925	133,816,460
Dividends received from associates (Note 11)	**259,014,197**	134,028,372	87,749,151
Acquisitions of:			
Investments in associates (Notes 1 and 11)	**(318,163,290)**	–	(642,759,834)
Property and equipment (Note 8)	**(725,855,263)**	(352,516,515)	(274,945,648)
Proceeds from:			
Sale of property and equipment	**45,935,076**	1,243,709	3,042,742
Maturities of available-for-sale financial assets	**–**	100,000,000	370,043,605
Decrease (increase) in:			
Short-term cash investments	**–**	94,344,600	(94,344,600)
Other noncurrent assets	**(164,061,650)**	(395,042,077)	433,218,351
Net cash provided by (used) in investing activities	**(795,528,609)**	(359,496,986)	15,820,227
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term debt (Note 14):			
Availments	**2,798,379,413**	1,235,628,647	6,195,926,714
Payments	**(2,476,014,276)**	(1,886,518,477)	(4,255,918,126)
Payments of service concession obligation (Note 9)	**(799,794,043)**	(698,927,235)	(924,935,673)
Payments of dividends (Note 19)	**(2,039,953,670)**	(2,013,109,906)	(1,905,460,244)

(Forward)

	Years Ended December 31		
	2015	2014	2013
Collection of subscriptions receivable (Note 19)	**₱71,842,395**	₱31,983,658	₱51,049,545
Interest paid	**(1,341,395,535)**	(1,507,049,894)	(1,515,973,850)
Decrease in other noncurrent liabilities (Note 16)	**(133,620,769)**	(154,318,453)	(1,041,755,320)
Additional investment of non-controlling interest (Note 1)	**124,617,600**	–	281,957,500
Net cash used in financing activities	**(3,795,938,885)**	(4,992,311,660)	(3,115,109,454)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**397,401,847**	(327,227,013)	1,239,629,761
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,452,553,832**	6,779,780,845	5,540,151,084
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱6,849,955,679**	₱6,452,553,832	₱6,779,780,845

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Manila Water Company, Inc. (the Parent Company) was incorporated on January 6, 1997 and 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, 2015, the Parent Company is 42.38% owned by Ayala Corporation (Ayala). Ayala is a publicly listed company which is 49.01% owned by Mermac, Inc., 10.18% owned by Mitsubishi Corporation and the rest by the public. The Parent Company and its Subsidiaries (collectively referred to as the Group) are incorporated to provide water, sewerage and sanitation, distribution services, pipeworks and management services.

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

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

	Country of Incorporation	**Percentages of Ownership**	
		2015	2014
Manila Water International Solutions, Inc. (MWIS)	Philippines	**100**	100
Manila Water Total Solutions Corp. (MWTS)	-do-	**100**	100
Manila Water Asia Pacific Pte. Ltd. (MWAP)	Singapore	**100**	100
Manila Water South Asia Holdings Pte. Ltd. (MWSAH)	-do-	**100**	100
Asia Water Network Solutions Joint Stock Company (Asia Water)*	Vietnam	**48.5**	–
Thu Duc Water Holdings Pte. Ltd. (TDWH)	Singapore	**100**	100
Kenh Dong Water Holdings Pte. Ltd. (KDWH)	-do-	**100**	100
Manila Water Philippine Ventures, Inc. (MWPVI)	Philippines	**100**	100
Laguna AAAWater Corporation (Laguna Water)	-do-	**70**	70
Clark Water Corporation (Clark Water)	-do-	**100**	100
Manila Water Consortium, Inc. (MW Consortium)	-do-	**51**	51
Cebu Manila Water Development, Inc. (Cebu Water)	-do-	**51**	51
Boracay Island Water Company, Inc. (Boracay Water)	-do-	**80**	80
Zamboanga Water Company, Inc. (Zamboanga Water)	-do-	**70**	–
Davao del Norte Water Infrastructure Company, Inc. (Davao Water)	-do-	**51**	–
Tagum Water Company, Inc. (Tagum Water)	-do-	**90**	–

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

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

Group Reorganization
On June 19, 2014, AAA Water Corporation changed its corporate name to Manila Water Philippine Ventures, Inc. (MWPVI). On October 13, 2014, the Board of Directors (BOD) of MWPVI approved the increase of MWPVI's authorized capital stock. The BOD approved the subscription of the Parent Company to new and additional shares of MWPVI and the exchange of shares between the Parent Company and MWPVI for the Parent Company's shares in Boracay Water, Clark Water and MW Consortium.

On February 20, 2015, the Securities and Exchange Commission (SEC) approved the increase of the authorized capital stock of MWPVI from 750.00 million shares to 1,750.00 million shares. In March 2015, the Parent Company transferred to MWPVI the ownership of all its shares in Boracay Water, Clark Water and MW Consortium in exchange for new shares of MWPVI.

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

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

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

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

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001 (see Notes 2, 9 and 14); and
d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
    i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
    ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

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

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

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

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

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 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 is now extended by another 15 years from 2022 to 2037.

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

On December 10, 2013, the MWSS Board of Trustees, 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. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
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 December 10, 2015, the Company filed a Notice of Arbitration with the Permanent Court of Arbitration against the National Government. The Notice of Arbitration was filed with respect to a Notice of Claim made on the National Government on April 23, 2015 and reiterated on August 13, 2015 and October 20, 2015. The Notice of Claim was made under the Letter of Undertaking of the National Government, which was dated July 31, 1997 and issued through the DOF, and was subsequently reiterated in the DOF Letter dated October 19, 2009 (the "Sovereign Undertaking"). These were issued to guarantee the obligations of the MWSS under its Concession Agreement with the Parent Company executed on February 21, 1997.

In the Sovereign Undertaking, the National Government, through the DOF, undertook to indemnify the Parent Company against any loss caused by any action on the part of the National Government and/or the MWSS resulting in the reduction of the standard rates "below the level that would otherwise be applicable in accordance with the Concession Agreement", thereby denying the Parent Company the rate of return "allowed from time to time to operators of long term infrastructure concession agreement in other countries having a credit standing similar to the Philippines" pursuant to Section 9.4 of the Concession Agreement. As a result of certain actions by the MWSS and the National Government, which are covered by the provisions of the Sovereign Undertaking, the Parent Company demanded indemnification from the National Government by reimbursing its losses in operating revenues to be realized for each remaining year of the Concession as such losses are realized.

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

Approval Date	FCDA Adjustment	Foreign Exchange Rate Basis
December 18, 2014	₱0.36 per cubic meter	USD1: ₱44.80 / JPY1: ₱0.42
March 12, 2015	₱0.05 per cubic meter	USD1: ₱44.60 / JPY1: ₱0.38
June 4, 2015	₱0.02 per cubic meter	USD1: ₱44.41 / JPY1: ₱0.37
September 9, 2015	₱0.05 per cubic meter	USD1: ₱45.26 / JPY1: ₱0.37

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

Under the terms of the concession agreement, the PGL grants Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 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 9).

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 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.

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

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

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

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

a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
b. 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, 9 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.

Boracay Water requested for the deferment of the rate rebasing since it was not able to commence operations in June 2009, as originally planned, because the SEC required the Company to seek conformity from the DOF before it could be incorporated.

In January 14, 2013, TIEZA approved the Rebasing Convergence adjustment for Boracay Water which is equivalent to an increase from its existing rates of 35% to be implemented on a staggered basis for a period of four (4) years with a 10.10% increase in 2013; 9.18% in 2014; 8.40% in 2015; and 7.75% in 2016, effective starting February 1, 2013.

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

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

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

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

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

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

Also 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 ₱986.86 million service concession assets on commencement date. It includes the JICA loan assumed by Boracay Water, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees (see Note 9).

Clark Water's Concession Agreement with Clark Development Corporation (CDC)
On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 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 ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by Clark Water on the facilities as well as title to new facilities procured by Clark Water in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, 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 months lease rental and a performance security amounting to ₱6.72 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 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 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 Php25.63/m^3 to Php24.63/m^3) effective September 1, 2014, subject to the EPA.
e. Increase in tariff rates by:
    i. ₱0.41/m^3 (from Php24.63/m^3 to Php25.04/m^3) in 2018;
    ii. ₱0.42/m^3 (from Php25.04/m^3 to Php25.45/m^3) in 2019;
    iii. ₱0.42/m^3 (from Php25.45/m^3 to Php25.87/m^3) in 2020; and
    iv. ₱0.43/m^3 (from Php25.87/m^3 to Php26.30/m^3) in 2021.

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the Clark Water's investment is now extended by another 15 years from 2025 to 2040.

On September 29, 2014, Clark Water's BOD approved and authorized the equity restructuring of Clark Water. Clark Water converted 700 issued and outstanding common stock to redeemable preferred stock with par value of ₱100.00 per share. Subsequently, on September 30, 2014, Clark Water redeemed all issued and outstanding preferred stock.

MW Consortium Agreement with the Provincial Government of Cebu (PGC)
On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.00 million liters of water per day to target areas in the province of Cebu with the joint

venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Water, with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). On December 18, 2013, Cebu Water and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.00 million liters per day of water for the first year and 35.00 million liters per day of water for years two (2) up to 20. Cebu Water delivered its initial 18.00 million liters per day bulk water supply to MCWD on January 5, 2015. Cebu Water will increase its bulk water delivery to 35.00 million liters per day in 2016.

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)
On March 17, 2014, the Parent Company and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed non-revenue water reduction (NRW) project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.

As of December 31, 2015, the Parent Company, through its subsidiary, MWAP, is in the process of implementing its pilot NRW reduction project in Yangon.

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

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

The project will run for a 10-year period, beginning June 2, 2015, with three (3) phases namely:
a. Network Improvement Program (DMA Formation) and NRW Reduction Program (Service Line and Meter Replacement, Active Leak Detection and Repair) – from Year 1 to 5
b. Maintenance Period – in Year 6
c. Technical Assistance and Consultancy – from Year 7 to 10

In consideration of the above, ZCWD shall pay Zamboanga Water the following:

a. Fixed Fees of ₱16.00 million annually (VAT inclusive, subject to annual inflation adjustment), payable quarterly in equal amounts of ₱4.00 million.
b. Performance Fees of ₱11.00 per cubic meter volume recovered (VAT inclusive, subject to annual inflation adjustment), payable quarterly

The annual fixed fees shall cover the total cost of the Network Restructuring Program (from Year 1 to 5) and overhead and miscellaneous costs (from Year 1 to 10).

Joint Venture for NRW Reduction Activities by Asia Water and Saigon Water
On April 22, 2015, Asia Water was granted the Investment Certificate from the Department of Planning and Investment of Ho Chi Minh City, Vietnam. Asia Water is a joint venture between MWSAH and Saigon Water which aims to carry out activities such as NRW reduction management, waste system design and construction, and operation and management of distribution system and network. MWSAH, a wholly owned subsidiary, effectively owns a 64.55% stake in Asia Water as of December 31, 2015.

Healthy Family Purified Drinking Water
On April 15, 2015, MWTS was granted by the Bureau of Food and Drugs its Certificate of Product Registration for its Healthy Family Purified Drinking Water. This authorizes MWTS to implement the full-scale marketing and promotion of its product to further expand its distribution in Metro Manila.

Joint Venture for the Tagum City Bulk Water Supply Project with Tagum Water District (TWD)
On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to the consortium of the Parent Company and iWater, Inc. On October 15, 2015, Davao Water, the joint venture company of Parent Company and iWater, Inc., signed and executed a joint venture agreement with the TWD. Under the said agreement, Davao Water and the TWD shall cause the incorporation of a joint venture company which shall

implement the Bulk Water Supply Project for 15 years from the operations start date as defined in the joint venture agreement. Tagum Water, the joint venture company, which is 90% and 10% owned by Davao Water and TWD, was registered with the SEC on December 15, 2015. Tagum Water will develop supplemental surface water resources that will deliver potable bulk water to TWD.

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

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

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

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

Approval for the Issuance of the Consolidated Financial Statements
The BOD approved and authorized the issuance of the accompanying consolidated financial statements on February 26, 2016.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for AFS financial assets that have been measured at fair value. 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.

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, 2015 and 2014, and for each of the three years in the period ended December 31, 2015.

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

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

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

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

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

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

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

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

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
b. derecognizes the carrying amount of any non-controlling interests;
c. derecognizes the cumulative translation differences recorded in equity;
d. recognizes the fair value of the consideration received;
e. recognizes the fair value of any investment retained;
f. recognizes any surplus or deficit in profit or loss; and
g. reclassifies the parent'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, 2015. The nature and the impact of each of new standards and amendments are described below:

a. PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
   PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment does not have an impact to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after July 1, 2014 and did not have a material impact on the Group, unless otherwise stated. These include the following:

a. PFRS 2, *Share-based Payment - Definition of Vesting Condition*
   This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

   i. A performance condition must contain a service condition;
   ii. A performance target must be met while the counterparty is rendering service;
   iii. A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
   iv. A performance condition may be a market or non-market condition; and
   v. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

b. PFRS 3, *Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of PAS 39.

c. PFRS 8, *Operating Segments*
The amendments are applied retrospectively and clarify that:

   i. An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of PFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and
   ii. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

d. PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

e. PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the consolidated financial statements and did not have a material impact on the Group, unless otherwise stated. These include the following:

a. PFRS 3, *Business Combinations*
The amendment is applied prospectively and clarifies for the scope exceptions within PFRS 3 that:

   i. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3; and
   ii. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

b. PFRS 13, *Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39. The Group does not apply the portfolio exception in PFRS 13.

c. PAS 40, *Investment Property*
The description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or a business combination. In previous periods, the Group has relied on PFRS 3, not PAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

Future Changes in Accounting Policies
The Group will consider the effects on the Group's consolidated financial statements of the following future changes in accounting policies as these become effective and applicable in the future.

Effective in 2016

a. PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

   i. That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
   ii. That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated;
   iii. That entities have flexibility as to the order in which they present the notes to financial statements; and
   iv. That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The Group is currently assessing the impact of these amendments on its consolidated financial statements.

b. PAS 16, *Property, Plant and Equipment,* and PAS 38*, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its property and equipment.

c. PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact as the Group does not have any bearer plants.

d. PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

e. PFRS 10, *Consolidated Financial Statements,* and PAS 28*, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. The Group will assess the impact on its consolidated financial statements when such sale or contribution of assets take place in future periods.

f. PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3) must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact as the Group currently has no interest in joint operations.

g. PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard will not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include the following:

a. PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

b. PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. The amendment will not have an impact on the Group's financial statements since the Group does not offer servicing contracts that involves continuing involvement in a derecognized financial asset.

c. PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. The amendment will not have any impact on the Group's financial position and performance since it does not offset its financial instruments.

d. PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment will not have an impact on the Group's financial statements since the Group's policy is already consistent with the amendment.

e. PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The amendment will not have an impact on the Group's financial statements since the Group already presents the required disclosures in its interim financial statements.

Effective in 2018

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

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

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

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

Effective in 2019

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

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

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

Interpretation with Deferred Effective Date

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

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in its statement of financial position based on a current and noncurrent classification. An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle
b. Held primarily for the purpose of trading
c. Expected to be realized within twelve 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 months after the reporting period. All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

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

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Day 1 profit
For transactions other than those related to customers' guaranty deposits and other deposits, where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss under "Other income" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or

combined instrument is not recognized at FVPL. Embedded derivatives are measured at fair value with fair value changes being reported through profit or loss, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

This accounting policy applies primarily to the Group's cash and cash equivalents, receivables, concession financial receivable and deposits.

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

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

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

The Group's AFS financial assets are presented as noncurrent in the consolidated statement of financial position. The details of the Group's AFS financial assets are disclosed in Note 10.

Other financial liabilities
Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are

accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issuance.

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

Financial liabilities

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

Impairment of Financial Assets

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

Loans and receivables

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

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

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

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

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

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

<u>Financial Guarantee Contracts</u>
Financial guarantee contracts issued by the Parent Company to its subsidiaries are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified holder fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guaranty has become probable).

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

<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 its 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.

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use, including capitalized borrowing costs incurred during the construction period. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the related property, plant and equipment.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives (EUL) of the property, plant and equipment as follows:

Office furniture and equipment	3 to 5 years
Transportation equipment	5 years

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

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

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

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

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

On the other hand, the concession arrangement with the PGC is 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 is awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period.

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

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

Investments in Associates
An associate is an entity in which the Group has significant influence and which is neither a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The considerations made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

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

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

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

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

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

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

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss included under "Remeasurement gain (loss) arising from business combination."

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

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

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

Impairment of Non-financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency-Denominated Transactions
Foreign exchange differentials arising from foreign currency transactions are credited or charged to operations. As approved by the MWSS Board of Trustees (BOT) under Amendment No.1 of the Concession Agreement, the following will be recovered through billings to customers:
a. Restatement of foreign currency-denominated loans;
b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱41.19:US$1.00 based on the latest rate rebasing exercise effective January 1, 2013.
c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

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

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

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

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of fixed assets (including costs incurred in connection with rehabilitation works) that necessarily takes a substantial period of time to get ready for its intended use are recorded as SCA are capitalized as part of the cost of fixed assets. 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 incurred on those borrowings less any investment income arising on their temporary investment.

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

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

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

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

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

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

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

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

Share-Based Payment
Employee share purchase plans
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 options.

Equity
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 less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

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

<u>Taxes</u>
Value-Added Tax (VAT)
Input VAT pertains to the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services.

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 "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 "Other current assets" account.

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

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

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

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

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

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

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

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

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

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

Assets Held in Trust
Assets which are owned by MWSS, PGL, TIEZA and CDC that are operated by the Group under the Group's concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust.

Segment Reporting
The Group's operating businesses are organized based on geographic location. Financial information on business segments is presented in Note 25 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 accompanying 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 accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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

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

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with MWSS, PGL, TIEZA and CDC qualify under the Intangible Asset model as it receives the right (license) to charge users of public service (see Notes 2 and 9).

On the under hand, the Group has made a judgment that the concession agreement with PGC qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from PGC (see Notes 2 and 9).

Investments in subsidiaries
The Group considers the entities listed in Note 1 as its subsidiaries because it exercises control over the said entities. The Group is exposed, or has rights to variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities (see Note 1).

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

Investments in associates
The Parent Company considers Thu Duc Water B.O.O. Corporation (Thu Duc Water), Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), Saigon Water and Cu Chi Water as associates because it has the power to participate in the financial and operating policy decisions of these entities but does not have control or joint control over those policies. See Note 11 for the related balances.

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

Non-financial asset impairment
The Group assesses the impairment of non-financial assets (property, plant and equipment, SCA, other current assets and other noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and
- significant negative industry or economic trends.

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As of December 31, 2015 and 2014, the Group did not recognize any impairment loss on its non-financial assets (see Notes 7, 8, 9 and 12 for the related balances).

Operating lease commitments - Group as lessee
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 Note 24 for related disclosure.

Embedded derivative
The Group has entered into loan facility agreements with prepayment options. These prepayment options give the Group the right to redeem the outstanding loans in part or in full after the lapse of a prescribed period. The Group assessed that these prepayment options are clearly and closely related considering that the amortized cost of the loan approximates the prepayment at exercise dates. As a result, the Group did not bifurcate any embedded derivative as of December 31, 2015 and 2014 (see Note 14).

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 considers the East Zone, Outside East Zone and Management Contracts as its operating segments and are aggregated as such based on the source and types of revenues (see Note 25).

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

The Group currently does not believe these proceedings will have a material or adverse effect on the Group's financial position and results of operations (see Note 29).

<u>Use of Estimates</u>
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
The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of the following revenue and costs:

- *Management contracts*
  The Group's management contracts recognized based on the percentage of completion method is measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

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

- *Water and sewerage*
  The Group's revenue from 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. Twenty percent (20%) of water revenues are recognized by the Parent Company as environmental charges with the rationalization of the sewerage and environmental charges as approved in the 2008 rate rebasing.

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

As of December 31, 2015 and 2014, the outstanding balance of allowance for doubtful accounts amounted to ₱726.49 million and ₱717.73 million, respectively (see Note 5).

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

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

The Parent Company's impairment test for goodwill related to the acquisition of Clark Water is based on value in use calculations. The value in use calculations in 2015 used a discounted cash flow model. The cash flows are derived from the budget for the next 25 years and assume a steady growth rate. The Parent Company used the remaining concession life of Clark Water, which is a period longer than the maximum of five years. 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 9.72% in 2015.

The carrying value of goodwill in the consolidated statement of financial position amounted to ₱130.32 million as of December 31, 2015 and 2014. No impairment loss was recognized as a result of the impairment testing performed.

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

At each reporting date, Cebu Water performs an impairment assessment of its water banking rights. As of December 31, 2015 and 2014, it was determined that the recoverable amount of the water banking rights was more than its carrying value. No impairment loss was recognized in 2015 and 2014. The carrying value of water banking rights in the consolidated statement of financial position amounted to ₱45.00 million as of December 31, 2015 and 2014 (see Note 12).

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

Also, the Group does not recognize certain deferred taxes on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future. See Note 18 for the related balances.

Deferred FCDA
Under the concession agreements entered into by the Parent Company and Boracay Water with MWSS and TIEZA, respectively, the Parent Company and Boracay Water are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. The Parent Company and Boracay Water recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by the Parent Company and Boracay Water as a result of past events and from which future economic benefits are expected to flow to the Parent Company and Boracay Water. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. As of December 31, 2015 and 2014, the Parent Company and Boracay Water's deferred FCDA classified under "Other noncurrent assets" amounted to ₱644.43 million and ₱141.19 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.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company. See Note 19 for the related balances.

Pension expense
The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. Discount rate and salary increase rate assumptions are reviewed at each reporting date. The net benefit liability as of December 31, 2015 and 2014 is ₱102.35 million and ₱38.77 million, respectively (see Note 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.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

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

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. While significant components of the fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rate and interest rate), the amount of changes in fair value may differ due to usage of different methodology (see Note 26).

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2015	2014
Cash on hand and in banks (Note 21)	**₱1,862,685,336**	₱1,478,227,092
Cash equivalents (Note 21)	**4,987,270,343**	4,974,326,740
	₱6,849,955,679	₱6,452,553,832

Cash in banks earn interest at the respective bank deposit rates ranging from 0.19% to 2.50%, 0.50% to 3.25% and 1.25% to 5.00% in 2015, 2014 and 2013, respectively. Cash equivalents are highly liquid investments with varying periods of up to 3 months and earn interest at the respective short-term rates.

Interest income earned from cash in banks and cash equivalents amounted to ₱70.33 million, ₱66.98 million, and ₱99.63 million in 2015, 2014 and 2013, respectively (see Note 17).

5. **Receivables**

This account consists of receivables from:

	2015	2014
Customers:		
Residential	**₱1,613,144,600**	₱1,638,350,565
Commercial	**452,559,164**	229,566,366
Semi-business	**74,353,461**	81,124,140
Industrial	**113,826,382**	47,132,293
BWC (Note 12)	**529,500,647**	529,500,647
Employees	**39,753,731**	39,554,286
Interest from banks	**12,438,613**	11,941,957
Saigon Water Corporation (SAWACO) (Note 22)	**–**	32,888,246
Others (Note 14)	**214,408,000**	267,174,450
	3,049,984,598	2,877,232,950
Less allowance for doubtful accounts	**(726,494,508)**	(717,734,719)
	2,323,490,090	2,159,498,231
Less noncurrent portion of receivable from BWC (Note 12)	**(458,642,155)**	(465,051,543)
	₱1,864,847,935	₱1,694,446,688

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

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

Receivable from BWC pertains to the assigned receivable between the Parent Company and VWPI covered by the Share Purchase Agreement (SPA) related to the acquisition of VWPI's interest in Clark Water in 2011. The loss from revaluation amounting to ₱1.41 million in 2013 was recorded as a "Gain (loss) on revaluation of receivable from Bonifacio Water Corporation" in the consolidated statements of comprehensive income (nil in 2015 and 2014).

The assigned receivable will be paid by BWC at an amount equal to 30% 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.

Receivable from SAWACO pertains to the unpaid portion of billing for services rendered by the Group in relation to its management contract with SAWACO (see Note 22).

Receivable from employees are due and demandable and are collected through salary deductions or expense liquidations.

Others include receivables from indemnity related to the acquisition of Kenh Dong Water (see Note 11), and receivables from shared facilities, insurance agencies and collection facilities.

Movements in the Group's allowance for doubtful accounts follow:

	2015					
	Receivable from Customers				**Other**	
	Residential	**Commercial**	**Semi-business**	**Industrial**	**Receivables**	**Total**
Balance at beginning of year	**₱481,392,378**	**₱113,411,221**	**₱33,250,662**	**₱5,644,348**	**₱84,036,110**	**₱717,734,719**
Provision (Note 17)	**30,276,922**	**5,547,030**	**2,106,786**	**53,612**	**422,641**	**38,406,991**
Reversal (Note 17)	**–**	**(22,125,608)**	**(6,522,876)**	**(998,718)**	**–**	**(29,647,202)**
Balance at end of year	**₱511,669,300**	**₱96,832,643**	**₱28,834,572**	**₱4,699,242**	**₱84,458,751**	**₱726,494,508**
Individual impairment	**₱25,550,322**	**₱12,269,836**	**₱1,788,489**	**₱807,161**	**₱2,411,865**	**₱42,827,673**
Collective impairment	**486,118,978**	**84,562,807**	**27,046,083**	**3,892,081**	**82,046,886**	**683,666,835**

	2014					
	Receivable from Customers				Other	
	Residential	Commercial	Semi-business	Industrial	Receivables	Total
Balance at beginning of year	₱460,288,640	₱107,303,430	₱32,118,694	₱4,962,559	₱78,750,136	₱683,423,459
Provision (Note 17)	21,103,738	6,107,791	1,131,968	681,789	5,285,974	34,311,260
Balance at end of year	₱481,392,378	₱113,411,221	₱33,250,662	₱5,644,348	₱84,036,110	₱717,734,719
Individual impairment	₱25,953,548	₱10,893,892	₱1,895,555	₱855,138	₱2,411,865	₱42,009,998
Collective impairment	455,438,830	102,517,329	31,355,107	4,789,210	81,624,245	675,724,721

6. Inventories

This account consists of:

	2015	2014
Maintenance materials	**₱53,617,721**	₱90,142,091
Water meters and connection supplies	**81,109,681**	66,646,295
Water treatment chemicals	**37,308,637**	29,501,675
Others	**4,991,232**	–
	₱177,027,271	₱186,290,061

Others includes finished goods and raw materials. Finished goods consist of 5-gallon packaged water and dispenser while raw materials consist of the cap seals for the 5-gallon packaged water bottles.

7. Other Current Assets

This account consists of:

	2015	2014
Advances to contractors	**₱577,979,322**	₱419,941,769
Prepaid expenses	**201,544,882**	125,899,202
Guaranty deposits	**67,932,629**	20,993,444
Input VAT	**–**	117,025,342
	₱847,456,833	₱683,859,757

Advances to contractors are normally applied within a year against progress billings.

Prepaid expenses consist of prepayments for business taxes, insurance and employee health care expenses and other benefits.

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

Input VAT is fully realizable and will be applied against future output VAT.

8. Property, Plant and Equipment

The rollforward analysis of this account follows:

	2015						
	Office Furniture and Equipment	**Transportation Equipment**	**Land**	**Leasehold Improvements**	**Plant and Technical Equipment**	**Construction in Progress**	**Total**
Cost							
Balance at beginning of year	**₱1,427,902,133**	**₱444,701,760**	**₱1,495,255,532**	**₱285,698,144**	**₱1,041,616,501**	**₱–**	**₱4,695,174,070**
Additions	**304,567,872**	**157,182,295**	**4,463,062**	**17,581,813**	**108,681,104**	**133,379,117**	**725,855,263**
Transfer (Note 9)	**–**	**–**	**(1,297,667,113)**	**–**	**–**	**–**	**(1,297,667,113)**
Disposals	**(38,393,459)**	**(74,309,538)**	**–**	**(574,933)**	**–**	**–**	**(113,277,930)**
Balance at end of year	**₱1,694,076,546**	**₱527,574,517**	**₱202,051,481**	**₱302,705,024**	**₱1,150,297,605**	**₱133,379,117**	**₱4,010,084,290**

(Forward)

	2015						
	Office Furniture and Equipment	**Transportation Equipment**	**Land**	**Leasehold Improvements**	**Plant and Technical Equipment**	**Construction in Progress**	**Total**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**₱1,268,182,404**	**₱352,132,955**	**₱–**	**₱205,694,517**	**₱737,198,576**	**₱–**	**₱2,563,208,452**
Depreciation and amortization	**106,226,772**	**49,818,653**	**–**	**24,206,395**	**104,031,758**	**–**	**284,283,578**
Disposals	**(18,068,993)**	**(73,746,640)**	**–**	**(479,665)**	**–**	**–**	**(92,295,298)**
Balance at end of year	**1,356,340,183**	**328,204,968**	**–**	**229,421,247**	**841,230,334**	**–**	**2,755,196,732**
Net Book Value	**₱337,736,363**	**₱199,369,549**	**₱202,051,481**	**₱73,283,777**	**₱309,067,271**	**₱133,379,117**	**₱1,254,887,558**

	2014						
	Office Furniture and Equipment	Transportation Equipment	Land	Leasehold Improvements	Plant and Technical Equipment	Construction in Progress	Total
Cost							
Balance at beginning of year	₱1,334,639,136	₱419,011,115	₱1,472,106,478	₱236,175,702	₱888,808,157	₱–	₱4,350,740,588
Additions	93,307,101	33,729,574	23,149,054	49,522,442	152,808,344	–	352,516,515
Disposals	(44,104)	(8,038,929)	–	–	–	–	(8,083,033)
Balance at end of year	1,427,902,133	444,701,760	1,495,255,532	285,698,144	1,041,616,501	–	4,695,174,070
Accumulated Depreciation and Amortization							
Balance at beginning of year	1,174,089,196	326,713,533	–	184,489,353	626,687,589	–	2,311,979,671
Depreciation and amortization	94,124,520	32,269,958	–	21,205,164	110,510,987	–	258,110,629
Disposals	(31,312)	(6,850,536)	–	–	–	–	(6,881,848)
Balance at end of year	1,268,182,404	352,132,955	–	205,694,517	737,198,576	–	2,563,208,452
Net Book Value	₱159,719,729	₱92,568,805	₱1,495,255,532	₱80,003,627	₱304,417,925	₱–	₱2,131,965,618

As of December 31, 2015, land amounting to ₱1.30 billion was transferred to service concession assets since these form part of rehabilitation works or service expansions (see Note 9).

As of December 31, 2015 and 2014, fully depreciated property and equipment that are still in use by the Group amounted to ₱957.12 million and ₱529.54 million, respectively.

9. Service Concession Assets and Obligations

a. Service concession assets

The movements in this account follow:

	2015	2014
Cost		
Balance at beginning of year	**₱73,381,997,758**	₱69,942,684,717
Additions:		
Rehabilitation works	**5,219,358,277**	3,435,789,320
Transfer (Note 8)	**1,297,667,113**	–
Adjustments (Note 1)	**154,844,638**	–
Local component cost	**1,249,863**	3,523,721
Balance at end of year	**80,055,117,649**	73,381,997,758
Accumulated Amortization		
Balance at beginning of year	**17,546,332,000**	15,360,455,322
Amortization	**2,315,929,346**	2,185,876,678
Balance at end of year	**19,862,261,346**	17,546,332,000
Net Book Value	**₱60,192,856,303**	₱55,835,665,758

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 and Clark 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 service concession arrangements.

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱513.17 million, ₱377.70 million, and ₱299.48 million in 2015, 2014 and 2013, respectively. The capitalization rates used ranged from 6.24% to 8.10% in 2015, 7.01% to 8.78% in 2014, and 4.16% to 7.06% in 2013.

b. Service concession obligations

The breakdown of service concession obligations follows:

	2015	2014
Current	**₱1,255,676,876**	₱1,019,515,457
Noncurrent	**6,671,193,814**	6,981,693,612
	₱7,926,870,690	₱8,001,209,069

Estimated concession fee payments on future concession projects, excluding the Group's share in current operating budget is still not determinable. It is only determinable upon either loan drawdowns and actual construction of the related concession projects, as a percentage of revenues, or as a fixed amount.

<u>MWSS Concession Fees</u>
The aggregate concession fees of the Parent Company pursuant to the Agreement 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 (the Project). Total loan facility amounted to $116.60 million with maturity of 20 years including a 5-year grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (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 be part of the concession fees.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency Denominated Loans (Translated to USD)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2016	$19,043,231	₱395,714,907	₱1,291,889,358
2017	10,960,747	395,714,907	911,527,661
2018	10,836,185	395,714,907	905,665,773
2019	8,526,286	395,714,907	796,961,926
2020 onwards	53,484,891	7,122,868,322	9,639,867,292
	$102,851,340	₱8,705,727,950	₱13,545,912,010

**Peso equivalent is translated using the closing rate as of December 31, 2015 amounting to ₱47.06 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%

Advance payment to PGL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining 30% of the annual concession fees is expensed in the period they are incurred. Advances as of December 31, 2015 and 2014 amounted to ₱86.58 million and ₱102.83 million, respectively.

TIEZA Concession Fees
The aggregate concession fee 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 Regulatory Office 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.

In addition, advance payment of ₱60.00 million was provided to TIEZA which shall be offset against the annual concession fees amounting to 5% annual gross revenue of Boracay Water, within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advance payment will be expensed in the period this is incurred. The remaining balance of the advances amounted to ₱4.16 million as of December 31, 2014. The advances were fully paid in 2015.

CDC Concession Fees
The aggregate concession fee 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 15 years from October 1, 2025 to October 1, 2040 (see Note 1).

c. Concession financial receivable

On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). In relation to this, Cebu Water and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18 million liters per day of water for the first year and 35 million liters per day of water for years 2 up to 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 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.

Cebu Water entered into a 30-year Right of Way Agreement with certain individuals for an easement of right of way of a portion of their lands wherein the pipelines and other appurtenances between the weir and water treatment plant of Cebu Water will pass through. In 2014, this was transferred from "Other noncurrent assets" to "Concession financial receivable" as this formed part of rehabilitation works.

The breakdown of the concession financial receivable is as follows:

	2015	2014
Current	**₱209,010,713**	₱76,914,317
Noncurrent	**989,072,850**	899,069,520
	₱1,198,083,563	₱975,983,837

10. Available-for-Sale Financial Assets

This account consists of investments in unquoted equity instruments amounting to ₱2.41 million as of December 31, 2015 and 2014. The unquoted investments in equities in 2015 and 2014 pertain to unlisted preferred shares in a public utility company.

11. Investments in Associates

This account consists of the following:

	2015	2014
Acquisition cost	**₱4,408,813,817**	₱4,090,650,527
Accumulated equity in net earnings	**780,758,895**	636,258,280
Cumulative translation adjustment	**533,961,310**	234,590,946
	₱5,723,534,022	₱4,961,499,753

Details of the Group's investments in associates, all of which are incorporated in the Socialist Republic of Vietnam and have their principal place of business in Ho Chi Minh City, Vietnam, are shown below:

Thu Duc Water
On October 12, 2011, 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 49.00% interest (2.45 million common shares) in Thu Duc Water. On December 8, 2011, 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 ₱1.79 billion (VND858.00 billion). The investments in associate account includes a notional goodwill amounting to ₱1.41 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, 2015 and 2014 follows:

	2015	2014
Current assets	**₱151,081,711**	₱102,232,559
Noncurrent assets	**2,724,185,482**	2,279,923,547
Current liabilities	**381,307,348**	399,688,104
Noncurrent liabilities	**476,530,416**	260,590,404
Revenue	**742,538,177**	770,316,632
Net income	**439,198,016**	444,295,946

The conversion rates used was ₱0.0021 to VND1 as of December 31, 2015 and 2014.

The share of the Group in the net income of Thu Duc Water for the years ended December 31, 2015 and 2014 amounted to ₱215.21 million and ₱217.71 million, respectively.

Kenh Dong Water
On May 17, 2012, the Parent Company thru KDWH entered into a SPA with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The payment for the shares shall be done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱1.66 billion.

As of December 31, 2012, considerations paid by the Parent Company for its investment in Kenh Dong Water amounted to ₱1.57 billion (VND785.24 billion). Contingent consideration included in the purchase price allocation amounted to ₱95.98 million (VND44.49 billion) (see Note 16). The share purchase transaction was completed on July 20, 2012 and KDWH gained significant influence in Kenh Dong Water.

In 2013, Kenh Dong Water finalized its purchase price allocation which resulted in a final notional goodwill amounting to ₱1.38 billion. The Group also recorded an income of ₱62.90 million under the caption "Other income" in the consolidated statement of comprehensive income as indemnification for the damages resulting from the delay in the start of the bulk water operations of Kenh Dong Water.

On December 31, 2015, the KDWH reversed its previously recognized contingent liability amounting to ₱95.98 million (VND44.49 billion) (see Note 16).

The financial information of Kenh Dong Water as of and for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Current assets	**₱737,695,232**	₱654,566,749
Noncurrent assets	**3,028,507,933**	2,251,871,473
Current liabilities	**229,930,299**	346,204,390
Noncurrent liabilities	**1,798,451,225**	1,510,062,513
Revenue	**435,517,225**	464,795,958
Net income	**251,229,754**	236,113,628

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2015 and 2014.

The share of the Group in the net income of Kenh Dong Water for the years ended December 31, 2015 and 2014 amounted to ₱118.96 million and ₱111.80 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 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

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 ₱642.76 million (VND310.45 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.

The financial information of Saigon Water as of and for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Current assets	**₱1,865,305,459**	₱640,519,449
Noncurrent assets	**4,459,192,292**	1,084,396,628
Current liabilities	**476,056,119**	231,758,420
Noncurrent liabilities	**4,244,995,687**	231,758,420
Revenue	**1,277,090,235**	127,870,666
Net income	**220,370,179**	88,317,587

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2015 and 2014.

The share of the Group in the consolidated net income of Saigon Water for the years ended December 31, 2015 and 2014 amounted to ₱69.35 million and ₱27.79 million, respectively.

Cu Chi Water

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter of Cu Chi Water Supply Sewerage Company Ltd. in the amount of ₱318.16 million (VND154.35 billion).

The financial information of Cu Chi Water as of and for the year ended December 31, 2015 is as follows:

	2015
Current assets	₱7,790,792
Noncurrent assets	1,324,000,275
Current liabilities	1,099,863
Revenue	371,910
Net loss	(5,376)

The conversion rate used was ₱0.0021 to VND1 as of December 31, 2015.

The share of the Group in the net loss of Cu Chi Water for the year ended December 31, 2015 amounted to ₱1,317.

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:

	2015				
	Thu Duc Water	**Kenh Dong Water**	**Saigon Water**	**Cu Chi Water**	**Total**
Net assets of associate attributable to common shareholders	**₱2,017,429,429**	**₱1,737,821,641**	**₱1,603,445,945**	**₱1,330,691,204**	**₱6,689,388,219**
Proportionate ownership in the associate	**49.00%**	**47.35%**	**31.47%**	**24.50%**	
Share in net identifiable assets	**988,540,420**	**822,858,547**	**504,604,439**	**326,019,345**	**2,642,022,751**
Notional goodwill	**1,413,891,653**	**1,378,777,432**	**288,842,185**	**–**	**3,081,511,270**
Carrying values	**₱2,402,432,073**	**₱2,201,635,979**	**₱793,446,624**	**₱326,019,345**	**₱5,723,534,021**

	2014			
	Thu Duc Water	Kenh Dong Water	Saigon Water	Total
Net assets of associate attributable to common shareholders	₱1,721,877,598	₱1,350,171,319	₱1,261,399,237	₱4,333,448,154
Proportionate ownership in the associate	49.00%	47.35%	31.47%	
Share in net identifiable assets	843,720,023	639,306,120	396,962,340	1,879,988,483
Notional goodwill	1,413,891,653	1,378,777,432	288,842,185	3,081,511,270
Carrying values	₱2,257,611,676	₱2,018,083,552	₱685,804,525	₱4,961,499,753

The rollforward of accumulated equity in net earnings follow:

	2015	2014
Balance at beginning of year	**₱636,258,280**	₱412,988,290
Equity in net earnings during the year	**403,514,812**	357,298,362
Dividend income	**(259,014,197)**	(134,028,372)
Balance at end of year	**₱780,758,895**	₱636,258,280

12. **Other Noncurrent Assets**

This account consists of:

	2015	2014
Deferred FCDA	**₱644,428,617**	₱141,189,217
Receivable from BWC - net of current portion (Note 5)	**458,642,155**	465,051,543
Deposits	**103,863,952**	121,579,940
Receivable from Ayala Multi-Purpose Cooperative (AMPC)	**95,757,000**	89,124,098
Water banking rights	**45,000,000**	45,000,000
Advances to Carmen Development Fund	**35,000,000**	35,000,000
Miscellaneous	**59,914,167**	26,781,828
	₱1,442,605,891	₱923,726,626

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 account also covers the unrealized gains or losses from loan valuations.

Deposits pertain to the Group's advance payments for the guarantee deposits with Manila Electric Company for the electric connection, its related deferred charges, deposits to the Department of Environment and Natural Resources and land acquisitions.

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

Water banking rights pertains to the rights assigned by MW Consortium to Cebu Water. On August 22, 2012, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium. The NWRB likewise approved the change of the purpose of Water Permit No. 16241 from Domestic to Municipal. MW Consortium allows Cebu Water to use the said water permit for its project.

Advances to Carmen Development Fund pertain to the advance payments for the permit to extract water at the Carmen property in Cebu.

13. Accounts and Other Payables

This account consists of:

	2015	2014
Trade payables	**₱2,451,213,310**	₱2,347,681,511
Accrued expenses:		
Salaries, wages and employee benefits	**298,094,912**	324,935,018
Management and professional fees	**293,513,008**	180,703,866
Repairs and maintenance	**223,669,358**	173,402,270
Utilities	**98,897,160**	140,858,704
Wastewater costs	**184,729,370**	86,108,068
Collection fees	**61,543,234**	109,910,311
Occupancy costs	**25,474,682**	22,336,280
Others	**93,673,091**	59,990,835
Interest payable (Note 14)	**341,550,237**	321,624,639
Contracts payable	**284,090,343**	26,034,472
Advances from SAWACO	**–**	719,292
Others	**76,638,682**	52,519,230
	₱4,433,087,387	₱3,846,824,496

Trade payables and accrued expenses are non-interest-bearing and are normally settled on 15 to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

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

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

Contracts payable pertains to the accrual of expenses which requires the Group to pay the contractor based on progress billings. Contracts payable are due and demandable and are normally settled within one year.

Advances from SAWACO pertain to the advance payments made by SAWACO to the Parent Company to facilitate the start-up and operating expenses related to the management contract entered with SAWACO (see Note 22). These are offset against the progress billings made by the Parent Company.

14. **Long-term Debt**

This account consists of:

	2015	2014
USD loans:		
NEXI Loan	**₱4,264,837,624**	₱4,833,453,736
LBP Loan	**1,055,747,830**	–
Second IFC Loan	**93,457,939**	264,444,993
EIB Loan	**–**	417,288,433
Japanese Yen (JPY) loans:		
LBP Loan	**859,630,505**	936,826,680
First IFC Loan	**278,701,027**	367,657,849
EIB Loan	**–**	650,425,082
PHP loans:		
Fixed Rate Corporate Notes	**9,795,031,029**	9,825,180,078
₱5.00 billion Loan	**4,928,561,646**	4,949,487,025
₱1.15 billion Clark Water RCBC Loan	**990,939,069**	–
₱0.75 billion Cebu Water DBP Loan	**741,770,953**	741,007,446
₱0.83 billion Laguna Water DBP Loan	**830,941,608**	830,777,810
₱2.50 billion Laguna Water SBC Loan	**599,996,080**	–
₱0.50 billion Laguna Water DBP Loan	**498,812,152**	498,711,853
₱0.50 billion Laguna Water Loan	**330,889,889**	396,563,814
₱0.50 billion Boracay Water DBP-SBC Loan	**474,158,175**	487,580,163
₱0.50 billion Boracay Water DBP-SBC Loan	**476,897,143**	271,345,756
	26,220,372,669	25,470,750,718
Less current portion	**(6,259,416,860)**	(2,495,629,251)
	₱19,960,955,809	₱22,975,121,467

Unamortized debt discounts and issuance costs of the Group's long-term debt as of December 31, 2015 and 2014 follow:

	2015	2014
USD loans	**₱155,507,607**	₱203,422,898
JPY loans	**9,715,183**	33,523,618
PHP loans	**66,732,599**	74,956,319
	₱231,955,389	₱311,902,835

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

	2015	2014
Balance at beginning of year	**₱311,902,835**	₱427,238,334
Additions	**17,287,841**	11,119,023
Amortization (Note 17)	**(94,503,563)**	(122,224,413)
Foreign exchange adjustments	**(2,731,724)**	(4,230,109)
Balance at end of year	**₱231,955,389**	₱311,902,835

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 East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks namely, ING N.V Tokyo, 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$30.00 million and US$36.00 million, respectively. The carrying value of the loan as of December 31, 2015 and 2014 amounted to US$90.63 million and US$108.08 million, respectively.

LBP Loan
On October 20, 2005, the Parent Company entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (LBP Loan) to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JP¥6.59 billion payable via semi-annual installments after the 5-year grace period. The Parent Company made its last drawdown on October 26, 2012.

The total drawn amount from the loan is JP¥3.99 billion. As of December 31, 2015 and 2014, the outstanding balance of the LBP loan amounted to JP¥2,192.93 million and JP¥2,527.86 million, respectively.

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 25 years, and was made available in United States Dollars in the aggregated principal amount of US$137.5 million payable via semi-annual installments after the 7-year grace period. The Parent Company has made four drawdowns during 2015 amounting to US$22.60 million. The carrying value of the MWMP loan as of December 31, 2015 is US$22.43 million.

Summary of financial transactions related to the MWMP Loan for the year ended December 31, 2015 are shown below (in thousands):

Balance at beginning of year	$–
Amounts received during the period	22,600
Expenditures during the period	(22,362)
Balance at end of year	$238

The US$0.24 million as at December 31, 2015 represents the outstanding balance of the Land Bank of the Philippines designated account No. 3404-032-835, under the account name MWMP - Category 1 - MWCI, and is presented as part of “Other receivables” under “Receivables” account (see Note 5). The proceeds of the MWMP loan will be expended in accordance with the intended purposes as specified in the loan agreement.

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 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of the Parent Company, and concession fee payments. The First IFC Loan was made available in Japanese Yen in the aggregate principal amount of JP¥3,591.60 million equivalent to US$30.00 million and payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2015 and 2014, the carrying value of the loan amounted to JP¥710.97 million and JP¥992.06 million, respectively.

On May 31, 2004, the Parent Company entered into a loan agreement with IFC (Second IFC Loan) composed of a regular loan in the amount of up to US$20.00 million and a standby loan in the amount of up to US$10.00 million to finance the investment program from 2004 to 2007 to expand water supply and sanitation services, improvement of existing facilities of the Parent Company, and concession fee payments. This loan was subsequently amended on November 22, 2006 when the Parent Company executed the Amended and Restated Loan Agreement for the restructuring of the Second IFC Loan. The terms of the second loan were amended to a loan in the aggregate amount of up to US$30.00 million, no part of which shall consist of a standby loan. On December 12, 2008, the Parent Company made a full drawdown on the said facility. As of December 31, 2015 and 2014, outstanding balance of the Second IFC loan amounted to US$1.99 million and US$5.91 million, respectively.

On July 31, 2013, the Parent Company entered into a loan agreement with IFC (Fourth Omnibus Agreement) in the amount of up to $100.00 million for financing the Projects in accordance with the provisions of the Agreement. The loan has a term of 18 years, payable in semi-annual installments after the grace period. This loan facility has neither been activated nor disbursed and was consequently cancelled in November 2014. The transaction costs related to the cancellation of the loan were included as part of “Other income (loss).”

EIB Loan
On June 20, 2007, the Parent Company entered into a Finance Contract (EIB Loan) with the European Investment Bank (EIB) to partially finance the capital expenditures of the Parent Company from 2007 to 2010, as specified under Schedule 1 of the Finance Contract. The loan, in the aggregate principal amount of EUR€60.00 million, having a term of 10 years, is subject to the Relevant Interbank Rate plus a spread to be determined by EIB, and may be drawn in either fixed-rate or floating-rate tranches. The loan has two tranches as described below:

a. Sub-Credit A: In an amount of EUR€40.00 million to be disbursed in US Dollars and Japanese Yen payable via semi-annual installments after the 2 1/2 grace period. This loan tranche is guaranteed against all commercial risks by a consortium of international commercial banks composed of ING Bank, Development Bank of Singapore and Sumitomo-Mitsui Banking Corporation under a Guaranty Facility Agreement; and
b. Sub-Credit B: In an amount of EUR€20.00 million to be disbursed in Japanese Yen payable via semi-annual installments after the 2 1/2 grace period. This loan tranche is guaranteed against all commercial risks by ING Bank under a Guaranty Facility Agreement.

On May 21, 2012, the Sub-Credit A Guarantee Facility Agreement was amended to extend the effectivity of the guarantee. Two of the original guarantors, ING Bank and Sumitomo Mitsui Banking Corporation, agreed to extend the guarantee by another 5 years towards the maturity of the loan.

On July 30, 2013, the Sub-Credit B Guarantee Facility Agreement was amended to extend the effectivity of the guarantee. The original guarantor, ING Bank, agreed to extend the guarantee by another 5 years towards the maturity of the loan.

The carrying values of the EIB Loan amounted to nil as of December 31, 2015 and JP¥1,755.06 million and US$9.33 million as of December 31, 2014. On February 20, 2015, the Parent Company prepaid the EIB Loan amounting to JP¥1,807.98 million and US$9.38 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 5 years (Five-Year FXCN Note) from the issue date and the other ₱5.00 billion with a term of 10 years (Ten-Year FXCN Note) from the issue date which is both payable quarterly. The Parent Company may repay the whole and not a part only of the Ten-Year FXCN Notes on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter. The amount payable in respect to such prepayment shall be calculated as 102.00% of the principal amount being prepaid and accrued interest on the prepayment date. The carrying value of the fixed rate corporate notes as of December 31, 2015 and 2014 amounted to ₱9.80 billion and ₱9.83 billion, respectively.

₱5.00 billion Loan
On August 16, 2013, the Company entered into a Credit Facility Agreement (₱5.00 billion Loan) with Metropolitan Bank and Trust Company (Metrobank) having a fixed nominal rate of 4.42% and with a term of 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 amount payable in respect to such prepayment shall be calculated as 102.00% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 3rd anniversary but before the 4th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 4th anniversary but before the 5th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101.00% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 5th anniversary but before the 6th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 100.50% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 6th anniversary but before the 7th anniversary of the drawdown date. The carrying value of the notes as of December 31, 2015 and 2014 amounted to ₱4.93 billion and ₱4.95 billion, respectively.

JPY40 billion Loan
On September 30, 2015, the Parent Company signed a 7-year JP¥40.00 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, 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. As of December 31, 2015, the Parent Company has not made any drawdown from this facility.

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 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.

Clark Water Loan
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 of 6.179% and principal payments will be made in 48 consecutive equal quarterly installments starting July 2018.

The first and second drawdowns on the loan were made in September and December 2015, amounting to ₱800.00 million and ₱200.00 million, respectively. The carrying value of the loan amounted to ₱990.94 million as of December 31, 2015.

Cebu Water Loan
On December 19, 2013, Cebu Water entered into an Omnibus Loan and Security Agreement with 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.

The first, second and final drawdowns on the loan facility amounted to ₱541.13 million on December 20, 2013, ₱195.64 million on May 20, 2014 and ₱14.22 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2015 and 2014 amounted to ₱741.77 million and ₱741.01 million, respectively.

Laguna Water Loans
On September 7, 2010, Laguna Water entered into a loan agreement with two 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 30 consecutive equal quarterly installments starting August 2013. The first and second drawdowns from the loan were made in November 2010 and July 2011 amounting to ₱250.00 million each. The carrying value of this loan amounted to ₱330.89 million and ₱396.56 million as of December 31, 2015 and 2014, respectively.

On April 29, 2013, Laguna Water entered into a loan agreement with Development Bank of the Philippines (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 2013 and December 2013 which amounted to ₱250.00 million each. The carrying value of this loan as of December 31, 2015 and 2014 amounted to ₱498.81 million and ₱498.71 million.

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 ₱833.00 million. The first and second drawdowns were made in January and May 2014, respectively, amounting to ₱416.50 million each. The carrying value of the loans amounted to ₱830.94 million and ₱830.78 million as of December 31, 2015 and 2014, respectively.

On October 23, 2015, the Company 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 ₱600.00 million bearing an effective interest rate of 6.03%.

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 ₱500.00 million and is payable in 20 years inclusive of a 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 ₱250.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 1B, the loan in the amount of ₱125.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.00 million to be provided by SBC and funded through its internally-generated funds.

The first loan drawdown made on August 25, 2011 amounted to ₱150.00 million, second drawdown on August 25, 2012 amounted to ₱155.00 million and final drawdown on August 23, 2013 amounted to ₱195.00 million. The carrying value of the loan as of December 31, 2015 and 2014 amounted to ₱474.16 million and ₱487.58 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, 2012, Boracay Water entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.00 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.00 million to be provided by DBP and funded through Philippine Water Revolving Fund (PWRF);
- Sub-tranche 2B, the loan in the amount of ₱125.00 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 2C, the loan in the amount of ₱125.00 million to be provided by SBC and funded through Boracay Water's internally-generated funds.

The first loan drawdown made on November 23, 2012 amounted to ₱75.00 million, second loan drawdown on August 26, 2014 amounted to ₱200.00 million and final drawdown on November 25, 2015 amounted to ₱225.00 million. The carrying value of the loan as of December 31, 2015 and 2014 amounted to ₱476.90 million and ₱271.35 million, respectively.

On October 9, 2014, Boracay Water signed a Third Omnibus Loan and Security Agreement in the amount of ₱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. As of December 31, 2015, Boracay Water has not made any drawdown from this facility.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Parent Company, Clark Water, Cebu Water, Laguna Water and Boracay Water which include compliance with certain financial ratios such as the debt-to-equity and debt-service-coverage ratios. As of December 31, 2015 and 2014, the Parent Company, Clark Water, Cebu Water, Laguna Water and Boracay Water were in compliance with all the loan covenants required by the creditors.

15. **Retirement Plan**

The Parent Company has a funded, noncontributory, tax-qualified defined benefit pension plan covering substantially all of its 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 valuation was made on December 31, 2015.

Under the existing regulatory framework, Republic Act No. 7641 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 policy states 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 3 years to comply with the required minimum funded ratio of 80%.

The plan is covered by a retirement fund administered by trustee banks, which is under the supervision of the Retirement and Welfare Plan Committee. The Committee, which is composed of six (6) members appointed by the BOD of the Parent Company, 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 Committee takes into account the plan's objectives, benefit obligations and risk capacity. The Committee reviews, on a quarterly basis, the performance of the funds managed by trustee banks.

The subsidiaries of the Group, namely, Laguna Water, Clark Water and Boracay Water, have a nonfunded and noncontributory defined benefit pension plan covering substantially all of its 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, 2015.

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

	2015											
		Net benefit cost in consolidated statement of comprehensive income					**Remeasurements in other comprehensive income**					
	At January 1	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Transfers**	**Return on plan assets (excluding amount included in net interest)**	**Experience adjustments**	**Actuarial changes arising from changes in assumptions**	**Subtotal**	**Contribution by employer**	**At December 31**
Present value of defined benefit obligation	**₱856,262,000**	**₱92,640,256**	**₱37,540,700**	**₱130,180,956**	**(₱26,490,700)**	**(₱6,615,200)**	**₱–**	**(₱364,000)**	**₱4,581,444**	**₱4,217,444**	**₱–**	**₱957,554,500**
Fair value of plan assets	**(817,492,900)**	**–**	**(36,943,900)**	**(36,943,900)**	**26,103,400**	**6,615,200**	**16,510,300**	**–**	**–**	**16,510,300**	**(50,000,000)**	**(855,207,900)**
	₱38,769,100	**₱92,640,256**	**₱596,800**	**₱93,237,056**	**(₱387,300)**	**₱–**	**₱16,510,300**	**(₱364,000)**	**₱4,581,444**	**₱20,727,744**	**(₱50,000,000)**	**₱102,346,600**

	2014											
		Net benefit cost in consolidated statement of comprehensive income					Remeasurements in other comprehensive income					
	At January 1	Current service cost	Net interest	Subtotal	Benefits paid	Settlements	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in assumptions	Subtotal	Contribution by employer	At December 31
Present value of defined benefit obligation	₱783,835,800	₱77,841,000	₱38,421,000	₱116,262,000	(₱20,436,700)	₱–	₱3,018,700	₱13,055,200	(₱39,473,000)	(₱23,399,100)	₱–	₱856,262,000
Fair value of plan assets	(402,234,900)	–	(21,866,100)	(21,866,100)	20,436,700	–	(13,828,600)	–	–	(13,828,600)	(400,000,000)	(817,492,900)
	₱381,600,900	₱77,841,000	₱16,554,900	₱94,395,900	₱–	₱–	(₱10,809,900)	₱13,055,200	(₱39,473,000)	(₱37,227,700)	(₱400,000,000)	₱38,769,100

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

	2015	2014
Assets		
Cash and cash equivalents	**₱12,916,006**	₱196,670,028
Debt investments:		
Domestic	**591,637,863**	390,397,982
International	**53,267,010**	20,483,958
Equity investments:		
Domestic	**193,519,695**	179,425,727
International	**–**	26,442,028
Interest receivable	**6,817,792**	12,001,590
	858,158,366	825,421,313
Liabilities		
Accrued trust fees	**654,335**	7,928,413
Other payables	**2,296,131**	–
	2,950,466	7,928,413
Fair value of plan assets	**₱855,207,900**	₱817,492,900

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 have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment medical benefits, as well as 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 and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2015	2014	2013
Discount rate	**4.25% to 5.00%**	4.50% to 5.00%	5.25%
Salary increase rate	**5.00% to 15.00%**	6.00% to 7.00%	7.00%

The overall expected rate of return on assets is determined based on the market expectation prevailing on that date, applicable to the period over which the obligation is settled.

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:

2015

	Increase (Decrease)	**Effect on defined benefit obligation**
Discount rate	**1.00%**	**(₱83,179,669)**
	(1.00%)	**99,749,158**
Salary increase rate	**1.00%**	**₱96,979,200**
	(1.00%)	**(79,846,929)**

2014

	Increase (Decrease)	Effect on defined benefit obligation
Discount rate	1.00%	(₱74,468,769)
	(1.00%)	88,770,462
Salary increase rate	1.00%	₱86,584,204
	(1.00%)	(74,119,832)

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

	2015	2014
Less than 1 year	**₱55,246,200**	₱44,053,200
More than 1 year and up to 5 years	**368,353,700**	307,057,700
More than 5 years and up to 10 years	**571,955,600**	591,940,300
	₱995,555,500	₱943,051,200

The average duration of the defined benefit obligation at the end of the reporting period is 14.31 years and 20.86 years as of December 31, 2015 and 2014, 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, in consideration of the contribution advice from the actuary. The Parent Company expects to contribute ₱56.95 million to the defined benefit pension plan in 2016 based on the latest actuarial valuation report.

16. **Other Noncurrent Liabilities**

Other noncurrent liabilities consist of:

	2015	2014
Deferred credits	**₱384,875,516**	₱363,763,649
Customers' guaranty deposits and other deposits	**294,883,786**	362,064,821
Contingent consideration (Note 11)	**–**	95,983,778
	₱679,759,302	₱821,812,248

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

	2015	2014
Balance at beginning of year	**₱363,763,649**	₱338,857,711
Additions	**29,544,044**	32,146,892
Amortization	**(8,432,177)**	(7,240,954)
Balance at end of year	**₱384,875,516**	₱363,763,649

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.

The deposits include amounts collected from customers to cover service connection related expenses. The Group recognized income arising from liquidation of these service connection expenses amounting to ₱103.49 million, ₱214.66 million and ₱609.47 million in 2015, 2014 and 2013, respectively (see Note 17).

Contingent consideration is part of the purchase price of Kenh Dong Water (see Note 11). In 2015, the contingent consideration amounting to ₱95.98 million was reversed and included as part of "Other income (loss)" in the consolidated statement of comprehensive income" as CII failed to obtain a new or amended Investment Certificate 3 years from KDWH's date of acquisition of Kenh Dong Water.

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

Other operating income includes the following:

	2015	2014	2013
Connection fees:			
Realized income from liquidation of service connection costs (Note 16)	**₱103,485,786**	₱214,659,742	₱609,473,171
Water and service connections and pipeworks	**518,527,626**	357,942,748	274,736,513
Integrated used water services	**59,849,074**	–	–
Reconnection fee	**34,287,722**	44,720,908	66,607,107
Sale of packaged water	**33,356,824**	–	–
Sale of scrap materials	**24,735,957**	37,312,115	4,076,150
Septic sludge disposal and bacteriological water analysis	**17,230,920**	15,207,029	13,235,506
Income from customer late payments	**14,972,262**	11,844,816	4,266,713
Sale of inventories	**462,456**	20,857,925	82,666,483
Miscellaneous (Note 16)	**99,606,843**	58,308,072	52,977,370
	₱906,515,470	₱760,853,355	₱1,108,039,013

Integrated used water services pertain to the income earned by MWTS in providing used water management solutions.

Sale of packaged water relates to the sale of the "Healthy Family" purified water, which aims to address the drinking water needs of households in and out of the East Zone.

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

Operating expenses consist of:

	2015	2014	2013
Salaries, wages and employee benefits (Notes 15, 19 and 21)	**₱455,211,346**	₱364,968,537	₱298,139,404
Depreciation and amortization (Notes 8 and 9)	**296,505,882**	308,043,544	109,826,798
Management, technical and professional fees (Note 21)	**180,470,373**	66,111,403	170,462,704
Business meetings and representation	**160,892,401**	149,571,570	131,402,042
Taxes and licenses	**147,555,407**	122,256,707	110,682,255
Power, light and water	**78,158,862**	41,670,677	39,969,853
Provision for probable losses and doubtful accounts (Notes 5, 13 and 29)	**76,525,809**	188,034,322	171,294,230
Transportation and travel	**64,726,087**	39,203,693	26,051,134
Repairs and maintenance	**52,304,277**	10,014,173	3,234,791
Donations	**51,666,524**	30,889,230	2,127,256
Contractual services	**46,790,795**	22,161,854	–
Postage, telephone and supplies	**44,246,344**	27,820,073	26,928,190
Occupancy costs (Note 24)	**41,064,364**	36,558,225	22,451,751
Advertising	**15,804,595**	20,321,270	19,700,378
Insurance	**12,194,613**	9,124,903	3,058,258
Premium on performance bond (Note 28)	**7,476,820**	5,034,285	6,568,035
Cost of new market development	**559,265**	160,001	7,717,258
Cost of inventory sold	**–**	18,987,514	75,173,746
Reversal of prepaid transaction costs	**–**	–	33,053,221
Other expenses	**40,271,443**	61,388,203	17,698,288
	₱1,772,425,207	₱1,522,320,184	₱1,275,539,592

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

Interest income consists of:

	2015	2014	2013
Interest income on:			
Cash and cash equivalents (Note 4)	**₱70,329,969**	₱66,976,304	₱99,632,252
Finance income of concession financial receivable	**208,845,065**	82,331,472	—
Receivable from BWC	**35,739,893**	32,916,947	44,629,842
AFS financial assets	**–**	2,900,000	28,177,467
Others	**2,029,115**	510,578	385,871
	₱316,944,042	₱185,635,301	₱172,825,432

Interest expense consists of:

	2015	2014	2013
Interest expense on:			
Accretion of service concession obligations and deposits	**₱558,434,006**	₱578,508,902	₱613,142,324
Long-term debt:			
Coupon interest	**804,000,992**	918,848,493	967,841,819
Amortization of debt discount, issuance costs and premium (Note 14)	**94,503,563**	122,224,413	134,167,263
Pension liabilities (Note 15)	**596,800**	16,554,900	18,249,100
	₱1,457,535,361	₱1,636,136,708	₱1,733,400,506

18. **Income Tax**

Provision for income tax consists of:

	2015	2014	2013
Current	**₱1,835,280,307**	₱1,826,790,779	₱1,802,808,076
Deferred	**(40,356,469)**	9,507,232	8,764,498
	₱1,794,923,838	₱1,836,298,011	₱1,811,572,574

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

	2015	2014	2013
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Change in unrecognized deferred tax	**0.21**	1.33	5.76
Nondeductible expense	**0.11**	2.35	0.63
Excess of 40% Optional Standard Deduction (OSD) against allowable deductions	**(4.76)**	(3.99)	(10.71)
Income exempt from tax	**(1.64)**	(4.17)	0.10
Nontaxable equity in net earnings	**(1.53)**	–	–
Interest income subjected to final tax	**(0.26)**	(0.25)	(0.44)
Others - net	**0.51**	(1.32)	(1.48)
Effective income tax rate	**22.64%**	23.95%	23.86%

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

	2015	2014
Service concession obligations - net	**₱891,967,100**	₱855,049,666
Allowance for doubtful accounts	**17,397,960**	13,406,942
Provision for probable losses and doubtful accounts	**11,504,635**	10,079,437
Pension liabilities	**3,632,277**	2,646,866
	₱924,501,972	₱881,182,911

The components of the net deferred tax liabilities of the Group as of December 31, 2015 and 2014 represent the deferred income tax effects of the following:

	2015	2014
Concession financial receivable	**₱68,677,309**	₱67,873,534
Service concession obligations - net	**4,828,269**	2,494,975
Rent expense differential	**(796,419)**	(704,267)
Pension liabilities	**(791,869)**	(709,544)
Allowance for inventory losses	**(4,900)**	(4,900)
	₱71,912,390	₱68,949,798

Parent Company
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the optional standard deductions (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, 2015, 2014 and 2013.

The Parent Company secured an income tax holiday (ITH) benefit for the Antipolo Water Supply Project in 2011 and East La Mesa Water Treatment Plant Project in 2012. These projects have been registered with the Board of Investments (BOI).

The 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.

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.

Details of the accounts for which no deferred taxes were recognized as of December 31, 2015 and 2014 follow:

	2015	2014
Allowance for doubtful accounts (Note 5)	**₱585,686,205**	₱606,331,445
Unamortized debt discounts and issuance costs of long-term debt (Note 14)	**(191,630,115)**	(287,279,413)
Pension liabilities (Note 15)	**73,191,500**	10,850,200
	₱467,247,590	₱329,902,232

The net reduction in deferred tax assets from applying the 18% tax rate to the recognized deferred taxes on net service obligation, and the derecognition of the deferred taxes relating to the accounts with temporary differences which are not considered in determining gross income for income tax purposes by the Parent Company amounted to ₱467.25 million and ₱329.90 million as of December 31, 2015 and 2014, respectively.

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, MWIS and MWTS, have Net Operating Loss Carry Over (NOLCO) amounting to ₱14.02 million and ₱6.32 million as of December 31, 2015 and 2014, respectively, that are available for offset against future taxable income, for which no deferred tax assets have been recognized. As of December 31, 2015 and 2014, the unrecognized deferred tax assets on NOLCO amounted to ₱4.21 million and ₱1.89 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 from sources within the CFZ.

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 9, 2011.

On June 17, 2011, Boracay Water's application was registered with the BOI under Book 1 of EO 226. The ITH is for 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 has 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:

1. 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

2. 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 with the CSR activity shall mean forfeiture of the approved ITH bonus year.

In compliance with the second requirement, Boracay Water has entered into a MOA with Barangay Nabaoy, Malay, Aklan, last December 11, 2015. Both parties agreed to implement poverty alleviation programs in the community. The parties recognize education, specifically early childhood care and development, is the key to alleviate poverty in the community. Boracay Water committed to spend ₱50,000 for 2015 and ₱0.20 million for 2016 by purchasing learning materials and equipment, repairs of the day care center, institute feeding programs, provide trainings and additional honorarium for the day care worker, among others. In December 2015, Boracay Water spent ₱50,000 for the purchase of learning materials and equipment for the adopted Day Care Center.

Laguna Water
Laguna Water is registered with the BOI under the Omnibus Investment Code of 1987. The registration entitles the Company to an ITH for 4 years until 2010. In 2011, Laguna Water applied for a 1 year extension of the ITH incentive which was approved by BOI on January 19, 2012.

In 2013 and 2015, Laguna Water availed of the OSD and the tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes of Laguna Water. In 2014, Laguna Water applied the Regular Corporate Income Tax of 30% for transactions outside of LTI.

Laguna Water's transactions within LTI are registered with the Philippine Economic Zone Authority. Under the registration, Laguna Water is entitled to certain tax and non-tax incentives, which includes, but are not limited to, a special tax rate of 5% on Laguna Water's gross income on water and used water revenues within the premises. In October 2015, Laguna Water received approval of its de-registration from the Philippine Economic Zone Authority.

Other subsidiaries
All other domestic subsidiaries are subject to Regular Corporate Income Tax of 30% 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, 2015, which are available for offset against future taxable income for 3 succeeding years and for which no deferred tax assets have been recognized follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2012	₱11,564,673	₱11,564,673	₱–	2015
2013	35,982	–	35,982	2016
2014	2,423,834	–	2,423,834	2017
2015	3,855,223	–	3,855,223	2018
	₱17,879,712	₱11,564,673	₱6,315,039	

19. **Equity**

The Parent Company's capital stock consists of:

	2015		2014	
	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	**2,053,666,576**	**2,053,666,576**	2,047,270,452	2,047,270,452
Outstanding	**2,018,209,523**	**2,018,209,523**	2,016,708,607	2,016,708,607
Preferred stock - ₱0.10 par 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 904 and 916 existing certificated shareholders as of December 31, 2015 and 2014, respectively. The Scripless shareholders are counted under PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Non-Filipino).

Dividends
The following table shows the cash dividends declared by the Parent Company's BOD on the outstanding capital stock for each of the 3 years ended December 31, 2015:

		Amount Per Share		
Declaration Date	**Record Date**	**Common Shares**	**Participating Preferred Shares**	**Payment Date**
April 15, 2013	April 29, 2013	₱0.382	₱0.0382	May 15, 2013
September 26, 2013	October 10, 2013	0.382	0.0382	October 25, 2013
November 28, 2013	December 1, 2013	–	0.0100	December 27, 2013
February 20, 2014	March 6, 2014	0.4031	0.0403	March 21, 2014
October 8, 2014	October 21, 2014	0.4031	0.0403	November 5, 2014
November 27, 2014	December 1, 2014	–	0.0100	December 26, 2014
February 20, 2015	March 6, 2015	0.4075	0.04075	March 20, 2015
August 11, 2015	August 26, 2015	0.4075	0.04075	September 9, 2015
November 27, 2015	December 1, 2015	–	0.0100	December 26, 2015

There are no dividends in arrears for the Parent Company's participating preferred shares as of December 31, 2015 and 2014.

Retained earnings
In 2014, the Parent Company reversed its appropriation which were approved by the BOD on April 15, 2013 amounting to ₱7.00 billion and was intended to fund major capital expenditures arising from its mandate under the Concession Agreement.

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates accounted for under the equity method amounting to ₱1,867.14 million and ₱1,242.58 million as of December 31, 2015 and 2014, respectively, which are not available for dividend declaration by the 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, 2015 and 2014 amounted to ₱28.66 billion and ₱25.75 billion, respectively.

The approved Business Plan, consistent with the final determination of the Appeals Panel on April 21, 2015 following the results of the Rate Rebasing charging year 2013, included planned capital expenditures on (1) service continuity, (2) service accessibility, (3) water security and (4) environmental sustainability, particularly 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, particularly to the Municipalities of Rizal;
- Water security projects include two components: (1) new water source development and, (2) existing water source rehabilitation and improvement. New water source development projects include the Rizal Province Water Supply Improvement Project, as well as the Sumag, Tayabasan and Kaliwa River development projects. Other components include major improvement works for key raw water structures such as Angat Dam and Ipo Dam, transmission aqueducts extending from Bulacan to La Mesa Dam managed under the Common Purpose Facilities framework, and transmission aqueducts extending from La Mesa Dam to the Balara Treatment Plant; and
- Projects under the Environmental Sustainability Investment category are comprised of wastewater projects endeavored to achieve the Parent Company's wastewater coverage targets.

The Parent Company is expected to spend an estimated ₱65.61 billion (in 2013 prices) from 2016 to 2020 as part of the approved Business Plan.

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. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. In computing for the stock option value for the 2015 grant, the Parent Company assumed 26.53%, 2.55% and 3.79% as the volatility, dividend yield and risk-free interest rate, respectively.

For the unsubscribed shares, the employee still has the option to subscribe within 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 follow:

	Grant Dates				
	February 10, 2015	November 19, 2013	October 5, 2012	September 19, 2011	April 30, 2009
Number of shares granted	7,281,647	6,627,100	4,772,414	5,073,000	9,241,025
Number of unsubscribed shares	884,873	351,680	460,000	992,000	1,442,000
Fair value of each option	₱11.58	₱10.58	₱11.76	₱8.68	₱5.90
Weighted average share price	₱21.35	₱23.00	₱26.24	₱19.80	₱13.50
Exercise price	₱26.00	₱22.92	₱24.07	₱17.38	₱9.63
Expected volatility	26.53%	24.90%	30.66%	33.68%	44.66%
Dividend yield	2.55%	3.47%	2.56%	2.68%	2.92%
Risk-free interest rate	3.79%	2.99%	4.57%	4.76%	8.53%
Expected life of option	4 years	4 years	4 years	4 years	4 years

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 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%

The ESOWN grantees are 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 3-year holding period.

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

	2015	**Weighted average exercise price**	2014	Weighted average exercise price
At January 1	**4,193,347**	**₱22.92**	6,791,736	₱22.92
Granted	**7,281,647**	**26.00**	–	–
Exercised	**(6,396,774)**	**26.00**	(2,528,708)	22.92
Cancelled	**(81,627)**	**–**	(69,681)	–
At December 31	**4,996,593**	**₱ 23.49**	4,193,347	₱22.92

Total expense arising from equity-settled share-based payment transactions amounted to ₱68.70 million, ₱63.05 million, and ₱50.83 million in 2015, 2014 and 2013, respectively.

On January 6, 2015, the Remuneration Committee approved the grant to the qualified executives, officers and employees of Manila Water, pursuant to the ESOWN, of stock options covering up to 7,281,647 common shares at a subscription price of ₱26.00 per share which is equivalent to the average closing price of the Company's common shares at the Philippine Stock Exchange for 20 consecutive trading days ending November 26, 2014, net of 10% discount.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The expected volatility used for the 2007 and 2006 grants was based on the average historical price volatility of several water utility companies within the Asian region. For the grants beginning 2008, the Parent Company's volatility was used as input in the valuation. 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 reserve
This account pertains to gain on sale of the Parent Company's investment in MW Consortium to Vicsal Development Corporation on May 9, 2012 amounting to ₱7.50 million. The sale has decreased the ownership of the Parent Company in MW Consortium by 10% without loss of control. Proceeds from the sale amounted to ₱15.00 million.

20. Earnings per Share

Earnings per share amounts attributable to equity holders of the Parent Company for the years ended December 31, 2015, 2014 and 2013 were computed as follows:

	2015	2014	2013
Net income attributable to equity holders of the Parent Company	**₱5,957,780,447**	₱5,813,088,880	₱5,752,361,946
Less dividends on preferred shares*	**1,004,724,467**	983,596,385	975,524,597
Net income attributable to common shareholders for basic and diluted earnings per share	**₱4,953,055,980**	₱4,829,492,495	₱4,776,837,349
Weighted average number of shares for basic earnings per share	**2,053,133,566**	2,047,270,452	2,042,422,769
Dilutive shares arising from stock options	**3,135,207**	2,787,883	2,763,058
Adjusted weighted average number of common stock for diluted earnings per share	**2,056,268,773**	2,050,058,335	2,045,185,827
Basic earnings per share	**₱2.41**	₱2.36	₱2.34
Diluted earnings per share	**₱2.41**	₱2.36	₱2.34

**Including participating preferred shares' participation in earnings.*

21. 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 made to related parties are made at normal market prices. 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, 2015 and 2014, the Group has not made any provision for probable losses 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 10 years and automatically renewable every 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$1.00 million and adjusted for the effect of CPI. As a result, certain key management positions are occupied by employees of Ayala.

   Total management and professional fees charged to operations arising from these agreements amounted to ₱218.31 million and ₱198.98 million in 2015 and 2014, respectively. Total outstanding payables amounted to nil and ₱34.88 million as of December 31, 2015 and 2014, respectively.

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		Receivables		Advances to contractors		Trade payables	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Shareholder:								
Ayala	**₱–**	₱–	**₱11,111**	₱39,156	**₱–**	₱–	**₱–**	₱–
Affiliates:								
Ayala Land and Subsidiaries	**–**	–	**77,209**	4,930,789	**–**	207,400	**242,671,961**	243,325,649
BPI and Subsidiaries	**2,346,595,838**	1,998,160,172	**–**	24,293	**–**	–		–
	2,346,595,838	1,998,160,172	**77,209**	4,955,082	**–**	207,400	**242,671,961**	243,325,649
	₱2,346,595,838	₱1,998,160,172	**₱88,320**	₱4,994,238	**₱–**	₱207,400	**₱242,671,961**	₱243,325,649

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

Receivables are primarily composed of trade receivables for water and sewerage services rendered by the Group. These are non-interest bearing and are collectible within 30 days from bill generation. No allowance for doubtful accounts was provided for receivables from related parties as of December 31, 2015 and 2014.

Advances to contractors included as part of "Other current assets" pertains to down payments related to construction of fixed assets. These are normally applied within a year against progress billings.

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

	Revenue		Purchases	
	2015	2014	**2015**	2014
Shareholder:				
Ayala	**₱7,288,972**	₱7,177,859	**₱218,310,790**	₱198,979,421
Affiliates:				
Ayala Land and Subsidiaries	**116,965,856**	137,380,568	**1,428,393**	1,792,850
BPI and Subsidiaries	**9,913,438**	9,739,496	**–**	–
Globe and Subsidiaries	**3,131,483**	2,933,077	**9,127,597**	10,015,352
Integrated Microelectronics, Inc. and Subsidiaries	**8,466,732**	4,077,818	**641,470**	–
AAHC	**481,838**	403,824	**–**	–
	138,959,347	154,534,783	**11,197,460**	11,808,202
	₱146,248,319	₱161,712,642	**₱229,508,250**	₱210,787,623

Revenue is mainly attributable to water and sewerage services rendered by the Group to its shareholder and affiliates. Purchases from Ayala Land and subsidiaries mainly pertain to construction of fixed assets while purchases from AAHC relates to acquisition and repairs of transportation equipment. Purchases from Globe pertain to telecommunication services and purchases from BPI relate to banking transactions and financial services to the Group.

c. On June 1, 2010, MWAP and Speedy-Tech Electronics Ltd. (Speedy-Tech), a subsidiary of Integrated Microelectronics, Inc., entered into a Tenancy Agreement wherein Speedy-Tech will lease office space to MWAP. On May 31, 2015, the Tenancy Agreement with Speedy-Tech was terminated. Total rent expense paid by MWAP to Speedy-Tech amounted to ₱0.64 million and ₱0.47 million in 2015 and 2014, respectively.

d. On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004) with PGL, one of its shareholders. Concession fees paid to PGL amounted to ₱22.70 million and ₱15.06 million in 2015 and 2014, respectively (see Notes 1 and 28).

e. 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 ₱572.81 million and ₱587.42 million as of December 31, 2015 and 2014, respectively.

f. On November 3, 2015, MWSAH completed the execution of a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter capital of Cu Chi Water Supply Sewerage Company Ltd., a company incorporated in Vietnam, in the total amount of VND154.35 billion or equivalent to ₱330.10 million.

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

	2015	2014
Short-term employee benefits	**₱397,804,200**	₱283,797,080
Post-employment benefits	**23,832,969**	18,971,484
Share-based payment	**50,584,861**	30,227,909
	₱472,222,030	₱332,996,473

22. Management Contracts

On July 22, 2008, the Parent Company entered into a Performance-Based Leakage Reduction and Management Services Contract with SAWACO. The contract involves the following components:

a. General requirements;
b. District Metering Area establishment;
c. Leakage reduction and management services;
d. System expansion work;
e. Emergency and unforeseen works; and
f. Daywork schedule.

On August 19, 2014, the management contract with SAWACO expired. In 2015, 2014 and 2013, total revenue from the Vietnam Project amounted to nil, ₱25.49 million and ₱174.94 million. Total costs related to the Vietnam Project amounted to ₱51.89 million, ₱54.29 million and ₱96.21 million in 2015, 2014 and 2013, respectively. Costs arising from the management contract in 2015 pertain to maintenance, manpower and other administrative expenses arising from the winding down of the project which is expected to be finalized by February 2016.

23. Significant Contracts with the West Zone Concessionaire

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

a. Interconnection Agreement wherein the two Concessionaires shall form 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 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 9).

24. 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 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. On October 27, 2006, the Parent Company has renewed the lease for 5 years, with expiry of October 27, 2011. On August 28, 2012, additional office space was leased by the Parent Company, which will expire on July 31, 2017. Rent expense amounted to ₱18.45 million, ₱16.91 million and ₱16.99 million in 2015, 2014 and 2013, respectively. These are included under "Occupancy costs" in consolidated statement 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 2015 amounted to ₱170.45 million which is included under "Occupancy costs" in consolidated statement of comprehensive income.

PGL
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 PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by Laguna Water, such property shall be returned to PGL in its then condition at no charge to PGL or Laguna Water.

In 2014, Laguna Water engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2,138.38 million with a sound value of ₱1,596.19 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.

25. **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 the nature of service the Group is providing and its 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:

- East Zone Head Office - manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services in the East Zone. Revenue from this business segment consists of water, environmental charges, sewer, income from septic sludge disposal and bacteriological water analysis and other miscellaneous income.
- Outside East Zone - manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery services and sewerage services outside the East Zone. Revenue from this segment consists of water and other miscellaneous income.
- Management contracts - agreements related to improvements in the customers' water systems. Revenue from management contracts comprises the revenue of this business segment.

Details of the Group's operating segments as of and for the years ended December 31, 2015, 2014 and 2013 are as follows:

2015

	East Zone (Head Office)	Outside East Zone (Operating Subsidiaries)	Management Contracts	Consolidated
		(In Thousands)		
Revenue				
Sales to external customers	**₱14,910,074**	**₱2,025,809**	**₱–**	**₱16,935,883**
Operating expenses	**7,066,555**	**1,330,752**	**51,893**	**8,449,200**
Operating income	**7,843,519**	**695,057**	**(51,893)**	**8,486,683**
Revenue from rehabilitation works	**3,834,841**	**1,384,517**	**–**	**5,219,358**
Cost of rehabilitation works	**(3,834,841)**	**(1,384,517)**	**–**	**(5,219,358)**
Interest income	**100,468**	**216,476**	**–**	**316,944**
Interest expense	**(1,311,938)**	**(145,597)**	**–**	**(1,457,535)**
Equity share in net income of associates	**–**	**403,515**	**–**	**403,515**
Other income	**24,325**	**155,032**	**–**	**179,357**
Income before income tax	**6,656,374**	**1,324,483**	**(51,893)**	**7,928,964**
Provision for income tax	**1,693,184**	**101,740**	**–**	**1,794,924**
Net income	**4,963,190**	**1,222,743**	**(51,893)**	**6,134,040**
Other comprehensive income				
Cumulative translation adjustment	**–**	**278,620**	**–**	**278,620**
Actuarial gain (loss) on pension liabilities - net	**(36,907)**	**16,179**	**–**	**(20,728)**
Income tax effect	**–**	**285**	**–**	**285**
Total comprehensive income	**₱4,926,283**	**₱1,517,827**	**(₱51,893)**	**₱6,392,217**
Total comprehensive income attributable to:				
Equity holders of the Parent Company	**₱4,926,283**	**₱1,341,567**	**(₱51,893)**	**₱6,215,957**
Non-controlling interests	**–**	**176,260**	**–**	**176,260**
	₱4,926,283	**₱1,517,827**	**(₱51,893)**	**₱6,392,217**
Other information				
Segment assets, exclusive of investment in associates and deferred tax assets	**₱63,278,437**	**₱10,526,958**	**₱155,055**	**₱73,960,450**
Investment in associates	**–**	**5,723,534**	**–**	**5,723,534**
Deferred tax assets	**853,139**	**71,363**	**–**	**924,502**
	₱64,131,576	**₱16,321,855**	**₱155,055**	**₱80,608,486**
Segment liabilities, exclusive of deferred tax liabilities	**34,653,561**	**6,120,466**	**43,554**	**40,817,581**
Deferred tax liabilities	**–**	**71,912**	**–**	**71,912**
	₱34,653,561	**₱6,192,378**	**₱43,554**	**₱40,889,493**
Segment additions to property and equipment and SCA	**₱4,156,950**	**₱1,789,508**	**₱–**	**₱5,946,458**
Depreciation and amortization	**₱2,331,134**	**₱269,079**	**₱–**	**₱2,600,213**
Noncash expenses (income) other than depreciation and amortization*	**(₱20,453)**	**₱33,734**	**₱–**	**₱13,281**

2014

	East Zone (Head Office)	Outside East Zone (Operating Subsidiaries)	Management Contracts	Consolidated
		(In Thousands)		
Revenue				
Sales to external customers	₱14,882,023	₱1,449,634	₱25,488	₱16,357,145
Operating expenses	6,537,113	940,347	54,286	7,531,746
Operating income	8,344,910	509,287	(28,798)	8,825,399
Revenue from rehabilitation works	2,749,201	686,588	–	3,435,789
Cost of rehabilitation works	(2,749,201)	(686,588)	–	(3,435,789)
Interest income	94,485	91,150	–	185,635
Interest expense	(1,513,124)	(123,013)	–	(1,636,137)
Equity share in net income of associates	–	357,298	–	357,298
Other income	(84,188)	18,240	–	(65,948)
Income before income tax	6,842,083	852,962	(28,798)	7,666,247
Provision for income tax	1,693,581	142,717	–	1,836,298
Net income	5,148,502	710,245	(28,798)	5,829,949
Other comprehensive income				
Unrealized loss on AFS financial assets	(₱3,301)	₱–	₱–	(₱3,301)
Cumulative translation adjustment	–	101,970	–	101,970
Actuarial gain (loss) on pension liabilities - net	40,537	(3,309)	–	37,228
Income tax effect	(370)	112		(258)
Total comprehensive income	₱5,185,368	₱809,018	(₱28,798)	₱5,965,588

(Forward)

	East Zone (Head Office)	Outside East Zone (Operating Subsidiaries)	Management Contracts	Consolidated
		(In Thousands)		
Total comprehensive income attributable to:				
Equity holders of Manila Water Company, Inc.	₱5,185,368	₱792,046	(₱28,798)	₱5,948,616
Non-controlling interests	–	16,972	–	16,972
	₱5,185,368	₱809,018	(₱28,798)	₱5,965,588
Other information				
Segment assets, exclusive of investment in associates and deferred tax assets	₱60,977,237	₱7,833,131	₱206,853	₱69,017,221
Investment in associates	–	4,961,500	–	4,961,500
Deferred tax assets	819,584	61,599	–	881,183
	₱61,796,821	₱12,856,230	₱206,853	₱74,859,904
Segment liabilities, exclusive of deferred tax liabilities	₱35,428,341	₱4,236,623	₱24,420	₱39,689,384
Deferred tax liabilities	–	68,949	–	68,949
	₱35,428,341	₱4,305,572	₱24,420	₱39,758,333
Segment additions to property and equipment and SCA	₱2,924,926	₱919,490	₱–	₱3,844,416
Depreciation and amortization	₱2,192,870	₱251,117	₱–	₱2,443,987
Noncash expenses other than depreciation and amortization*	₱13,693	₱21,876	₱–	₱35,569

** Pertains to the amount of impairment loss recognized during the year.*

2013

	East Zone	**Outside East Zone**	**Management Contracts**	**Consolidated**
		(In Thousands)		
Revenue				
Sales to external customers	₱14,794,066	₱956,812	₱174,939	₱15,925,817
Operating expenses	6,421,361	630,798	96,213	7,148,372
Operating income	8,372,705	326,014	78,726	8,777,445
Revenue from rehabilitation works	4,177,636	893,622	–	5,071,258
Cost of rehabilitation works	(4,177,636)	(893,622)	–	(5,071,258)
Interest income	152,614	20,211	–	172,825
Interest expense	(1,671,312)	(62,088)	–	(1,733,400)
Equity share in net income of associates	–	293,975	–	293,975
Other income	6,039	75,250	–	81,289
Income before income tax	6,860,046	653,362	78,726	7,592,134
Provision for income tax	1,757,536	54,037	–	1,811,573
Net income	5,102,510	599,325	78,726	5,780,561
Other comprehensive income				
Unrealized gain (loss) on AFS financial assets	(₱18,568)	₱–	₱–	(₱18,568)
Cumulative translation adjustment	–	127,109	–	127,109
Actuarial gain (loss) on pension liabilities - net	(66,233)	(1,462)	–	(67,695)
Total comprehensive income	₱5,017,709	₱724,972	₱78,726	₱5,821,407
Total comprehensive income attributable to:				
Equity holders of Manila Water Company, Inc.	₱5,017,709	₱696,870	₱78,726	₱5,793,305
Non-controlling interests	–	28,102	–	28,102
	₱5,017,709	₱724,972	₱78,726	₱5,821,407
Other information				
Segment assets, exclusive of investment in associates and deferred tax assets	₱60,651,146	₱6,479,136	₱197,296	₱67,327,578
Investment in associates	–	4,708,207	–	4,708,207
Deferred tax assets	781,409	40,331	–	821,740
	₱61,432,555	₱11,227,674	₱197,296	₱72,857,525
Segment liabilities, exclusive of deferred tax liabilities	₱38,388,811	₱3,390,062	₱24,595	₱41,803,468
Deferred tax liabilities	–	–	–	–
	₱38,388,811	₱3,390,062	₱24,595	₱41,803,468
Segment additions to property and equipment and SCA	₱4,856,870	₱1,388,686	₱–	₱6,245,556
Depreciation and amortization	₱ 2,298,103	₱196,660	₱–	₱2,494,763
Noncash expenses other than depreciation and amortization*	₱32,677	₱22,968	₱–	₱55,645

** Pertains to the amount of impairment loss recognized during the year.*

Total revenue derived from Vietnam amounted to nil, ₱25.49 million and ₱174.94 million 2015, 2014 and 2013, respectively, and are included under the management contracts segment of the Group. The Group does not have a single customer contributing more than 10% of its total revenue.

26. **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, 2015 and 2014:

	2015		2014	
		Fair Value		Fair Value
	Carrying Value	Significant unobservable inputs (Level 3)	Carrying Value	Significant unobservable inputs (Level 3)
	(In Thousands)			
AFS financial assets				
Unquoted	**₱2,409,290**	**₱2,409,290**	₱2,409,290	₱2,409,290
Loans and receivables				
Concession financial receivable	**1,198,084**	**2,140,700**	975,984	1,881,765
	₱3,607,374	**₱4,549,990**	₱3,385,274	₱4,291,055
Other financial liabilities				
Long-term debt	**₱26,220,373**	**₱24,688,413**	₱25,470,751	₱25,141,255
Service concession obligation	**7,926,871**	**11,701,046**	8,001,209	11,806,727
Customers' guaranty deposits and other deposits	**384,876**	**355,509**	362,065	544,866
	₱34,532,120	**₱36,744,968**	₱33,834,025	₱37,492,848

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 was 2.68% to 4.90% in 2015 and 2.54% to 5.17% in 2014 while the discount rates used for foreign currency-denominated loans ranged from 0.02% to 3.01% in 2015 and 0.02% to 2.17% in 2014.

Fair Value Hierarchy
There were no financial assets measured at fair value as of December 31, 2015 and 2014. During the periods ended December 31, 2015 and 2014, 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.

27. **Financial Risk Management Objectives and Policies**

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

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

The Group's risk management policies are summarized below:

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

For cash flow interest rate risk, the Group's policy is to manage the interest payments using a mix of fixed and variable rate debts. As of December 31, 2015 and 2014, the Group's mix of fixed interest and floating interest rate of long-term debt are 70.00% to 30.00% and 74.00% to 26.00%, respectively.

For fair value interest rate risk, the Group's investment policy requires it to hold AFS financial assets until maturity, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk. Debt securities are also marked-to-market monthly to reflect and account for both unrealized gains and losses.

2015	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total (In JPY)	Total - Gross (In USD)	Total - Gross (In PHP)
Liabilities:									
Long-Term Debt									
Fixed Rate (exposed to fair value risk)									
IFC Loan - JPY	**¥44,048,000**	**¥44,048,000**	**¥22,024,000**	**¥–**	**¥–**	**¥–**	**¥110,120,000**	**–**	**₱43,167,040**
Interest rate	4.66%								
IFC Loan USD	**$1,000,000**	**$–**	**$–**	**$–**	**$–**	**$–**	**–**	**$1,000,000**	**₱47,060,000**
Interest rate	4.57%								
Fixed Rate Corporate Notes	**₱4,925,000,000**	**₱25,000,000**	**₱25,000,000**	**₱25,000,000**	**₱25,000,000**	**₱4,775,000,000**	**–**	**–**	**₱9,800,000,000**
Interest rate	6.33-7.33%								
₱5.00 billion Loan	**₱25,000,000**	**₱25,000,000**	**₱25,000,000**	**₱25,000,000**	**₱4,850,000,000**	**₱–**	**–**	**–**	**₱4,950,000,000**
Interest rate	4.42%								
₱1.15 billion Clark Water RCBC Loan	**₱1,000,000,000**	**₱150,000,000**	**₱–**	**₱–**	**₱–**	**₱–**	**–**	**–**	**₱1,150,000,000**
Interest rate	6.24%								
₱0.75 billion Cebu Water DBP Loan	**₱–**	**₱44,209,804**	**₱44,209,804**	**₱44,209,804**	**₱44,209,804**	**₱574,727,451**	**–**	**–**	**₱751,566,667**
Interest rate	7.32%								
₱0.83 Laguna Water DBP Loan	**₱–**	**₱49,000,000**	**₱49,000,000**	**₱49,000,000**	**₱49,000,000**	**₱643,125,000**	**–**	**–**	**₱839,125,000**
Interest rate	7.25%								
₱2.50 Laguna Water SBC Loan	**₱–**	**₱–**	**₱46,153,846**	**₱46,153,846**	**₱46,153,846**	**₱426,923,077**	**–**	**–**	**₱565,384,615**
Interest rate	6.03%								
₱0.50 Laguna Water DBP Loan	**7,352,941**	**29,411,765**	**₱29,411,765**	**₱29,411,765**	**₱29,411,765**	**₱375,000,000**	**–**	**–**	**₱500,000,001**
Interest rate	7.25%								
₱0.50 Laguna Water Loan	**₱–**	**66,666,667**	**₱66,666,667**	**₱66,666,667**	**₱66,666,667**	**₱–**	**–**	**–**	**₱266,666,668**
Interest rate	6.73% to 7.58%								
₱0.50 billion Boracay Water DBP-SBC Loan	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱327,256,792**	**–**	**–**	**₱365,309,902**
Interest rate	9.00%								
₱0.50 billion Boracay Water DBP-SBC Loan	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱7,610,622**	**₱327,256,792**	**–**	**–**	**₱365,309,902**
Interest rate	9.00%								
Floating Rate (exposed to cash flow risk)									
NEXI Loan	**$18,750,000**	**$18,750,000**	**$18,750,000**	**$18,750,000**	**$18,750,000**	**$–**	**–**	**$93,750,000**	**₱4,411,875,000**
Interest rate	6m Libor plus margin								
IFC Loan - JPY	**¥243,280,000**	**¥243,280,000**	**¥121,640,000**	**¥–**	**¥–**	**¥–**	**¥608,200,000**	**–**	**₱238,414,400**
Interest rate	6m Libor plus margin								
IFC Loan - USD	**$1,000,000**	**$–**	**$–**	**$–**	**$–**	**$–**	**–**	**$1,000,000**	**₱47,060,000**
Interest rate	6m Libor plus margin								
MTSP Loan	**¥340,366,724**	**¥340,366,724**	**¥340,366,724**	**¥340,366,724**	**¥340,366,724**	**¥508,536,981**	**¥2,210,370,601**	**–**	**₱866,465,276**
Interest rate	6m Libor plus margin								
MWMP Loan	**$–**	**$–**	**$610,200**	**$1,220,400**	**$20,769,400**	**$–**	**–**	**$22,600,000**	**₱1,063,556,000**
Interest rate	6m Libor plus margin								
							¥2,928,690,601	**$118,350,000**	**₱26,270,960,471**

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

2014	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total (In JPY)	Total - Gross (In USD)	Total – Gross (In PHP)
Liabilities:									
Long-Term Debt									
Fixed Rate (exposed to fair value risk)									
EIB Loan - JPY	¥1,167,353,232	¥–	¥–	¥–	¥–	¥–	¥1,167,353,232	–	₱432,621,108
Interest rate	2.5430%- 2.5440%								
EIB Loan - USD	$9,375,000	$–	$–	$–	$–	$–	–	$9,375,000	₱419,250,000
Interest rate	5.53%								
IFC Loan - JPY	¥44,048,000	¥44,048,000	¥44,048,000	¥22,024,000	¥–	¥–	¥154,168,000	–	₱57,134,661
Interest rate	4.57%								
IFC Loan USD	$2,000,000	$1,000,000	$–	$–	$–	$–	–	$3,000,000	₱134,160,000
Interest rate	4.57%								
₱10.00 Billion Notes	₱50,000,000	₱4,925,000,000	₱25,000,000	₱25,000,000	₱25,000,000	₱4,800,000,000	–	–	₱9,850,000,000
Interest rate	6.34% - 7.33%								
₱5.00 Billion Loan	₱25,000,000	₱25,000,000	₱25,000,000	₱25,000,000	₱25,000,000	₱4,850,000,000	–	–	₱4,975,000,000
Interest rate	4.42%								
₱0.50 Billion - Laguna Water 1	₱66,666,667	₱66,666,667	₱66,666,667	₱66,666,666	₱66,666,667	₱66,666,666	–	–	₱400,000,000
Interest rate	6.73% - 7.58%								
₱0.83 Billion - Laguna Water 2	–	₱7,352,941	₱72,286,765	₱78,411,765	₱78,411,765	₱1,096,536,764	–	–	₱1,333,000,000
Interest rate	7.25%								
₱0.50 Billion - Boracay Water 1	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱22,058,824	₱259,191,176	–	–	₱369,485,296
Interest rate	2.25%-9.48%								
₱0.50 Billion - Boracay Water 2	₱4,296,875	₱17,187,500	₱17,187,500	₱17,187,500	₱17,187,500	₱201,953,125	–	–	₱275,000,000
Interest rate	2.25%-9.48%								
₱0.75 Billion - Cebu Water	–	–	₱44,209,804	₱44,209,804	₱44,209,804	₱618,937,255	–	–	₱751,566,667
Interest rate	7.32%								
Floating Rate (exposed to cash flow risk)									
NEXI Loan	$18,750,000	$18,750,000	$18,750,000	$18,750,000	$18,750,000	$18,750,000	–	$112,500,000	₱5,031,000,000
Interest rate	6m Libor plus margin								
EIB Loan	¥640,625,000	¥–	¥–	¥–	¥–	¥–	¥640,625,000	–	₱237,415,625
Interest rate	6m Libor plus margin								
IFC Loan – JPY	¥243,280,000	¥243,280,000	¥243,280,000	¥121,640,000	¥–	¥–	¥851,480,000	–	₱315,558,488
Interest rate	6m Libor plus margin								
IFC Loan - USD	$2,000,000	$1,000,000	$–	$–	$–	$–	–	$3,000,000	₱134,160,000
Interest rate	6m Libor plus margin								
MTSP Loan	¥340,366,724	¥340,366,724	¥340,366,724	¥340,366,724	¥340,366,724	¥ 848,634,730	¥2,550,468,350	–	₱945,203,571
Interest rate	6m Libor plus margin								
₱0.50 Billion - Boracay Water	₱7,352,941	₱7,352,941	₱ 7,352,941	₱7,352,941	₱7,352,941	₱86,397,060	–	–	₱123,161,765
Interest rate	3m PDST-F plus margin								
							¥5,364,094,582	**$127,875,000**	**₱25,783,717,181**

Interest on financial instruments classified as floating rate is repriced on a semi-annual basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

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, 2015 and 2014, with all variables held constant (through the impact on floating rate borrowings).

2015

	Changes in basis points	Effect on income before income tax
		(In Thousands)
Floating rate borrowings	**100**	**(₱64,323)**
	(100)	**64,323**

2014

	Changes in basis points	Effect on income before income tax
		(In Thousands)
Floating rate borrowings	100	(₱75,550)
	(100)	75,550

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 33.00% and 34.00% of debt as of December 31, 2015 and 2014, respectively, are denominated in foreign currency. Under Amendment 1 of the Agreement, however, the Parent Company has a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff (see Notes 1 and 12).

Information on the Group's foreign currency-denominated monetary assets and liabilities and their Peso equivalents are as follows:

	2015		2014	
	Original Currency	**Peso Equivalent**	Original Currency	Peso Equivalent
	(In Thousands)		(In Thousands)	
Assets				
Cash and cash equivalents				
USD	**USD7,269**	**₱342,056**	USD8,176	₱365,631
VND	**VND62,102,626**	**129,173**	VND23,999,786	50,160
AUD	**AUD31**	**1,067**	AUD6	217
SGD	**SGD211**	**7,089**	SGD102	3,437
		479,385		₱419,445
Liabilities				
Long-term debt				
JPY loan	**JPY2,903,907**	**1,138,332**	JPY5,274,985	1,954,909
USD loan	**USD115,046**	**5,414,043**	USD123,327	5,515,187
Service concession obligations				
JPY loan	**JPY1,249,435**	**489,778**	JPY1,288,651	477,574
USD loan	**USD76,897**	**3,618,787**	USD77,950	3,485,924
French Franc (FRF) loan	**FRF1,175**	**9,249**	FRF1,493	12,396
		10,670,189		11,445,990
Net foreign currency-denominated liabilities		**(₱10,190,804)**		(₱11,026,545)

The spot exchange rates used were ₱47.06 to US$1, ₱0.3920 to JP¥1, ₱7.87 to FRF1, ₱33.5176 to SGD1, ₱34.2652 to AUD1, and ₱0.0021 to VND1 in 2015 and ₱44.72 to US$1, ₱0.3706 to JP¥1, ₱8.30 to FRF1, ₱33.7982 to SGD1,₱36.5872 to AUD1, and ₱0.0021 to VND1 in 2014.

The Group does not expect any movement of the USD, VND, SGD, AUD and FRF against the Philippine Peso to have a significant effect on the Group's profit before tax.

Credit risk
The Group trades only with recognized, creditworthy third parties. It is the Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers.

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

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

The Group has no significant concentrations of credit risk.

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

As of December 31, 2015 and 2014, the credit quality per class of the Group's financial assets are as follows:

2015

	Neither Past Due nor Impaired		**Past Due and**	
	High Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents*	**₱6,844,465,827**	**₱–**	**₱–**	**₱6,844,465,827**
Receivables:				
Customers:				
Residential	**918,762,413**	**250,126,476**	**444,255,711**	**1,613,144,600**
Commercial	**337,068,574**	**19,857,607**	**95,632,983**	**452,559,164**
Semi-business	**40,577,782**	**6,829,564**	**26,946,115**	**74,353,461**
Industrial	**58,481,871**	**2,106,249**	**53,238,262**	**113,826,382**
Concession financial receivable	**1,198,083,563**	**–**	**–**	**1,198,083,563**
Employees	**205,071**	**39,126,019**	**422,641**	**39,753,731**
Interest from banks	**–**	**12,438,613**	**–**	**12,438,613**
Receivable from BWC	**–**	**529,500,647**	**–**	**529,500,647**
Others	**97,344,108**	**53,759,982**	**63,303,910**	**214,408,000**
Total	**₱9,494,989,209**	**₱913,745,157**	**₱683,799,622**	**₱11,092,533,988**

**Excludes cash on hand.*

2014

	Neither Past Due nor Impaired		Past Due and	
	High Grade	Standard	Impaired	Total
Cash and cash equivalents*	₱6,450,907,044	₱–	₱–	₱6,450,907,044
Receivables:				
Customers:				
Residential	1,146,667,730	10,290,457	481,392,378	1,638,350,565
Commercial	112,670,545	3,484,600	113,411,221	229,566,366
Semi-business	46,745,213	1,128,265	33,250,662	81,124,140
Industrial	41,487,945	–	5,644,348	47,132,293
Concession financial receivable	975,983,837	–	–	975,983,837
Employees	138,930	39,415,356	–	39,554,286
Interest from banks	–	11,941,957	–	11,941,957
Receivable from SAWACO	–	32,888,246	–	32,888,246
Receivable from BWC	–	529,500,647	–	529,500,647
Others	–	183,138,340	84,036,110	267,174,450
Total	₱8,774,601,244	₱811,787,868	₱717,734,719	₱10,304,123,831

**Excludes cash on hand.*

As of December 31, 2015 and 2014, the Group does not have financial assets that are 'past due but not impaired.'

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

Cash and cash equivalents are placed in various banks. Material amounts are held by banks which belong to the top 5 banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. Management assesses the quality of these assets as high grade.

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

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, leases and hire purchase contracts. The Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next 4 to 6 months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through internal cash generation.

The Group's financial assets used for liquidity management based on their maturities are as follows:

	2015			
	Within 1 Year	**1-5 years**	**More than 5 years**	**Total - Gross**
Assets:				
Cash and cash equivalents	**₱6,849,955,679**	**₱–**	**₱–**	**₱6,849,955,679**
Receivables:		**–**	**–**	
Customers	**2,253,883,607**	**–**	**–**	**2,253,883,607**
Employees	**39,753,731**	**–**	**–**	**39,753,731**
Interest from banks	**12,438,613**	**–**	**–**	**12,438,613**
Others	**214,408,000**	**–**	**–**	**214,408,000**
AFS financial assets	**2,409,290**	**–**	**–**	**2,409,290**
	₱9,372,848,920	**₱–**	**₱–**	**₱9,372,848,920**

	2014			
	Within 1 Year	1-5 years	More than 5 years	Total - Gross
Assets:				
Cash and cash equivalents	₱6,452,553,832	₱–	₱–	₱6,452,553,832
Receivables:				
Customers	1,996,173,364	–	–	1,996,173,364
Employees	39,554,286	–	–	39,554,286
SAWACO	32,888,246	–	–	32,888,246
Interest from banks	11,941,957	–	–	11,941,957
Others	267,174,450	–	–	267,174,450
AFS financial assets	2,409,290	–	–	2,409,290
	₱8,802,695,425	₱–	₱–	₱8,802,695,425

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

	2015			
	Within 1 year	**1-5 years**	**More than 5 years**	**Total - Gross**
Liabilities:				
Accounts and other payables	**₱4,433,087,387**	**₱–**	**₱–**	**₱4,433,087,387**
Payables to related parties	**10,834,774**	**–**	**–**	**10,834,774**
Long-term debt*	**7,308,311,734**	**19,255,909,286**	**3,507,885,936**	**30,072,106,956**
Service concession obligation*	**1,452,667,556**	**5,030,175,936**	**12,537,719,686**	**19,020,563,178**
Customers' guaranty deposits and other deposits	**–**	**–**	**294,883,786**	**294,883,786**
	₱13,204,901,451	**₱24,286,085,222**	**₱16,340,489,408**	**₱53,831,476,081**

**Includes contractual interest cash flows*

	2014			
	Within 1 year	1-5 years	More than 5 years	Total - Gross
Liabilities:				
Accounts and other payables	₱3,846,824,496	₱–	₱–	₱3,846,824,496
Payables to related parties	11,490,133	–	–	11,490,133
Long-term debt*	3,961,634,952	17,158,019,319	14,198,608,704	35,318,262,975
Service concession obligation*	903,512,645	3,734,356,285	17,571,906,659	22,209,775,589
Customers' guaranty deposits and other deposits	–	–	362,064,821	362,064,821
	₱8,723,462,226	₱20,892,375,604	₱32,132,580,184	₱61,748,418,014

**Includes contractual interest cash flows*

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

The Group closely manages its capital structure vis-à-vis a certain target gearing ratio, which is total debt (less service concession obligation) divided by the sum of the total stockholders' equity and total debt (less service concession obligation). The Group's target gearing ratio is set at 60%. This target is to be achieved by managing the Group's level of borrowings and dividend payments to shareholders.

	2015	2014
Total liabilities	**₱40,889,493,376**	₱39,758,333,532
Less service concession obligation	**7,926,870,690**	8,001,209,069
	32,962,622,686	31,757,124,463
Total stockholders' equity	**39,718,992,406**	35,101,570,064
Total	**₱72,681,615,092**	₱66,858,694,527
Gearing ratio	**45%**	47%

For purposes of computing its net debt, the Group includes the outstanding balance of its long-term debt (including current portion), accounts and other payables, less cash and cash equivalents and AFS financial assets. To compute its total capital, the Group uses the total stockholders' equity.

	2015	2014
Total liabilities	**₱40,889,493,376**	₱39,758,333,532
Less:		
Total service concession obligation	**7,926,870,690**	8,001,209,069
Cash and cash equivalents	**6,849,955,679**	6,452,553,832
AFS financial assets	**2,409,290**	2,409,290
	14,779,235,659	14,456,172,191
Net debt	**26,110,257,717**	25,302,161,341
Total stockholders' equity	**39,718,992,406**	35,101,570,064
Total net debt and stockholders' equity	**₱65,829,250,123**	₱60,403,731,405
Total net debt to equity ratio	**40%**	42%

28. **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 amounting to US$70.00 million in favor of MWSS as a bond for the full and prompt performance of the Parent Company's obligations under the 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 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.

Upon not less than 10-day written notice 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 ₱395.00 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 could 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.

<u>Laguna Water's Concession Agreement</u>
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 customer 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 joint venture agreement dated November 10, 2000. Simultaneously, and consequent to the amendment of the joint venture agreement of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:

a. 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.

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

Accordingly, on March 18, 2005, the MWPVI and Laguna Water entered into the Technology Transfer and Support Agreement (TTSA). Under the TTSA, Laguna Water shall pay MWPVI an annual technical service fee equivalent to 5% of Laguna Water's annual gross revenue, which annual technical support fee shall in no case be less than the Peso equivalent of US$0.25 million.

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

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

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

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

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

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

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$2.50 million to secure the Parent Company's and Boracay Water's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by the Parent Company following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.50
Second	2.50
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.

Upon not less than 10 days written notice 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.

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

a. Financial management, including billing and collection services, accounting methods and financial control devices; and

b. Operations and project management, including facility operations and maintenance, and infrastructure project management.

<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 rental fees of CDC;

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

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

d. Treat raw water and wastewater in CSEZ;

e. Provide and manage all water and wastewater related services like assisting locator of 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 Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in 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 15 years up to October 1, 2040;

b. Additional investment of ₱4.00 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original CA amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.00 billion;

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

d. Reduction in tariff rates by 3.9% (from ₱25.63/m^3 to P₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   i. ₱0.41/m3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   ii. ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   iii. ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   iv. ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/ m^3) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the Company's investment is now extended by another 15 years from 2025 to 2040.

On July 28, 2014, Clark Water's BOD approved and authorized the equity restructuring of Clark Water. Clark Water converted 700 issued and outstanding common stock to redeemable preferred stock with par value of ₱100.00 per share. Subsequently, on September 29, 2014, Clark Water redeemed all issued and outstanding preferred stock.

On August 15, 2014 Clark Water and CDC signed an amendment agreement to their Concession Agreement dated March 16, 2000 (the "Amendment"). The Amendment provides for, among others, the (a) extension of the original concession period for another fifteen years; (b) additional investment by Clark Water of ₱5.00 billion for the entire concession period, as extended, to be spent for the further improvement and expansion of water and wastewater services in the service area; and (c) the introduction of rebasing mechanism that will enable Clark Water to recover its investment at a reasonable tariff to the locators and residents of CDC in the service area.

<u>Bulk Water Supply Agreement with MCWD</u>
On December 18, 2013, 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 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.

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

a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;

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

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

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

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

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.

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

a. Zamboanga Water being required to implement Network Restructuring and Non-Revenue Water Reduction Programs for ZCWD's water distribution system; and

b. Zamboanga Water having the right to restructure and maintain the facilities in the ZCWD service area, legal title to these assets remains with ZCWD. The legal title 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.

29. Provisions and Contingencies

Provisions
On October 13, 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.

Total provisions amounted to ₱712.92 million and ₱718.62 million as of December 31, 2015 and 2014, respectively.

The Group is also involved in various legal proceedings 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.

30. **Events after the Reporting Period**

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

Bulk Water Supply and Purchase Agreement between Tagum Water and TWD
On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the operations start date. 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.

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Water Company, Inc.
MWSS Administration Building, Katipunan Road
Balara, Quezon City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Water Company, Inc. and its subsidiaries as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, included in this Form 17-A and have issued our report thereon dated February 26, 2016. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedules A to L listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rules 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, present fairly, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-1 (Group A),
June 30, 2015, valid until June 29, 2018
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-98-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 5321694, January 4, 2016, Makati City

February 26, 2016

MANILA WATER COMPANY, INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2015

Unappropriated retained earnings, beginning	₱28,202,654,069
Adjustments:	
Equity in net earnings of subsidiaries and associates	(1,242,581,377)
Deferred tax asset recognized	(1,174,431,248)
Accretion of receivable from Bonifacio Water Corporation (BWC)	(120,591,565)
Mark-to-market gain on receivables from BWC	(113,488,598)
Accretion of deferred credits	(13,408,630)
Unappropriated retained earnings, adjusted to available for dividend distribution, beginning	25,538,152,651
Add (Less):	
Net income during the period closed to retained earnings	5,333,135,806
Deferred tax benefit during the period	(131,709,583)
Accretion of receivable from BWC	(35,739,893)
Amortization of deferred credits	(8,432,177)
Total	30,695,406,804
Less: Dividend declarations during the period	(2,039,953,671)
Unappropriated retained earnings available for dividend distribution, ending*	₱28,655,453,133

**As discussed in Note 19 to the audited financial statements, excess retained earnings will be utilized for capital expenditures under the approved Business Plan in compliance with the Parent Company's service obligations under the Concession Agreement.*