## IMPORTANT NOTICE

**THIS DRAFT OF THE PRELIMINARY PROSPECTUS ("DRAFT PRELIMINARY PROSPECTUS") IS BEING DISPLAYED ON THIS WEBSITE TO MAKE THE DRAFT PRELIMINARY PROSPECTUS ACCESSIBLE TO INVESTORS IN THE PHILIPPINES AND IS TO BE VIEWED EXCLUSIVELY WITHIN THE PHILIPPINES.**

**THE PHILIPPINE STOCK EXCHANGE, INC. (THE "PSE") ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF STATEMENTS MADE, OR THE OPINIONS OR REPORTS EXPRESSED IN THIS DRAFT PRELIMINARY PROSPECTUS. THE PSE MAKES NO REPRESENTATION AS TO THE COMPLETENESS OF THE DRAFT PRELIMINARY PROSPECTUS AND DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM OR IN RELIANCE, IN FULL OR IN PART, OF THE CONTENTS OF THE DRAFT PRELIMINARY PROSPECTUS.**

**A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THEM BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT IS RENDERED EFFECTIVE. THIS COMMUNICATION SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION TO BUY.**

**FURTHER, THE TIMETABLE OF OFFERING ACTIVITIES UNDER THIS DRAFT PRELIMINARY PROSPECTUS IS STILL SUBJECT TO REGULATORY APPROVALS.**

The offering information on this website is intended to be available only to Philippine and non-Philippine citizens residing in the Philippines or corporations or judicial entities organized and existing under Philippine law, and is not intended for distribution outside the Philippines and is not intended for distribution in the United States (as such term is defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**")). The information contained in this website may not be published or distributed, directly or indirectly, in the United States and this information does not constitute an offer of shares for sale in the United States. The shares described in this website or the documents or information available on this website have not been, and will not be, registered under U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold, directly or indirectly, into the United States unless the shares are so registered or an exemption from the U.S. registration requirements is available. There will be no public offer of the shares mentioned herein in the United States.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This Draft Preliminary Prospectus is being made available in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither Prime Infrastructure Capital, Inc. nor any of Prime Infrastructure Capital, Inc.'s affiliates and advisors accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Draft Preliminary Prospectus and the information contained herein are subject to completion or amendment without notice. The Offer Shares may not be sold nor may an offer to buy be accepted prior to the time that the Draft Preliminary Prospectus is issued in final form. Under no circumstances shall this Draft Preliminary Prospectus constitute an offer to sell or the solicitation of an offer to buy any Offer Shares nor shall there be any offer, solicitation or sale of the Offer Shares in any jurisdiction where such offer or sale is not permitted.

**DRAFT PRELIMINARY PROSPECTUS AS OF SEPTEMBER 25, 2022**
**SUBJECT TO UPDATES AND COMPLETION**

This Preliminary Prospectus and the information contained herein are subject to completion or amendment without notice. The Offer Shares may not be sold nor may an offer to buy be accepted prior to the time that the Preliminary Prospectus is issued in final form. Under no circumstances shall this Preliminary Prospectus constitute an offer to sell or the solicitation of an offer to buy any Offer Shares nor shall there be any offer, solicitation or sale of the Offer Shares in any jurisdiction where such offer or sale is not permitted.

PRIME INFRA

# Prime Infrastructure Capital, Inc.

(*Incorporated in the Republic of the Philippines*)

**Firm Offer of up to [1,793,752,000] Common Shares**
**with an Over-allotment Option of up to [179,375,200] Common Shares**
**Offer Price of up to ₱[14.60] per Offer Share**

*To be listed and traded on the Main Board of The Philippine Stock Exchange, Inc.*

**Investing in the Offer Shares involves risks. See "Risk Factors" beginning on page [47].**

**As of the date of this Prospectus, the Issuer has 6,995,625,301 issued and outstanding Common Shares, each with a par value of ₱0.10.**

***Sole Global Coordinator, Joint International Bookrunner and Stabilizing Agent***

**CLSA Limited**

***Joint Bookrunners and Joint Local Underwriters***

**BDO Capital** **BPI Capital**

***Joint International Bookrunner***

**UBS**

***Domestic Co-Lead Underwriters***

**First Metro** **PNB Capital** **RCBC Capital**

***Selling Agents***

**Trading Participants of The Philippine Stock Exchange, Inc.**

The date of this Prospectus is [●], 2022.

**THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.**

**Prime Infrastructure Capital, Inc.**
16th Floor, Three E-Com Center
Block 21, Bayshore Drive corner Ocean Drive,
Mall of Asia Complex,
Pasay City 1300
Philippines
Telephone Number: +63 2 83965328 loc. 124
www.primeinfra.ph

This Prospectus relates to the offer and sale of up to [1,793,752,000] common shares (the "**Firm Offer**," and such shares, the "**Firm Shares**") with an Over-allotment Option (as defined below) of up to [179,375,200] common shares (the "**Option Shares**"), each with a par value of ₱0.10 per share (the "**Common Shares**"), of Prime Infrastructure Capital, Inc., a corporation organized and existing under Philippine law ("**Prime Infra**," the "**Company**" or the "**Issuer**").

The Firm Shares will comprise [1,793,752,000] new Common Shares to be issued and offered by the Issuer on a primary basis. The Option Shares will comprise up to [179,375,200] new Common Shares to be issued and offered by the Issuer on a primary basis. The Firm Shares and the Option Shares are referred to as the "**Offer Shares**," and the offer of the Offer Shares is referred to as the "**Offer**."

The Issuer was incorporated on August 20, 2020. On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 common shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine Securities and Exchange Commission (the "**Philippine SEC**") approved such amendments on June 8, 2022.

As of the date of this Prospectus, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share, of which 6,995,625,301 Common Shares are issued and outstanding. As of the date of this Prospectus, Prime Strategic Holdings, Inc. ("**Prime Strategic Holdings**") owns 100% of the Issuer's issued and outstanding Common Shares. The Offer Shares will be issued out of the Issuer's unissued Common Shares.

The Issuer (together with its subsidiaries, the "**Group**") is a holding company focused on the ownership of infrastructure companies across four core industrial sectors—water, energy generation, construction, and waste and sustainable fuels —in the Philippines and other emerging markets. As of the date of this Prospectus, the Issuer's principal operating businesses and portfolio companies are held through direct shareholdings in wholly-owned subsidiaries, Prime Metro Power Holdings Corporation ("**Prime Metro Power**"), Prime Metroline Infrastructure Holdings Corporation ("**Prime Metroline**") and Prime Infrastructure, Inc. ("**Prime Infrastructure**"), and through Prime Infrastructure's wholly-owned subsidiary, Trident Water Company Holdings, Inc. ("**Trident Water**," and together with Prime Metro Power, Prime Metroline and Prime Infrastructure, the "**Intermediate Holding Companies**").

An application will be made for the listing of the Offer Shares (as defined below), together with the rest of the Common Shares of the Issuer, on the Main Board of The Philippine Stock Exchange, Inc. (the "**PSE**"). The Offer Shares will be listed and traded on the Main Board of the PSE under the trading symbol "[PFR]."

The Offer Shares will be offered at a price of up to ₱[14.60] per Common Share (the "**Offer Price**"). The determination of the Offer Price is further discussed in the section entitled "*Determination of the Offer Price*" in this Prospectus and is based on a bookbuilding process and discussions by and among the Issuer, CLSA Limited ("**CLSA**," the "**Sole Global Coordinator and Bookrunner**"), UBS AG, Singapore Branch ("**UBS**," and together with CLSA, the "**Joint International Bookrunners**"), BDO Capital & Investment Corporation ("**BDO Capital**") and BPI Capital Corporation ("**BPI Capital**," and together with BDO Capital, the "**Joint Bookrunners and Joint Local Underwriters**"), First Metro Investment Corporation ("**First Metro**"), PNB Capital and Investment Corporation ("**PNB Capital**") and RCBC Capital Corporation ("**RCBC Capital**," and together with First Metro and PNB Capital, the "**Domestic Co-Lead Underwriters**"). The Joint Bookrunners and Joint Local Underwriters and the Domestic Co-Lead Underwriters are collectively referred to in this Prospectus as the "**Local Underwriters**." The Joint International Bookrunners and the Joint Bookrunners and Joint Local Underwriters are collectively referred to in this Prospectus as the "**Joint Bookrunners**."

[Subject to the approval of the Philippine SEC, the Issuer has granted CLSA Limited in its role as stabilizing agent (the "**Stabilizing Agent**"), an option exercisable in whole or in part from and including the date of listing and when trading of the Common Shares commences on the PSE (the "**Listing Date**") and ending 30 calendar days from and including the Listing Date to purchase up to [179,375,200] Option Shares at the Offer Price, on the same terms and conditions as the Firm Shares as set forth in this Prospectus, solely to cover over-allotments, if any (the "**Over-allotment Option**"). To the extent that the Over-allotment Option is not fully exercised by the Stabilizing Agent, the relevant Option Shares shall be delivered to and purchased by Prime Strategic Holdings.]

Up to [1,255,626,400] Firm Shares (or approximately 70% of the Firm Shares) (the "**Institutional Offer Shares**") are (subject to re-allocation as described below) being offered for sale (i) outside the United States by the Joint International Bookrunners in offshore transactions in reliance on Regulation S under the U.S. Securities Act, (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers as defined under the Securities Regulation Code of the Philippines (the "**Domestic QIBs**") and other investors in the Philippines by the Local Underwriters (the "**Institutional Offer**"). The Option Shares will form part of the Institutional Offer.

Up to [538,125,600] Firm Shares (or approximately 30% of the Firm Shares) (the "**Trading Participants and Retail Offer Shares**") are being offered to all of the duly licensed brokers who are trading participants of the PSE (the "**PSE Trading Participants**") and to local small investors (the "**LSIs**") under the Local Small Investors Program (the "**Trading Participants and Retail Offer**"). The amount of Offer Shares to be made available to the [125] PSE Trading Participants and LSIs will be [358,750,400] and [179,375,200] Firm Shares, or approximately 20% and 10%, respectively, of the Firm Shares subject to final allocation as may be determined by the Joint Bookrunners and Joint Local Underwriters. The Trading Participants and Retail Offer is being made in reliance on Regulation S of the U.S. Securities Act.

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Company and the Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. Unless otherwise agreed by the Joint Bookrunners, the reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer, on the one hand, and the Institutional Offer, on the other hand.

The Joint Bookrunners will receive a transaction fee from the Issuer based on a percentage of the gross proceeds from the sale of the Offer Shares, as discussed in the section entitled "*Plan of Distribution*" in this Prospectus. This transaction fee is exclusive of the amounts to be paid to other participating underwriters and selling agents such as the PSE Trading Participants, where applicable. Any Firm Shares left unsubscribed after the Offer Period will be underwritten, on a firm commitment basis, by the Joint Bookrunners. The estimated underwriting and selling fees amount to approximately ₱[504.1] million, assuming full exercise of the Over-allotment Option. For a more detailed discussion on the fees to be received by the Joint Bookrunners please see the sections entitled "*Use of Proceeds*" and "*Plan of Distribution*" in this Prospectus.

After completion of the Offer, the Company will have a total of 8,968,752,501 issued and outstanding shares, whether or not the Over-allotment Option is exercised in full. The number of the issued and outstanding shares after completion of the Offer will be the same whether or not the Over-allotment Option is exercised by the Stabilizing Agent because Prime Strategic Holdings has undertaken to (i) purchase at the Offer Price any Common Shares that the Stabilization Agent may purchase in the open market in the conduct of stabilization activities, and (ii) deliver the purchase price of such Common Shares to the Issuer. As such, the Offer Shares will represent approximately [22.0]% of the issued and outstanding capital stock of the Issuer after completion of the Offer. Please see the sections entitled "*Dilution*" and "*Plan of Distribution*" in this Prospectus.

The total proceeds to be raised by the Issuer from the issuance and sale of the Firm Shares will be approximately up to ₱[26,188.8] million. The net proceeds to be raised by the Issuer from the issuance and sale of the Firm Shares (after deduction of estimated fees and expenses) will be approximately ₱[25,390.0] million. The Issuer estimates that the net proceeds from the Option Shares will be approximately ₱[2,618.8] million, and together with the net proceeds from the Firm Shares will be approximately ₱[28,008.7] million. The net proceeds to be raised by the Issuer from the sale of the Option Shares will be the same whether or not the Over-allotment Option is exercised by the Stabilizing Agent because Prime Strategic Holdings has undertaken to (i) purchase at the Offer Price any Common Shares that the Stabilization Agent may purchase in the open market in the conduct of stabilization activities, and (ii) deliver the purchase price of such Common Shares to the Issuer. For a more detailed discussion of the Over-allotment Option, see the section entitled "*Plan of Distribution—The Over-allotment Option and Undertaking to Purchase*" in this Prospectus.

The Issuer intends to use the net proceeds from the Offer to fund disbursements related to (i) projects in the Group's energy business, (ii) projects in the Group's water business and (iii) projects in the Group's waste and sustainable fuels business. For a more detailed discussion of the Issuer's proposed use of proceeds, see the section entitled "*Use of Proceeds*" in this Prospectus.

All of the Common Shares issued and to be sold pursuant to the Offer have, or will have, identical rights and privileges. For a detailed discussion of the rights and features of the Common Shares, see "*Description of the Shares*" on page [307]. The Board of Directors is authorized to declare dividends on the Common Shares and dividends may be payable in cash, property or by the issuance of shares of stock. The declaration of dividends is subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends. For further discussion, see "*Dividends and Dividend Policy*" beginning on page [118] of this Prospectus.

The Common Shares may be purchased and owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits under Philippine law. The constitution of the Philippines and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities. For more information relating to restrictions on ownership of the Common Shares, please see the sections entitled "*Risk Factors*," "*Regulatory and Environmental Matters – Laws on Public Utilities – Philippine Constitution*," and "*Regulatory and Environmental Matters – Other Laws – Nationality Restrictions*" in this Prospectus.

On [June 17], 2022, the Issuer filed a Registration Statement covering the Shares with the Philippine SEC, in accordance with the provisions of the Securities Regulation Code of the Philippines ("**SRC**").

The listing of the Offer Shares is subject to the approval of the PSE. On [June 22], 2022, the Issuer filed its application for the listing of the Offer Shares and the rest of its Common Shares with the PSE. On [●], 2022, the PSE issued the Notice of Approval, subject to fulfillment of certain listing conditions by the Issuer. However, such an approval for listing is permissive only and does not constitute a recommendation or endorsement by the PSE or the Philippine SEC of the Common Shares. The PSE assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. Furthermore, the PSE makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon the whole or any part of the contents of this Prospectus.

The Offer Shares are offered subject to the receipt and acceptance of any order by the Issuer and subject to the Issuer's right to reject any order in whole or in part. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the Philippine Depository and Trust Corp. (the "**PDTC**").

Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Common Shares. These risks include:

- Risks relating to the Issuer and the Group;
- Risks relating to the Group's Water Business;
- Risks relating to the Group's Energy Business;
- Risks relating to the Potential Acquisition of the Malampaya Gas Field;

- Risks relating to the Group’s Construction Business;
- Risks relating to the Group’s Waste and Sustainable Fuels Business;
- Risks relating to the Philippines;
- Risks relating to the Offer Shares and an Investment in the Issuer; and
- Risks relating to the Presentation of Information in this Prospectus.

See the section entitled “*Risk Factors*” in this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares.

**A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.**

**PRIME INFRASTRUCTURE CAPITAL, INC.**

By:

**Guillaume Lucci**
President and Chief Executive Officer

(REPUBLIC OF THE PHILIPPINES )
______________________ ) S.S.

**SUBSCRIBED AND SWORN** to before me this ____________ day of ______________________ 2022 in the City of ________________________, Philippines, affiant exhibiting to me the following as competent evidence of identity:

| NAME | GOVERNMENT ISSUED I.D. | DATE AND PLACE OF ISSUE |
|---|---|---|
| | | |

Doc. No. ______________;
Page No. ______________;
Book No. ______________;
Series of 2022.

## NOTICE TO INVESTORS

Unless otherwise stated, all information contained in this Prospectus relating to the Group and its operations have been supplied by the Issuer and its subsidiaries. In accordance with the requirements of applicable laws and regulations in the Philippines for the sale of securities, such as the Offer Shares, in the Philippines, each of the Local Underwriters and the Issuer have exercised the required due diligence to the effect that, and the Local Underwriters and the Issuer confirm that to the best of their knowledge and belief after having taken reasonable care to ensure that such is the case, as of the date of this Prospectus the information contained in this Prospectus relating to the Group and its operations is true and there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Issuer hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. Each person contemplating an investment in the Offer Shares should make their own investigation and analysis of the creditworthiness of the Group and their own determination of the suitability of any such investment.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

No representation or warranty, express or implied, is made by the Issuer, the Group or the Joint Bookrunners regarding the legality of an investment in the Offer Shares under any legal, investment, or similar laws or regulations. The contents of this Prospectus are not investment, legal, or tax advice. Prospective investors should consult their own counsel, accountant, and other advisers as to legal, tax, business, financial, and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own examination of the Group and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited.

**THE OFFER SHARES ARE BEING OFFERED ON THE BASIS OF THIS PROSPECTUS ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.**

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Group and the Joint Bookrunners. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Offer Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

The operating information used throughout this Prospectus has been calculated by the Issuer on the basis of certain assumptions made by it. Please see the section entitled "*Capitalization*" in this Prospectus, which should be read in conjunction with the Issuer's consolidated financial statements and the notes thereto as included in this Prospectus. Because certain discussions are based on the assumption of an Offer Price up to ₱[14.60] per Offer Share, the operating information provided in this Prospectus may not be comparable to similar operating information reported by other companies. See the section entitled "*Industry Overview*" on page [265] of this Prospectus for information relating to the industries in which the Group operates.

The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. The Issuer and the Joint Bookrunners require persons into whose possession this Prospectus comes to inform them about, and to observe, any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Each prospective purchaser of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells, or resells the Offer Shares, or possesses and distributes this Prospectus and must obtain any consents, approvals, or permissions required for the purchase, offer, sale, or resale by it of the Offer Shares under the laws, rules, and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales, or resales, and neither the Issuer nor the Joint Bookrunners shall have any responsibility therefor.

In connection with the Offer, the Stabilizing Agent may over-allot Offer Shares or effect transactions with a view to support the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no assurance that the Stabilizing Agent will undertake stabilization activities. Any stabilization activities may begin on or after the Listing Date and, if begun, may be ended at any time, but must end no later than 30 calendar days from and including the Listing Date. Any stabilization activities shall be done in compliance with all applicable laws, regulations and rules. The total number of Offer Shares which the Stabilizing Agent or any of its agents may buy to undertake any stabilization activities shall not exceed [10]% of the aggregate number of the Offer Shares.

The Issuer reserves the right to withdraw the offer and sale of Offer Shares at any time, and the Joint Bookrunners reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, the Issuer shall subsequently notify the Philippine SEC and the PSE. The Joint Bookrunners and certain related entities may acquire for their own account a portion of the Offer Shares.

Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

## CONVENTIONS THAT APPLY TO THIS PROSPECTUS

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the "**Issuer**," the "**Company**" and "**Prime Infra**" are to Prime Infrastructure Capital, Inc. and references to the "**Intermediate Holding Companies**" are to, collectively, Prime Metro Power Holdings Corporation ("**Prime Metro Power**"), Prime Metroline Infrastructure Holdings Corporation ("**Prime Metroline**"), Prime Infrastructure, Inc. ("**Prime Infrastructure**") and Trident Water Company Holdings, Inc. ("**Trident Water**"), a wholly-owned subsidiary of Prime Infrastructure.

References to the "**Operating Subsidiaries and Portfolio Companies**" are to, collectively, Ahunan Power, Inc. ("**Ahunan Power**"); Manila Water Company, Inc. ("**Manila Water**," and together with its subsidiaries, the "**Manila Water Group**"); Menatech Energy Limited ("**Menatech**"); Prime Metro BMD Corporation ("**Prime BMD**"); Prime Metro Power Global Holdings Limited; Solar Tanauan Corporation ("**SP Tanauan**"); Solar Philippines Tarlac Corporation ("**SP Tarlac**"); Terra Solar Philippines, Inc. ("**Terra Solar**"); WasteFuel Philippines, Inc. ("**WasteFuel Philippines**"); Prime Integrated Waste Solutions, Inc. ("**Prime Integrated Waste Solutions**"), and WawaJVCo, Inc. ("**WawaJVCo**").

References to the "**Group**" are to the Issuer and its subsidiaries.

All references to the "**Philippines**" are references to the Republic of the Philippines. All references to the "**Government**" or the "**National Government**" are to the national Government of the Philippines. All references to the "**BSP**" are references to Bangko Sentral ng Pilipinas, the central bank of the Philippines. All references to "**Philippine Peso**," "**Pesos**," and "**₱**" are to the lawful currency of the Philippines. The Issuer publishes its financial statements in Pesos. Certain terms used herein are defined in the "*Glossary of Terms*" contained elsewhere in this Prospectus. The items expressed in the Glossary of Terms may be defined otherwise by appropriate Government agencies or regulations from time to time, or by conventional or industry usage.

Any discrepancies in the tables included herein between the listed amounts and totals thereof are due to rounding off. References to Annexes are to the Annexes set out in this Prospectus. All references herein to dates and times shall mean Philippine dates and times unless otherwise specified.

## BASIS FOR CERTAIN MARKET DATA

Certain statistical information and forecasts in this Prospectus relating to the Philippines and other data used in this Prospectus were obtained or derived from internal surveys, market research, Governmental data, publicly available information, and/or industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. This Prospectus also contains industry information that was prepared from available public sources and independent market research studies conducted by GlobalData Plc ("**GlobalData**") and LMC International Ltd. ("**LMC International**") to provide an overview of the industries in which the Group operates. However, there is no assurance that such information is accurate or complete. For such purpose, the Issuer engaged GlobalData and LMC International to conduct such independent market research studies on the water industry in the Philippines, Thailand, Vietnam, and Indonesia, and the waste and sustainable fuels industry, the full versions of which are attached to this Prospectus as Annex 1 and Annex 2, respectively. Other than the preparation of the independent market research studies, GlobalData and LMC International have no relationship with the Issuer or the Group. Similarly, internal surveys, industry forecasts, market research, Governmental data, publicly available information, and/or industry publications have not been independently verified by the Issuer, the Group or the Joint Bookrunners and might not be accurate, complete, up-to-date, balanced, or consistent with other information compiled within or outside the Philippines. Consequently, neither the Issuer, the Group nor the Joint Bookrunners make any representations as to the accuracy or completeness of such information, and each of them shall not be held responsible in respect of any such information and shall not be obliged to provide any updates on the same.

## PRESENTATION OF FINANCIAL INFORMATION

The Group's consolidated financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standards Council of the Philippines. PFRS include statements named PFRS, Philippine Accounting Standards ("**PAS**"), and Philippine Interpretations of International Financial Reporting Interpretations Committee interpretations issued by the Financial Reporting Standards Council.

The translation of Peso amounts into U.S. dollars as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 is provided for convenience only and is unaudited. For readers' convenience only, amounts in Pesos as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 were converted to U.S. dollars using the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin on July 1, 2022 of ₱54.97 = U.S.$1.00.

This Prospectus includes the Group's audited consolidated financial statements as of and for the years ended December 31, 2021, 2020, 2019 and 2018 and as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 (collectively, the "**Audited Consolidated Financial Statements**"), which were prepared in accordance with PFRS.

The Issuer's fiscal year begins on January 1 and ends on December 31 of each year. In this Prospectus, references to "2018," "2019," "2020" and "2021" refer to the fiscal years ended December 31, 2018, 2019, 2020 and 2021, respectively. SyCip Gorres Velayo & Co. ("**SGV & Co.**"), a member firm of Ernst & Young Global Limited, independent auditors, audited the Audited Consolidated Financial Statements. The financial information for such periods is extracted from the financial statements included in this Prospectus and have been prepared in accordance with PFRS. The Group adopted PFRS 16, *Leases*, using the modified retrospective approach on January 1, 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17, *Leases*, and Philippine Interpretation IFRIC-4, Determining whether an Arrangement Contains a Lease. Amounts presented in the consolidated statement of financial position as of December 31, 2018 and the consolidated statement of comprehensive income for the year ended December 31, 2018 are based on PAS 17 and Philippine Interpretation IFRIC-4. The comparative financial information for "property, plant and equipment," "lease liabilities," "cost of goods sold," "sales, general and administrative expenses," and "interest expense" accounts, which are affected by the adoption of PFRS 16, may not be comparable to the information presented as of and for the years ended December 31, 2019, 2020 and 2021.

The Issuer was incorporated on August 20, 2020 and completed the acquisitions of Prime Metroline and Prime Metro Power in December 2020 pursuant to deeds of assignment from Prime Strategic Holdings. Prior to their acquisition by the Issuer, Prime Metroline and Prime Metro Power were each wholly-owned subsidiaries of Prime Strategic Holdings since their respective incorporation dates. As such, Prime Metroline and Prime Metro Power were deemed to be the accounting acquirer for accounting purposes under PFRS 3, *Business Combinations* and, accordingly, the Group's audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 have been prepared as a continuation of the respective consolidated financial statements of Prime Metroline and Prime Metro Power. The difference in the legal capital of the Issuer as compared to Prime

Metroline and Prime Metro Power is presented as "Equity reserve" in the Group's audited consolidated financial statements as of December 31, 2019 and 2018.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

For more information, please refer to the Audited Consolidated Financial Statements contained elsewhere in this Prospectus.

The historical information included in this Prospectus does not give effect to the completion of the SPEX Sale (as hereinafter defined) (see "*Business—Recent Developments—Potential Acquisition of Malampaya Gas Field*"). No pro forma financial statements giving effect to such potential acquisition has been included in this Prospectus.

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## PRESENTATION OF NON-PFRS FINANCIAL MEASURES

This Prospectus includes certain non-PFRS financial measures, including EBITDA and Core Net Income (Loss) Attributable to the Company.

EBITDA is calculated as the Group's consolidated net income (loss) excluding provision for taxes, interest expense, depreciation and amortization, foreign exchange gains/losses, interest income from banks and other income.

Core Net Income (Loss) Attributable to the Company is computed as the sum of the net income (loss) of each investment after eliminations and excluding non-recurring items, multiplied by the respective economic interest of the Company. Non-recurring items are defined as gains or losses that are infrequent and do not occur in the normal course of the Group's business.

The Issuer believes that the use of EBITDA and Core Net Income (Loss) Attributable to the Company, combined with the required PFRS presentations, improves the understanding of the Group's operating results among investors. EBITDA and Core Net Income (Loss) Attributable to the Company are important measurements because EBITDA measures the key operational results of the Issuer's investments; while the Core Net Income (Loss) Attributable to the Company is a measure of the Group's net income performance weighted based on the Company's share of each investment and after excluding non-recurring items, which indicates the Company's performance in managing its investments.

These non-PFRS financial measures are supplemental measures of the Group's performance that are not required by, or presented in accordance with, and should not be considered as an alternative to net profit, revenues or any other measure of the Group's financial performance derived in accordance with PFRS or as an alternative to cash flows from operations or as a measure of the Issuer's liquidity. Non-PFRS financial measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for, investors' own analysis of the Group's financial condition or results of operations, as reported under PFRS. These non-PFRS financial measures are not standardized terms and other companies may calculate measures bearing the same titles differently, hence a direct comparison between companies using such terms may not be possible, which limits the usefulness of these non-PFRS financial measures.

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## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements and forward-looking financial information, that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause the Group's actual results, performance, or achievements to be materially different from any future results;

- performance or achievements expressed or implied by forward-looking statements;
- the Group's overall future business, financial condition, and results of operations, including, but not limited to, its financial position or cash flow;
- the Group's goals for or estimates of its future operational performance or results; and
- changes in the Group's regulatory environment including, but not limited to, policies, decisions, and determinations of governmental or regulatory authorities.

Such forward-looking statements and forward-looking financial information are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that can cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements and forward-looking financial information include, among other things:

- risks relating to the Issuer's and the Group's operations;
- the ability to leverage on the Group's strengths;
- the ability to successfully implement current and future business strategies;
- the ability to manage expansion and growth;
- the ability to obtain licenses, permits and other authorizations required;
- the ability to obtain financing or raise debt;
- any changes to available interest rates, inflation rates, and the value of the Peso against the U.S. dollar and other currencies;
- the condition of and changes to the Philippines, Asian or global economies;
- the general political, social, and economic conditions in the Philippines;
- any changes in government regulations, including tax laws, or licensing in the Philippines and in other jurisdictions in which the Group operates;
- competition in the water, energy, construction, and waste and sustainable fuels industries in the jurisdictions in which the Group operates;
- risks relating to acquisitions such as the potential completion of the SPEX Sale;
- risks relating to the Offer and the Offer Shares; and
- factors that are not known to the Group at this time.

Additional factors that can cause the Group's actual results, performance or achievements to differ materially from the forward-looking statements and forward-looking financial information in this Prospectus include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Prospectus. These forward-looking statements and forward-looking financial information speak only as of the date of this Prospectus.

In particular, in light of the ongoing COVID-19 pandemic and associated uncertainties in the global financial markets and their contagion effect on the real economy, any forward-looking statements and forward-looking financial information contained in this Prospectus must be considered with significant caution and reservation.

The Issuer, the Group and the Joint Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement and/or forward-looking financial information contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions, assumptions, or circumstances on which any statement is based.

This Prospectus includes statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "aim," "anticipate," "believe," "consider," "continue," "estimate," "expect," "going forward," "intend," "ought to," "plan," "potential," "predict," "project," "propose," "seek," "may," "might," "can," "could," "will," "would," "shall," "should," "is/are likely to," the negative form of these words, and other similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs, and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs, and intentions of its management as to such matters as of the date of this Prospectus, although the Issuer gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "*Risk Factors*" and elsewhere, important factors that can cause actual results to differ materially from the Issuer's expectations. All subsequent written and oral forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by the above cautionary statements.

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## GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

| | |
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| Affiliate | A corporation that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under the common Control of, another corporation. |
| Ahunan Laguna Power Plant | The Ahunan Laguna Power Plant is a 1,400MW (gross) (1,200MW (net)) pumped storage hydropower plant, which is expected to provide 500MW of mid-merit energy to shift underutilized baseload to MERALCO and 700MW to address ancillary requirements of the national grid during peak times or as an additional energy storage solution. |
| Ahunan Power | Ahunan Power, Inc. |
| Ahunan Rizal Plant | The 500MW pumped storage hydropower plant in Rizal Province, which currently is in the pre-development stage, for which Olympia Violago Water & Power, Inc. is the developer. |
| Applicant | A person, whether natural or juridical, who seeks to subscribe for the Offer Shares. |
| Application | An application to purchase the Offer Shares pursuant to the Offer. |
| BDO Capital | BDO Capital & Investment Corporation. |
| BIR | Bureau of Internal Revenue of the Philippines. |
| Board or Board of Directors | The board of directors of the Issuer. |
| BOC | Bureau of Customs. |
| BPI Capital | BPI Capital Corporation. |
| BSP | Bangko Sentral ng Pilipinas, the central bank of the Philippines. |
| BuWD | Bulacan Water District. |
| CAGR | Compound annual growth rate, computed through the formula: $$\text{CAGR} = (\text{Ending amount}/\text{beginning amount})^{1/N} - 1$$ Ending amount is the amount at the end of the period; beginning amount is the amount at the beginning of the period; N is the number of years within the period. |
| Capital Increase | The increase of the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 common shares and 7,000,000,000 preferred shares. |
| CCWD | Calbayog City Water District. |
| CDC | Clark Development Corporation. |
| CIAP | Construction Industry Authority of the Philippines. |

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| CII ............................................... | Ho Chi Minh City Infrastructure Investment Joint Stock Company |
| CIWD .......................................... | City of Ilagan Water District. |
| CLSA .......................................... | CLSA Limited. |
| Common Shares ........................... | The common shares of par value ₱0.10 each of the Issuer. |
| Concession Agreement................ | The Original Concession Agreement, as revised by the Revised Concession Agreement. |
| Concession Fees ........................... | Concession fees that Manila Water is required to pay MWSS. |
| Concessionaires............................ | Manila Water and MWSI. |
| Control......................................... | The power of a corporation to direct or govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly, through subsidiaries, more than one-half of the voting power of an enterprise, unless, in exceptional circumstances, it can clearly be demonstrated that such ownership does not constitute Control. Control also exists even when the parent corporation owns one-half or less of the voting power of an enterprise when there is power:<br><br>i. over more than one-half of the voting rights by virtue of an agreement with investors;<br><br>ii to direct or govern the financial and operating policies of the enterprise under a statute or an agreement;<br><br>iii to appoint or remove the majority of the members of the board of directors or equivalent governing body; or<br><br>iv to cast the majority votes at meetings of the board of directors or equivalent governing body. |
| COVID-19................................... | Coronavirus Disease 2019. |
| CP................................................ | certification precondition. |
| Cu Chi Water............................... | Cu Chi Water Supply Sewerage Company Ltd. |
| CWD ........................................... | Calasiao Water District. |
| CWT ............................................ | Creditable withholding tax. |
| DENR.......................................... | Department of Environment and Natural Resources of the Philippines. |
| DOE............................................. | The Philippine Department of Energy. |
| DOH ............................................ | The Philippine Department of Health. |
| DOLE .......................................... | Department of Labor and Employment. |
| Directors...................................... | Directors of the Company. |
| Distribution Code ........................ | Philippine Distribution Code. |
| Domestic Co-Lead Underwriters.. | First Metro, PNB Capital and RCBC Capital. |
| Domestic QIBs ............................ | qualified institutional buyers and other domestic institutional investors in the Philippines. |

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| East Water .................................... | Eastern Water Resources Development and Management Public Company Limited. |
| East Zone..................................... | The East Zone Service Area of Metro Manila and the Province of Rizal, as defined and delineated under the Concession Agreement. |
| East Zone Franchise Law ............. | Republic Act No. 11601, the legislative franchise granted to Manila Water to operate as a public utility over the East Zone. |
| EBITDA ...................................... | The Group's consolidated net income (loss) excluding provision for taxes, interest expense, depreciation and amortization, foreign exchange gains/losses, interest income from banks and other income. |
| ECC ............................................. | Environmental Compliance Certificate. |
| ECL ............................................. | expected credit loss. |
| ECQ............................................. | enhanced community quarantine. |
| EGCO .......................................... | Electricity Generating Public Company Limited. |
| EIS............................................... | Environment Impact Statement. |
| Energy Companies ....................... | Certain subsidiaries and affiliates of Prime Infrastructure and Prime Metro Power, in particular, Ahunan Power, Terra Solar, SP Tanauan, SP Tarlac and Menatech, through which the Group operates and has invested in energy generation projects, including hydro, solar and gas, in the Philippines and Iraq. |
| EPIRA ......................................... | Electric Power Industry Reform Act. |
| ERC ............................................. | The Philippine Energy Regulatory Commission. |
| Escrow Agent .............................. | BDO Unibank, Inc. Trust and Investments Group. |
| ESG ............................................. | Environmental, Social and Governance. |
| FCDA .......................................... | Foreign currency differential adjustment. |
| Firm Offer ................................... | The offer and sale of the Firm Shares. |
| Firm Shares ................................. | [Up to] [1,793,752,000] common shares to be offered and issued by the Issuer on a primary basis. |
| First Metro.................................. | First Metro Investment Corporation. |
| FPIC ............................................ | Free Prior and Informed Consent. |
| GCPI............................................ | The General Company for Ports of Iraq. |
| GCQ ............................................ | General community quarantine. |
| GDP............................................. | Gross domestic product, or the monetary value of all the finished goods and services produced within a country's borders, calculated on an annual basis. |
| GIS .............................................. | General Information Sheet, an annual report submitted to the Philippine SEC pursuant to Section 177 of the Revised Corporation Code, which requires all corporations doing business in the Philippines to provide basic corporate information. |

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| Government or National Government | The government of the Republic of the Philippines. |
| Grid Code | Philippine Grid Code. |
| Group | The Issuer and its subsidiaries. |
| GWI | Global Water Intelligence. |
| ICTSI | International Container Terminal Services, Inc. |
| IEE | Initial Environmental Examination. |
| Institutional Offer | The offer for sale of the Institutional Offer Shares (i) outside the United States in offshore transactions in reliance on Regulation S of the U.S. Securities Act by the Joint International Bookrunners; (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to Domestic QIBs and other investors in the Philippines by the Local Underwriters. |
| Institutional Offer Shares | Up to [1,255,626,400] Offer Shares being offered for sale pursuant to the Institutional Offer. |
| Intermediate Holding Companies | Prime Metro Power, Prime Metroline, Prime Infrastructure and Trident Water. |
| IWP | International Water Partners Company. |
| Joint Bookrunners | CLSA, UBS, BDO Capital and BPI Capital. |
| Joint Bookrunners and Joint Local Underwriters | BDO Capital and BPI Capital. |
| Joint International Bookrunners | CLSA and UBS. |
| KDWH | Kenh Dong Water Holdings Pte. Ltd. |
| KSA | Kingdom of Saudi Arabia. |
| Listing Date | The date on which trading of the Common Shares on the PSE begins, expected to be on or about [November 11], 2022. |
| LGUs | Local government units in the Philippines. |
| Local Underwriters | BDO Capital, BPI Capital, First Metro, PNB Capital and RCBC Capital. |
| LSIs | Local small investors. |
| LWD | Lambunao Water District. |
| Malampaya Holdings | Malampaya Holdings Singapore Pte. Ltd. |
| Manila Concession | The exclusive right given to Manila Water to provide services to the East Zone, as an agent and contractor of the MWSS, on February 21, 1997 under the Original Concession Agreement with the MWSS, as further amended thereafter; and the legislative franchise for the provision of such public utility granted to Manila Water under the East Zone Franchise Law. |
| Manila Water | Manila Water Company, Inc. |

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| Manila Water Group.................... | Manila Water and its subsidiaries. |
| Manual......................................... | The Issuer's Manual for Corporate Governance. |
| MCM ........................................... | million cubic meters. |
| MCWD ........................................ | Metropolitan Cebu Water District. |
| MECQ ......................................... | modified enhanced community quarantine. |
| Menatech ..................................... | Menatech Energy Limited. |
| MERALCO ................................. | Manila Electric Company |
| MERALCO TPBAC .................... | MERALCO Third Party Bids and Awards Committee |
| Metro Manila............................... | The metropolitan area comprising the city of Manila, the cities of Caloocan, Las Piñas, Navotas, Makati, Malabon, Mandaluyong, Marikina, Muntinlupa, Parañaque, Pasay, Pasig, Quezon City, San Juan, Taguig and Valenzuela, and the municipality of Pateros. |
| MEXP.......................................... | Malampaya Energy XP Pte. Ltd. |
| MGCQ ......................................... | Modified general community quarantine. |
| MHPL.......................................... | MEXP Holding Pte. Ltd. |
| MLD ............................................ | Million liters of water per day. |
| MMBTU...................................... | One million British thermal units. |
| MOAs .......................................... | memorandum of agreements. |
| MW ............................................. | Megawatts. |
| $MW_{AC}$ ........................................ | Megawatts of alternating current. |
| MWEU ........................................ | Manila Water Employees Union. |
| MWSAH ...................................... | Manila Water South Asia Holdings Pte. Ltd. |
| MWSI .......................................... | Maynilad Water Services, Inc. |
| MWSS ......................................... | Metropolitan Waterworks and Sewerage System. |
| MWSS-RO .................................. | MWSS Regulatory Office. |
| Name Change .............................. | The change of name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." |
| National Internal Revenue Code ......................................... | Republic Act No. 8424 or the Tax Reform Act of 1997, as amended. |
| NCIP............................................ | National Commission on Indigenous Peoples. |
| NetJets ......................................... | NetJets Inc. |
| NGCP .......................................... | National Grid Corporation of the Philippines. |
| NPA............................................. | New People's Army. |
| NRV ............................................ | net realizable value. |

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| NRW ........................................... | Non-Revenue Water. |
| NWRB......................................... | National Water Resources Board, an agency of the Government. |
| Offer ............................................ | The offer and sale of the Offer Shares on, and subject to, the terms and conditions stated herein. |
| Offer Price .................................. | Up to ₱[14.60] per Offer Share. |
| Offer Shares................................ | The Firm Shares and the Option Shares. |
| offtake agreement......................... | An offtake agreement is an arrangement between a producer and a buyer to purchase or sell portions of the producer's upcoming goods. For the Group's energy business, for example, this can mean a power supply agreement entered into by a power generator and a distribution utility. For the Group's water business, this could mean an agreement to purchase and supply water between a water source and water distribution utility. |
| Operating Subsidiaries and Portfolio Companies................. | Ahunan Power; Manila Water; Menatech; Prime BMD; Prime Integrated Waste Solutions; Prime Metro Power Global Holdings Limited; SP Tanauan; SP Tarlac; Terra Solar; WasteFuel Philippines, and WawaJVCo. |
| Option Shares .............................. | Up to [179,375,200] Common Shares to be sold by the Issuer and purchased by the Stabilizing Agent upon exercise of the Over-allotment Option. |
| Order of Registration................... | The order of registration issued by the Philippine SEC granting the effectiveness of the registration statement filed in relation to the Offer Shares. |
| Original Concession Agreement... | The concession agreement dated February 21, 1997 between Manila Water and MWSS, as amended on October 26, 2001 and as further amended on October 23, 2009. |
| Organizational Documents ........... | The Articles of Incorporation and By-Laws, including amendments thereof, of the Issuer. |
| OSG............................................. | Office of the Solicitor General. |
| Over-allotment Option ................ | An option granted by the Issuer to the Stabilizing Agent, exercisable within 30 calendar days from and including the Listing Date, to purchase Option Shares. |
| OVWPI........................................ | Olympia Violago Water & Power, Inc. |
| OWD ........................................... | Obando Water District. |
| PAGWAD ................................... | Pagsanjan Water District. |
| PAMB ......................................... | Protected Area Management Board. |
| Parent........................................... | A corporation, which has Control over another corporation, directly or indirectly, through one or more intermediaries. |
| PAS ............................................. | Philippine Accounting Standards. |
| PCA ............................................. | Philippine Competition Act. |
| PCAB .......................................... | Philippine Contractors Accreditation Board. |

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| PCC ............................................ | Philippine Competition Commission. |
| PCD ............................................ | The Philippine Central Depository. |
| PCD Nominee ............................ | The PCD Nominee Corporation, a corporation wholly-owned by the PDTC. |
| PDS ............................................ | The Philippine Dealing System. |
| PDTC.......................................... | The Philippine Depository and Trust Corp. |
| Permit to Sell.............................. | The certificate of permit to offer securities for sale issued by the Philippine SEC in relation to the Offer Shares. |
| Pesos or ₱ .................................... | The lawful currency of the Philippines. |
| PFRS .......................................... | Philippine Financial Reporting Standards. |
| PGL ............................................ | Provincial Government of Laguna. |
| Philippine Clean Water Act.......... | R.A. 9275 or the "Philippine Clean Water Act of 2004" |
| Philippines.................................. | Republic of the Philippines. |
| Philippine Revised Corporation Code ........................................ | Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines. |
| Philippine National...................... | As defined under the Foreign Investments Act of 1991, means a citizen of the Philippines, or a domestic partnership or association wholly owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and the entitlement to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Revised Corporation Code of which 100% of the capital stock outstanding and the entitlement to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of Philippine nationals; provided, that where a corporation and its non-Filipino stockholders own stocks in a Philippine SEC-registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines, in order that the corporation shall be considered a Philippine national.<br><br>Pursuant to SEC Memorandum Circular No. 8, Series of 2013, which generally applies to all corporations engaged in identified areas of activities or enterprises specifically reserved, wholly or partly, to Philippine nationals by the Philippine Constitution, the Foreign Investments Act of 1991 and other existing laws, amendments thereto, and implementing rules and regulations of the said laws, for purposes of determining compliance with the constitutional or statutory ownership requirement, the required percentage of Filipino ownership shall be applied to both: (i) the total number of outstanding shares of stock entitled to vote in the election of directors; and (ii) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. |
| Philippine SEC ............................ | The Securities and Exchange Commission of the Philippines. |
| Philwater ..................................... | Philwater Holdings Company, Inc. |

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| PNB Capital ................................ | PNB Capital and Investment Corporation. |
| Power Projects............................. | Collectively, the Ahunan Laguna Power Plant, the Tarlac Solar Power Plant, the Tanauan Solar Power Plant, the Terra Solar Power Plant, and the Umm Qasr Power Plant. |
| Prime BMD ................................ | Prime Metro BMD Corporation. |
| Prime Exploration ....................... | Prime Exploration Pte. Ltd. |
| Prime Infrastructure..................... | Prime Infrastructure, Inc. |
| Prime Integrated Waste Solutions | Prime Integrated Waste Solutions, Inc. |
| Prime Metro Power ..................... | Prime Metro Power Holdings Corporation. |
| Prime Metroline........................... | Prime Metroline Infrastructure Holdings Corporation. |
| Prime Strategic Holdings............. | Prime Strategic Holdings, Inc. |
| PSE............................................. | The Philippine Stock Exchange, Inc. |
| PSE Listing Rules........................ | PSE Consolidated Listing and Disclosure Rules, as amended. |
| PSE Main Board.......................... | One of the two boards of the PSE, open to companies that have at least three years of operating history, cumulative net income, excluding non-recurring items, of at least ₱75 million for three full fiscal years immediately preceding the application for listing and a minimum net income of ₱50 million for the most recent fiscal year, and ₱500 million stockholders' equity for the fiscal year immediately preceding listing. |
| PSE Trading Participants............. | Duly licensed securities brokers who are trading participants of the PSE. |
| PT STU....................................... | PT. Triguna Rapindo Mandiri. |
| PV............................................... | Photovoltaic. |
| Rate Rebasing.............................. | A regular process under Manila Water's concession agreements under which tariff rates of Manila Water are evaluated and which the rates for water and sewerage services are recalibrated to allow Manila Water to recover the following items over the remaining concession period:<br>• its operating, capital maintenance and investment expenditures (as prudently and efficiently incurred);<br>• Philippine business taxes; and<br>• payments corresponding to debt service on grantor and concessionaire loans. |
| Razon & Co................................ | Razon & Co. Inc, a holding company owned by Mr. Enrique K. Razon, Jr., his wife, and two children. |
| Razon Group of Companies ......... | Companies owned or controlled by Razon & Co., Mr. Enrique K. Razon, Jr., his immediate family, his siblings, or their mother. |
| RCBC Capital.............................. | RCBC Capital Corporation. |
| Receiving Agent.......................... | Stock Transfer Service, Inc. |
| Regulation S ................................ | Regulation S under the U.S. Securities Act. |

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| Revised Concession Agreement... | The Revised Concession Agreement dated March 31, 2021, between Manila Water and MWSS. |
| Revised Corporation Code of the Philippines................................ | Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines. |
| RPS............................................. | Renewable Portfolio Standards. |
| Shareholders................................ | The shareholders of the Issuer, following the completion of the Offer. |
| SAPA........................................... | Special Use Agreement in Protected Areas. |
| SAWACO ................................... | Saigon Water Corporation. |
| SC38............................................ | Service Contract No. 38. |
| SC38 Consortium ........................ | SPEX, UC38 LLC (formerly Chevron Malampaya LLC) and PNOC-EC. |
| September 5 Subscription............ | The subscription of 100,866,657 Common Shares of the Issuer at an issue price of ₱6.00 per Common Share or an aggregate issue price of ₱605,199,942.00 by Prime Strategic Holdings on September 5, 2022, as described more particularly in "*Description of the Shares*." |
| September 15 Subscription........... | The subscription of 47,216,664 Common Shares of the Issuer at an issue price of ₱6.00 per Common Share or an aggregate issue price of ₱283,299,984.00, by certain subscribers on September 15, 2022, as described more particularly in "*Description of the Shares*." |
| September Subscriptions ............. | the September 5 Subscription and the September 15 Subscription. |
| Shell............................................. | Shell Petroleum NV. |
| SMA ............................................ | septage management agreement. |
| Sole Global Coordinator and Bookrunner............................... | CLSA. |
| SP Tanauan................................. | Solar Tanauan Corporation. |
| SP Tarlac ..................................... | Solar Philippines Tarlac Corporation. |
| SPEX........................................... | Shell Philippines Exploration B. V. |
| SRC ............................................. | The Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended. |
| Stabilization Period ..................... | the period beginning on or after the Listing Date and ending on a date no later than 30 calendar days from and including the Listing Date during which the Stabilizing Agent has an option exercisable in whole or in part for the conduct of stabilization activities. |
| Stabilizing Agent......................... | CLSA Limited and its affiliates. |
| State............................................. | The Republic of the Philippines. |
| Stock Transfer Agent................... | Stock Transfer Service, Inc. |
| Subsidiary.................................... | A corporation which is Controlled, directly or indirectly, by another corporation which thereby becomes its Parent. |

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|---|---|
| Tanauan Solar Power Plant.... | The 140MW solar power plant under construction in Tanauan and Maragondon in the Philippines. |
| Tarlac Solar Power Plant............. | The 100MW (150MW upon completion) solar power plant in Tarlac, Philippines. |
| TDWH........................................ | Thu Duc Water Holdings Pte. Ltd. |
| Terra Solar.................................. | Terra Solar Philippines, Inc. |
| Terra Solar Power Plant............ | The 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system expected to be located and constructed in Bulacan and Nueva Ecija, Philippines. |
| TIEZA ........................................ | Philippine Tourism Infrastructure and Enterprise Authority. |
| TnWD......................................... | Tanauan Water District. |
| Trading Participants and Retail Offer.............................. | The offer for sale of the Trading Participants and Retail Offer Shares to be made in the Philippines, in reliance on Regulation S of the U.S. Securities Act. |
| Trading Participants and Retail Offer Settlement Date .......................................... | The date on which domestic subscriptions under the Trading Participants and Retail Offer are paid, expected to be on or about [November 3], 2022. |
| Trading Participants and Retail Offer Shares................... | [534,493,100] Firm Shares being offered pursuant to the Trading Participants and Retail Offer. |
| TRHI .......................................... | Terra Renewables Holdings, Inc. |
| Trident Water .............................. | Trident Water Company Holdings, Inc. |
| TWD........................................... | Tagum Water District. |
| UATP .......................................... | Umiray Angat Transbasin Project. |
| UBS ............................................ | UBS AG, Singapore Branch. |
| Umm Qasr Power Plant............... | The 29.3MW (67.8MW upon completion) gas-fired power plant located in the Umm Qasr Port, Basra, Iraq. |
| UN SDGs .................................... | United Nations Sustainable Development Goals. |
| U.S. Securities Act ...................... | The United States Securities Act of 1933, as amended. |
| VAT............................................ | Value-added tax. |
| VRE............................................ | Variable renewable energy. |
| WasteFuel Global........................ | WasteFuel Global LLC. |
| WasteFuel Philippines................. | WasteFuel Philippines, Inc. |
| Wawa Bulk Water Supply Project ...................................... | The project to develop and operate the Tayabasan Weir and Upper Wawa Dam, which will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila. |
| WawaJVCo ................................. | WawaJVCo, Inc. |
| WESM......................................... | Wholesale Electricity Spot Market. |

Zamboanga Water ........................ Zamboanga Water Company, Inc.

## SUMMARY

*The following summary is qualified in its entirety by, and is subject to the more detailed information and financial statements contained or referred to elsewhere in this Prospectus. The meanings of terms not defined in this summary can be found elsewhere in this Prospectus.*

### OVERVIEW

Prime Infrastructure Capital, Inc. (the "**Company**" or the "**Issuer**," and together with its Subsidiaries, the "**Group**") was incorporated on August 20, 2020 and is a company focused on developing, designing, managing and operating key infrastructure assets that enable delivery of essential services to communities in emerging markets worldwide. As of June 30, 2022, the Group's businesses comprise four core industrial sectors—water, energy generation, construction, and waste and sustainable fuels—in the Philippines and other emerging markets. The Issuer holds its investments and operating companies through the following holding companies: Prime Metro Power Holdings Corporation ("**Prime Metro Power**"), Prime Metroline Infrastructure Holdings Corp. ("**Prime Metroline**"), Prime Infrastructure, Inc. ("**Prime Infrastructure**") and Trident Water Company Holdings, Inc. ("**Trident Water**," and together with Prime Metro Power, Prime Metroline and Prime Infrastructure, the "**Intermediate Holding Companies**").

***Direct and indirect subsidiaries of the Issuer***

The table below summarizes certain subsidiaries of the Issuer. For more information, please refer to the corporate structure chart of the Issuer in "*Description of the Issuer and the Group*" and the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

| **Name of Subsidiary** | **Nature of business** | **Percentage of ownership of the relevant Group entity** | **Joint venture partners** |
|---|---|---|---|
| Prime Metroline Infrastructure Holdings Corp. (Prime Metroline) | Developing and/or investing in infrastructure assets in construction and biofuels | 99.32% owned by the Issuer | Not applicable |
| Prime Metro BMD Corporation | Construction, and engineering, procurement and construction contractor | 60% owned by Prime Metroline | BMD International Pty. Ltd. |
| Waste Fuel Philippines, Inc. | Manufacture, processing, and sale of biofuels and its related by-products without engaging in retail trade activities | 60% owned by Prime Metroline | WasteFuel Global LLC |
| Prime Metro Power Holdings Corporation (Prime Metro Power) | Developing and/or investing in infrastructure assets in renewable and sustainable energy | 99.84% owned by the Issuer | Not applicable |
| Ahunan Power, Inc. | Development, construction, operation, maintenance, repair, and | 85% owned by Prime Infrastructure | JBD Water Power, Inc. (formerly JBD Management and Consulting Services, Inc.) |

| Name of Subsidiary | Nature of business | Percentage of ownership of the relevant Group entity | Joint venture partners |
|---|---|---|---|
| | management of hydropower plants, other power-generating plants, related facilities and other allied business, including investing, bidding and negotiating for such projects, and to trade electricity in the Wholesale Electricity Spot Market | | |
| Menatech Energy Limited | Operates the Umm Qasr Power Plant located at the Umm Qasr Port, Basra Governorate, Republic of Iraq | 100% owned by Prime Metro Power | Not applicable |
| Prime Exploration Pte. Ltd. | Developing and/or investing in infrastructure assets in natural gas projects, including the Malampaya gas field | 100% owned by Prime Metro Power | Not applicable |
| Prime Metro Power Global Holdings Ltd | Energy | 100% owned by Prime Metro Power | Not applicable |
| Prime Infrastructure, Inc. (Prime Infrastructure) | Developing and/or investing in infrastructure assets, which include renewable and sustainable energy and water | 100% owned by the Issuer | Not applicable |
| PrimeRES Energy Corporation | Participation in the energy retail market and provision of a market mechanism to sell power | 100% owned by Prime Infrastructure | Not applicable |
| WawaJVCo Inc. | Bulk water supply, including obtaining water permits and the establishment and operation of facilities for the capture and diversion of water and selling such water in bulk for municipal use | 82% owned by Prime Metroline | San Lorenzo Ruiz Builders and Developers Group |
| Terra Solar Philippines, Inc. | Generating power from renewable energy sources and selling or supplying the same to any corporation, public utility, | 50% + 1 share owned by Prime Infrastructure | Solar Philippines Power Project Holdings, Inc. |

| Name of Subsidiary | Nature of business | Percentage of ownership of the relevant Group entity | Joint venture partners |
| --- | --- | --- | --- |
| | distribution utility or electric cooperative | | |
| Solar Tanauan Corporation | Renewable energy | 50% + 1 share owned by Prime Infrastructure | Solar Philippines Power Project Holdings, Inc. |
| Trident Water Company Holdings, Inc. (Trident Water) | To acquire, hold or dispose of properties, including shares of stock and securities of any corporation, including those engaged in water supply and in water distribution business, and to be involved in the management and operation of such investee companies | 100% owned by Prime Infrastructure | Not applicable |
| Manila Water Company, Inc. | Provision of water, integrated use water, sewerage and sanitation, distribution services, pipeworks, engineering, procurement and management services. | 52.2% (voting) and 35.6% (economic interest) owned by Trident Water | Not applicable; rest held by Ayala Corporation as a significant minority shareholder and public shareholders. |
| ARN Central Waste Management Inc. | Waste treatment and disposal | 20% of the shares and 100% of the voting interest are owned by Prime Integrated Waste Solutions | Not applicable |

***Group's principal businesses***

The Group's principal businesses are summarized below.

- ***Water*** – Through Prime Infrastructure's wholly-owned subsidiary Trident Water, which as of June 30, 2022, has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from Philwater Holdings Company, Inc. ("**Philwater**")), respectively, of the publicly listed Manila Water Company, Inc. ("**Manila Water**," and together with its subsidiaries, the "**Manila Water Group**"). The Manila Water Group is a regional player in the water supply and wastewater industry. The Manila Water Group is engaged in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services in the Philippines, South East Asia and the KSA. On February 21, 1997, under a 25-year Concession Agreement with the MWSS, Manila Water was given the exclusive right to provide services to the East Zone of Metro Manila, as an agent and contractor of the MWSS (the "**Manila Concession**"). The Concession Agreement, as revised on March 31, 2021, expires in May 2037. On December 10, 2021, President Duterte signed the East Zone Franchise Law into law, thereby granting a franchise to Manila Water to operate as a public utility over the East Zone of Metro Manila. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise. Prime Infrastructure also owns 82.0% of WawaJVCo, a joint venture enterprise with San Lorenzo Ruiz Builders & Developers Group, Inc. formed to develop and operate the Tayabasan Weir and Upper Wawa Dam which will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila (the "**Wawa Bulk Water Supply Project**") and which is expected to increase Manila Water's water capacity by over 30% from about 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project. See "*Description of the Group's Water Business*" for further details.

- ***Energy*** – Through certain subsidiaries and affiliates of Prime Infrastructure and Prime Metro Power (such subsidiaries and affiliates, the "**Energy Companies**") and Prime Metro Power's ownership of preferred shares in SP Tarlac, the Group either operates or has invested in energy generation projects, including hydro, solar, and gas, in the Philippines and Iraq. These projects include the 1,400MW (gross) (1,200MW (net)) hydropower project expected to be located and constructed in Laguna, Philippines (the "**Ahunan Laguna Power Plant**"); the 100MW (150MW upon completion) solar power plant in Tarlac, Philippines (the "**Tarlac Solar Power Plant**"); the 140MW solar power plant under construction in Tanauan and Maragondon in the Philippines (the "**Tanauan Solar Power Plant**"); the 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system expected to be located and constructed in Bulacan and Nueva Ecija, Philippines (the "**Terra Solar Power Plant**"); and the 29.3MW (67.8MW upon completion) gas-fired power plant located in the Umm Qasr Port, Basra, Iraq (the "**Umm Qasr Power Plant**") (collectively, the "**Power Projects**"). See "*Description of the Group's Energy Business*" for further details.

- ***Construction*** – Through Prime Metro BMD Corporation ("**Prime BMD**"), a joint venture partnership between Prime Metroline and BMD International Pty Ltd., a large Australian civil contractor company, the Group constructs major infrastructure projects in the Philippines. Prime BMD's projects include roads and bridges, marine infrastructure and dredging services, airport infrastructure, building works, water and wastewater infrastructure, rail infrastructure, and commercial and residential land subdivision projects. As of the date of this Prospectus, the Issuer's wholly-owned subsidiary Prime Metroline owns 60.0% and BMD International Pty Ltd. owns 40.0% of Prime BMD. See "*Description of the Group's Construction Business"* for further details.

- ***Waste and Sustainable Fuels*** – The Issuer holds 9.04% of the issued share capital of WasteFuel Global LLC ("**WasteFuel Global**"), a California-based entity founded to utilize scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas, and green methanol. The Issuer and WasteFuel Global have also established a subsidiary, WasteFuel Philippines Inc. ("**WasteFuel Philippines**") to develop a facility in the Philippines to convert municipal waste into aviation-grade low-carbon fuel for sale to customers in the aviation sector. Through Prime Integrated Waste Solutions, Inc. ("**Prime Integrated Waste Solutions**"), a wholly-owned direct subsidiary of Prime Infrastructure, and WasteFuel Philippines, the Group plans to develop an integrated waste and sustainable fuels solution business in the Philippines. See "*Description of the Group's Waste and Sustainable Fuels Business*" for further details.

In addition to the foregoing businesses, Prime Infrastructure incorporated its wholly-owned subsidiary, Torre, Inc., in the Philippines on December 29, 2020, to engage in the development and operation of telecommunications infrastructure. As of the date of this Prospectus, Torre, Inc. does not hold any operational assets.

The Group integrates environmental, social and governance ("**ESG**") thinking into its operations, which embodies its purpose to create better lives and more resilient economics in the jurisdictions where it is present. The Group's ESG focus areas include (i) net zero transitions through innovation and technology across water, carbon, and waste and sustainable fuels, (ii) community partnerships through community investments, assisting in resilience and disaster preparedness, and human capital development, and (iii) purpose-driven profits through the generation and distribution of economic value and job creation and consideration for social and environmental impact.

The Group's consolidated revenue for the years ended December 31, 2019, 2020 and 2021 was ₱2,294.6 million, ₱3,234.4 million and ₱15,150.4 million (U.S.$291.4 million), respectively, while consolidated net income (loss) for the years ended December 31, 2019, 2020 and 2021 was ₱(21.2) million, ₱442.8 million and ₱10,831.6 million (U.S.$208.3 million), respectively. The Group's consolidated net income (loss) attributable to shareholders of the Issuer for the years ended December 31, 2019, 2020 and 2021 was ₱(78.6) million, ₱356.0 million and ₱9,363.6 million (U.S.$180.1 million), respectively. The Group's consolidated net income for the year ended December 31, 2019 was derived exclusively from its construction business and its consolidated net income for the year ended December 31, 2020 was derived primarily from its construction business. The Group's consolidated net income for the year ended December 31, 2021 was primarily derived from its water business after the completion of Trident Water's acquisition of Manila Water. For the six months ended June 30, 2022, the Group's consolidated revenue was ₱12,601.8 million (U.S.$229.2 million), consolidated net income was ₱2,549.4 million (U.S.$46.4 million) and consolidated net income attributable to shareholders of the Issuer was ₱464.5 million (U.S.$8.5 million).

See "*Description of the Issuer and the Group*" for more details.

**COMPETITIVE STRENGTHS**

The Company believes that it has the following principal competitive strengths as it aims to be a leading developer of sustainable critical infrastructure in the Philippines, across four core industrial sectors—energy generation, water, construction, and waste and sustainable fuels.

***Driving impact and sustainable development with its ESG commitment***

The Company is focused on sustainable development and integrates ESG philosophy into its operations, which embodies its purpose to create better lives and more resilient economics in the jurisdictions where it is present. The Company believes that its ESG focus is a core factor in driving its strategic competitive advantage. The Company's purpose is to create better lives and more resilient economies in the jurisdictions where it is present through innovation and by implementing sustainable practices in the critical infrastructure it delivers.

The Company is guided by the following key ESG principles:

1. purpose-driven profits — the Company identifies and evaluates markets and opportunities with integrity by espousing best corporate governance practices. In addition to shareholder value creation and profit generation, the Company considers economic value creation and distribution, jobs creation, social and environmental impact, among others, in evaluating opportunities.
2. sustainability focus — the Company integrates sustainable thinking and innovative practices into its businesses and operations, facilitating the adoption of global best practices and technology in managing resources, waste and sustainable fuels, and carbon emissions, to achieve net zero transitions.
3. community partnerships — the Company believes in inclusive economic growth and that fostering resilient communities is a key factor in and an important measure of the success of its projects. The Company invests in the communities in which it operates, assists in building community resilience and disaster preparedness,

and facilitates human capital development, and in doing so, seeks to improve economic, cultural, educational, and overall welfare and living conditions. The Company aims to make the communities in which the Company operates partners and stewards of its projects.

***Leveraging on the solid track record of the Issuer's senior management team's agile and forward thinking***

The Group has achieved exceptional growth since its inception as a result of the Issuer's senior management team's solid track record of executing and delivering complex transactions and projects that the Company believes play a significant role in both the industries and markets the Company serves. In particular, the Issuer's senior management team has a strong track record of executing infrastructure projects, in terms of quality control, cost control, and delivering in accordance with agreed timelines.

***A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects***

The Company believes that its 35.6% economic interest (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater) in Manila Water as of June 30, 2022 enables the Company to enjoy stable earnings and cash flow while it undertakes numerous projects, particularly in the renewable energy space. The Company also expects to receive cash flow from the operations of WawaJVCo's Wawa Bulk Water Supply Project, which the Company expects to commence by the fourth quarter of 2022.

The Group, through Trident Water's control of 52.16% of the voting rights for Manila Water as of June 30, 2022, is a regional player in the water supply and wastewater industry. The Manila Water Group covers the entire water supply value chain, from water source development and distribution to wastewater treatment. A key pillar of Manila Water's business is anchored on Manila Water's concession over the East Zone under the Concession Agreement with MWSS. Through the Concession Agreement, Manila Water operates and manages an urban water supply system in the East Zone of Metro Manila which covers 23 cities and municipalities with around seven million people as of June 30, 2022. As of June 30, 2022, Manila Water has three major water sources for Metro Manila.

Furthermore, Manila Water has built a strong presence in prominent regions outside of Metro Manila, including, among others, Laguna, Clark, and Boracay. Manila Water also delivers bulk water to the Metropolitan Cebu Water District, Tagum Water District, and Iligan Water District. As of June 30, 2022, Manila Water's non-East Zone serves approximately 1.8 million people.

WawaJVCo was formed to develop and operate the Wawa Bulk Water Supply Project, which is expected to address the inadequate existing water supply in Metro Manila as the Angat dam, the main water source of Manila Water, does not have sufficient capacity to address the water needs of the East Zone. The Wawa Bulk Water Supply Project is being constructed in two phases: the first phase comprises the Tayabasan Weir, which is expected to provide 80 MLD by the fourth quarter of 2022, and the second phase comprises the Upper Wawa Dam, which is expected to provide at least an additional 438 MLD by the end of 2025. In May 2022, four months ahead of schedule, the weir at Tayabasan Weir was impounded. As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed (and Tayabasan Weir is in the testing and commissioning phase) and the Company expects the Tayabasan Weir to commence commercial operations in the fourth quarter of 2022. As of September 19, 2022, Upper Wawa Dam is approximately 18.61% complete. Upon completion of the Upper Wawa Dam, which is expected in December 2025, the capacity of the Wawa Bulk Supply Project is expected to increase to 518 MLD. In August 2019, WawaJVCo and Manila Water entered into a 30-year offtake arrangement for at least 518 MLD of water, at ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational).

Upon completing the Group's power projects which are currently in development, the Company also expects that its earnings and cash flows will be further strengthened by predictable and stable revenues from offtake agreements. Future offtake agreements of the Group's sustainable fuels business are also expected to be stable and sustainable given the increasing trend of major players in the aviation and marine transportation businesses of making significant and long-lasting commitments to decrease their carbon footprints.

The Group's construction business, through Prime BMD, has been operating since 2017. For the six months ended June 30, 2022, Prime BMD had a construction order book of approximately ₱0.5 billion and as of June 30, 2022, Prime BMD had an order book outstanding of approximately ₱4.6 billion. Prime BMD has various heavy civil and specialized infrastructure contracts across the Philippines, including power plant operation and maintenance. The Company, through the Iraq branch of Menatech, owns 100% of the Umm Qasr Power Plant, a gas-fired power plant located in Basra, Iraq. The first phase of the Umm Qasr Power Plant, comprising 29.34MW of installed capacity, commenced commercial operations in February 2020. The Company, through Menatech, has entered into a 23-year contract of supplying, installation, management and operation of power plant with GCPI, which agreement provides for the sale of power from February 18, 2020 to February 18, 2043. GCPI is the sole offtaker of the Umm Qasr Power Plant.

***Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth***

As of the date of this Prospectus, the Company is developing the following pipeline of projects:

*Water*

As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed and is in the testing and commissioning phase. It is expected to begin supplying 80 MLD of raw water for the East Zone at an initial rate of ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational) by the fourth quarter of 2022. As of September 19, 2022, Upper Wawa Dam was approximately 18.61% complete. The Upper Wawa Dam is expected to begin supplying at least an additional 438 MLD for the East Zone by the end of 2025.

Manila Water's significant experience in the East Zone has allowed it to leverage its operational know-how and best practices to other urban areas in the Philippines, Southeast Asia, the Middle East, and the rest of the world. It is able to provide the full range of services in the water industry, including, among others, distribution services, pipeworks, engineering, management services, wastewater services, and metering. For example, a consortium of Manila Water with Saur SAS and Miahona Company signed seven-year management, operations and maintenance contracts with the National Water Company of the KSA for its northwestern cluster in December 2020 and its eastern cluster in October 2021. Notably, the National Water Strategy 2030 of the KSA includes the privatization of water and wastewater operations into long-term concessions.

*Power − Renewable Energy*

SP Tanauan's Tanauan Solar Power Plant is a 140MW solar power plant expected to be completed in the second half of 2023.

Terra Solar's Terra Solar Power Plant, composed of a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system which is expected to provide 850MW of mid merit energy once completed, is at pre-development stage. The first phase of the Terra Solar Power Plant comprising 600MW is expected to commence commercial operations in February 2026 and the second phase of the Terra Solar Power Plant comprising 250MW is expected to be completed in February 2027. The Philippine Department of Energy has also issued several solar energy service contracts to Terra Solar. The Company believes that, upon completion, the Terra Solar Power Plant is expected to be one of the largest solar power plus battery storage systems in the world.

The Ahunan Laguna Power Plant is a 1,400MW (gross) (1,200MW (net)) pumped storage hydropower plant, which is expected to provide 500MW of mid-merit energy to shift underutilized baseload to MERALCO and 700MW to address ancillary requirements of the national grid during peak times or as an additional energy storage solution. The project permits for the integration of variable renewable energy ("**VRE**") as it functions to absorb excess generation and cover lulls in the generation of VRE such as wind, solar and run-of-river hydro.

The Company believes that upon completion, the Ahunan Laguna Power Plant will be one of the largest pumped storage hydroelectric power plants in the world. The Ahunan Laguna Power Plant is expected to commence commercial operations in 2027 (500MW in the first half of 2027 and 700MW in the second half of 2027).

The Group's pipeline of energy projects includes the possible expansion of its sales of power to a broader range of customers, including retail customers.

*Waste and Sustainable Fuels*

The business strategy of the Company's waste and sustainable fuels business consists of developing the capability to produce sustainable marine fuel in the initial phases of operations of its biofuel conversion facility and to produce aviation-grade low-carbon fuel at a later phase of its operations, and the development of waste-to-fuel conversion facilities. The Company also believes that there is potential for producing renewable diesel. These are intended to help address the pollution generated by jet fuel and marine fuel (and if renewable diesel is developed, road vehicle fuel) and a potential garbage crisis in the Philippines, which the Company believes are two of the most significant problems globally and in the Philippines. The Company also recognizes synergies inherent in developing the capability to convert solid waste to sustainable fuels, and the Company believes there are significant opportunities in waste management and sustainable fuels. See "*Description of the Group's Waste and Sustainable Fuels Business−Projects*" for further details.

The Company has a 9.04% equity interest in WasteFuel Global, which is a shareholder of the private aviation company, NetJets Inc. ("**NetJets**"), which is in turn a subsidiary of Berkshire Hathaway Inc. NetJets has set a goal to lower its carbon footprint significantly, and has committed to purchase a minimum of 100 million gallons of sustainable aviation fuel over the next 10 years. Similarly, an affiliate of Maersk has invested in WasteFuel Global, enabling WasteFuel Global's development of scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas and green methanol.

The Company, together with WasteFuel Global, has established WasteFuel Philippines to address the demand for sustainable fuels, among other objectives. WasteFuel Philippines has recently confirmed the technical feasibility of developing a sustainable fuel production plant in the Philippines.

The Company's waste and sustainable fuels business' strategy relies on, among other things, the Company's acquisition of existing suitable waste management companies in the Philippines.

*Construction*

Since Prime BMD was established in 2017, Prime BMD has completed and has also been awarded several major construction projects. These include the following: Montclair Interchange Project and Montclair Access Bridge in Porac, Pampanga, Wawa Bulk Water Supply Project - Tayabasan Weir, Upper Wawa Pumping Station and Cabading 5ML Reservoir in Rizal, Berths 1-5 Wharf Repair Works, Berth 7 Project and Maintenance Dredging Works Project in Manila International Container Terminal, COVID-19 Mass Vaccination Center in Paranaque City, and Solaire North enabling and base build works in Quezon City, Manila.

For the six months ended June 30, 2022, Prime BMD had a construction order book of approximately ₱0.5 billion and as of June 30, 2022, Prime BMD had an order book outstanding of approximately ₱4.6 billion. On December 17, 2021, Prime BMD also established a subsidiary, Prime Metro BMD Industrial Services Corporation, to provide operations and maintenance, and engineering solutions, positioning Prime BMD as a comprehensive solutions provider for heavy and complex construction, engineering, and operations and maintenance requirements.

Prime BMD is a joint venture partnership between Prime Metroline and BMD International Pty Ltd., an Australian civil contractor company and a member of the BMD Group of Australia. Prime BMD benefits from the technical expertise of the BMD Group of Australia in engineering design, construction, and land development, particularly in urban development, transport infrastructure, and energy sectors.

***Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally***

The Razon Group of Companies has a proven record in expanding their businesses across the globe. For example, ICTSI, one of the largest companies listed on the PSE by market capitalization as of June 30, 2022, in which Mr. Razon, his family, siblings, and their mother, collectively hold a controlling stake and in which Mr. Razon serves as chairman, started with the first port in Manila and as of June 30, 2022, operates more than twenty ports worldwide. The Company's operating model is expandable and is expected to benefit from a wealth of experience from its Board, chairman Mr. Razon, and management team, to not only grow the business domestically but also expand strategically in other countries.

*Water*

The Group, through Manila Water, has significant experience in the East Zone, which has allowed it to leverage its operational know-how to other urban areas in the Philippines, Southeast Asia, the Middle East, and the rest of the world. The Group is engaged in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services. Additionally, the Group provides after-the-meter products and services, including pipe-laying, integrated wastewater services, and the incubation of new sector businesses. Accordingly, the Group is well-positioned to work in whichever segment of the water supply chain is required for a given jurisdiction, giving it flexibility to bid for a large variety of water projects. The Company already has operations in neighboring Southeast Asia markets, such as Indonesia, Vietnam, and Thailand, and has established its presence in the KSA. Furthermore, the Group actively identifies and bids for water project opportunities around the world.

WawaJVCo, engaged in the Wawa Bulk Water Supply Project which is being constructed in two phases: the first phase comprises the Tayabasan Weir, which is expected to provide 80 MLD by the fourth quarter of 2022, and the second phase comprises the Upper Wawa Dam, which is expected to provide at least an additional 438 MLD by the end of 2025, is likewise well situated to capture the growth in the demand for water brought about by Metro Manila. This is in addition to the inadequate existing water supply which does not have sufficient capacity to address the existing water needs of the East Zone.

*Renewable Energy*

The Company believes that the Philippine power sector is underpinned by the attractive demographic qualities of the Philippine population. The Company believes that growth in installed capacity is necessary to support the Philippine population and the Company is supportive of the Philippine Government encouraging the expansion in renewable energy capacity. The Company aims to become one of the largest renewable energy power producers in the Philippines and seeks to contribute to the installed renewable capacity of the Philippines with its existing pipeline of more than 4,000 MW of installed capacity and battery storage capacity of 4,000 MWh which are expected to be completed by 2027. Furthermore, the Company believes it is revolutionizing how renewable energy is harnessed with battery energy storage systems in its Terra Solar Power Plant.

*Waste and Sustainable Fuels*

The Company believes that the waste situation in the Philippines is largely ignored and that there is an urgency to find a solution to manage the Philippines' waste problem.

The Company believes in the provision of "separate but integrated" waste and sustainable fuels solutions in the Philippines: "separate" in the sense that each of the waste management infrastructure business and the sustainable fuels business are stand-alone business, and "integrated" in the sense that there can be synergies between the businesses. This would enable the waste management and sustainable fuel segments of the Company's business to capture separate and distinct, present and future demand growth, and complimentary ability to convert waste into feedstock that produces sustainable fuels. As of June 30, 2022, WasteFuel Global's other shareholders and strategic partners include NetJets and Maersk, and the Company continues to evaluate potential acquisitions of suitable waste management businesses.

*Construction*

Prime BMD, together with the expertise of BMD Group of Australia, brings in technical expertise in engineering design, construction, and land development, particularly in urban development, transport infrastructure, and energy sectors. The Company intends to leverage on its track record and expertise in order to win contracts.

***The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure***

Razon & Co. is the ultimate shareholder of the Company. Razon & Co., Inc. is the family holding company of Mr. Enrique K. Razon, Jr. and his family. Over the past decade, Mr. Razon, his family, siblings, and their mother have led the growth of ICTSI to become a significant operator in terms of volume throughput and capacity in targeted geographic markets such as the Philippines, Ecuador, the Brazilian state of Pernambuco, Madagascar, Yantai in China, the Honduras, Iraq, DR Congo, and Papua New Guinea. Mr. Razon is also the Chairman of the Board of Bloomberry Resorts Corporation, the developer of Solaire Resort and Casino, and Manila Water Corporation.

The Company enjoys the full support of the Razon Group of Companies. The Company believes it would be able to leverage the existing presence of the ICTSI group in rolling out its own products and services, particularly in the water and renewable energy space.

An example of the Company's focus on sustainability and community partnerships is its planned Wawa Eco-Tourism Project in the areas surrounding the Upper Wawa Dam and the Tayabasan Weir. Conceptualized with ten key destinations and more than twenty ecotourism activities, the park is designed to highlight the culture of the indigenous peoples in the area and promote respect for the environment. The Company plans to employ members of the community to manage the park and its various attractions.

***Led by a reputable and experienced board and management team with decades of industry experience***

The Company's management team comprises accomplished individuals who have spent their careers in growing businesses globally.

The Company is led by Mr. Guillaume Lucci, President and CEO, who has over 20 years' experience in developing and operating infrastructure projects across transportation, power, water, and maritime ports. Mr. Enrique K. Razon, Jr., Chairman of the Board of the Company, has over 30 years' experience in building companies, executing projects, and creating value.

Supporting Mr. Lucci and Mr. Razon is a set of competent and qualified professionals who have spent decades in their respective roles: Mr. Jesus Bernardo Palma, a seasoned CFO with deep knowledge in business planning and risk management; Mr. Janssen dela Cruz, Head of Energy with over 20 years' experience in the industry; Mr. Melvin John M. Tan, Head of Water with over 20 years' experience in the industry; Ms. Carla Angelica Peralta, Head of Waste and Sustainable Fuels with over 13 years' work experience in the fuel industry; Mr. Dave Devilles, Head of ESG with over 20 years' work experience; Ms. Maricel Muzones, Head of HR with over 20 years' experience handling various roles in HR; Mr. Philip Ranada, Chief Legal Officer with over 17 years' work experience; Mr. Amorsolo R. Camara Jr., Chief Risk Officer with over 15 years' work experience; Ms. Amabelle C. Asuncion, Chief Compliance Officer with over 20 years' work experience; Ms. Emma Villa del Rey, Head of Treasury with over 26 years' experience; Mr. Jose Joel M. Sebastian, Corporate Auditor with over 31 years' experience; and Mr. Edgardo Calantuan, Jr., Head of IT with over 27 years' work experience.

**BUSINESS STRATEGIES**

The Company's mission is to transform developing markets around the world by developing reliable, resilient, and sustainable infrastructure carried out with a holistic-thinking approach and customer-centric mindset. The Company intends to attain this through the following strategies:

***Focus on regulated markets***

The Company and its sister companies have a proven track record working in regulated markets. It has a demonstrated ability to identify opportunities and capitalize on them at scale to generate long term value to shareholders. The Company intends to continue in the energy, water, and waste and sustainable fuel markets by replicating sole source, unique and large projects like Wawa Bulk Water Supply Project, Terra Solar Power Plant, and Ahunan Laguna Power Plant, among others.

***Identify and invest in opportunities guided by the Company's core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity***

The Company is focused on developing, designing, managing and operating key sustainable infrastructure assets that enable the delivery of essential services to communities in emerging markets worldwide.

In conducting its business, the Company is guided by its core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity.

*Value Creation*
The Company seeks to create meaningful value by investing in projects that improve the quality of life of host community stakeholders and its employees, and managing these investments to deliver shareholder and stakeholder value.

*Integrity*
The Company strives to be ethical, fair, and transparent in its business dealings throughout every level of its organization.

*Pioneering*
The Company evolves new approaches and methods to create innovative solutions and deliver lasting impact.

*Passion*
The Company is committed to its purpose, and seeks business partners who share the same level of commitment.

*Tenacity*
The Company has a "Can Do" mentality and strives to use best efforts and persistence to deliver results.

Two testaments to the Company realizing its core values is Manila Water being declared 2022 Water Company of the Year by Global Water Intelligence ("**GWI**") (Manila Water being the first company from an emerging country to receive this award), and the Umm Qasr Power Plant being completed ahead of schedule and employing local workers and engineers in furtherance of the Company's ESG focus on community partnerships. Manila Water has also been recognized as the top seventh (excluding Chinese companies) global water operator by GWI and "Utility of the Future" by the World Bank, and was awarded the Best Sustainability Award in 2020 by Asset Asian Awards.

***Focus on executing critical projects in the pipeline***

The Company is focused on executing its ongoing projects to help address the need for critical infrastructure. The Company defines these to be infrastructure which is economically enduring, environmentally resilient, socially relevant, and which supports a growing economy's key requirements for basic services.

In the Philippines, the Company believes there are few industries as critical as power, water and waste and sustainable fuels - areas which the Company operates in and intends to further develop its presence in.

Driven by the Company's focus on delivery and execution, several of the Company's ongoing projects are on track or ahead of schedule. In May 2022, four months ahead of schedule, the weir at Tayabasan Weir was impounded. As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed despite the construction period being within the most severe COVID-19 lockdowns and is scheduled to commence commercial operations by the fourth quarter of 2022. The second phase, comprising the Upper Wawa Dam, is expected to provide at least an additional 438 MLD by the end of 2025. The completion of the Wawa Bulk Water Supply Project is expected to address the inadequate water supply in the Metro Manila East Zone.

As a result of the foregoing, the Company believes that its development of renewable energy projects with an installed capacity of over 4,000 MW and battery storage capacity of 4,000 MWh which are expected to be completed by 2027, waste and sustainable fuels solutions will allow it to capture present and future demand for these services.

The management team has a strong track record in delivering large complex projects on schedule and within budget, including, for example, the Umm Qasr Power Plant, which was completed ahead of schedule.

***Leverage on the existing global network of the Razon Group of Companies for international expansion***

The Company intends to leverage on the existing global footprint of the Razon Group of Companies. ICTSI's portfolio of port and logistics management and operations in key trade hubs across the globe provides the Company with a unique perspective and access that can help inform investment decisions and projects abroad that are aligned with the Company's mission.

***Continuously manage costs at the parent and operating company levels***

The Company implements comprehensive financial management and continuous cost control efforts to manage costs, minimize capital expenditures and operating expenses, and remain competitive. The Company performs zero-based budgeting year on year to comprehensively review and evaluate all aspects of the Company's budget and expenses against the Company's needs, market performance and the core values of the Company.

***Focus on existing technologies with established partners***

The Company has demonstrated its ability to take on existing technologies and restructure them to generate long term shareholder value. For example, the Terra Solar Power Plant is expected to combine two existing technologies, solar power and battery energy storage and is expected to provide 850MW of mid-merit renewable energy.

## RECENT DEVELOPMENTS

### Capital Structure Changes

On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 common shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine Securities and Exchange Commission (the "**Philippine SEC**") approved such amendments on June 8, 2022.

As of the date of this Prospectus, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share, of which 6,995,625,301 Common Shares are issued and outstanding. As of the date of this Prospectus, Prime Strategic Holdings, Inc. ("**Prime Strategic Holdings**") owns 99.3% of the Issuer's issued and outstanding Common Shares.

### Acquisition of Interest in Olympia Violago Water & Power, Inc.

On June 29, 2022, Ahunan Power was granted original proponent status ("**Ahunan OPS**") by the MERALCO Third Party Bids and Awards Committee (the "**MERALCO TPBAC**") to supply MERALCO with 500MW of mid-merit energy using pumped storage hydropower. Discussions between Ahunan Power and MERALCO in relation to the competitive selection process for the right to match are ongoing and are expected to be finalized by the end of 2022 to early 2023. On July 12, 2022, Ahunan Power entered into a share purchase and investment agreement to acquire a 67% equity interest in Olympia Violago Water & Power, Inc. ("**OVWPI**"). OVWPI is the developer of a 500MW pumped storage hydropower plant in Rizal Province ("**Ahunan Rizal Plant**") which currently is in the pre-development stage. The total cash consideration for the acquisition, upon full satisfaction of all closing conditions, is ₱289 million. The Ahunan Rizal Plant is one of the two power plants that Ahunan Power nominated for the Ahunan OPS. The other plant nominated by Ahunan Power is the Ahunan Laguna Power Plant.

### Acquisition of Interest in ARN Central Waste Management, Inc.

On July 20, 2022, Prime Integrated Waste Solutions entered into a share purchase agreement wherein it acquired 20% of the shares and 100% of the voting interest in ARN Central Waste Management, Inc. ("**ACI**"). After satisfaction of certain conditions, Prime Integrated Waste Solutions expects to acquire the remaining 80% of the ACI shares. ACI is the owner and operator of one of the largest operating engineered sanitary private landfills in Cebu City that currently receives approximately 1,000 tons of municipal waste per day, with an expected maximum capacity of 2,000 tons per day. The total cash consideration, upon full satisfaction of all closing requirements under the share purchase agreement, is ₱2.2 billion.

### Potential Acquisition of Malampaya Gas Field

*The financial and operating information set forth below and elsewhere in this Prospectus with respect to SPEX is based on information available to our management team as of the date of this Prospectus, and has not been audited, reviewed, or compiled by the Group's independent auditors.*

Prime Exploration Pte. Ltd. ("**Prime Exploration**"), an indirect subsidiary of the Issuer, entered into a share purchase agreement dated July 28, 2022 (the "**MEXP SPA**") with Malampaya Holdings Singapore Pte. Ltd. ("**Malampaya Holdings**"), a wholly-owned subsidiary of Udenna Corporation, and acquired all of the outstanding shares of MEXP Holding Pte. Ltd. ("**MHPL**"). MHPL owns all of the issued and outstanding shares of Malampaya Energy XP Pte. Ltd. ("**MEXP**"). MEXP had previously executed a share purchase agreement (the "**SPEX SPA**") where it would acquire 100% of the shares of Shell Philippines Exploration B. V. ("**SPEX**") from Shell Petroleum NV ("**Shell**"), subject to certain conditions precedent (the "**SPEX Sale**"). SPEX is the operator of, and owns a, 45% interest in Service Contract No. 38 ("**SC38**") for the Malampaya project. The SPEX Sale is subject to the consent of PNOC Exploration Corporation ("**PNOC-EC**") and the Department of Energy ("**DOE**"), among other conditions precedent.

Under the terms of the SPEX SPA, MEXP is required to pay a base consideration of U.S.$380,000,000 (subject to purchase price adjustments including dividends paid and contributions), with additional payments of up to U.S.$80,000,000 contingent on certain terms and conditions, including extension of license life, asset performance and commodity prices. MEXP expects to fund the base consideration due under the SPEX SPA from (i) drawdowns of approximately U.S.$35 million under a mezzanine facility entered into by Prime Exploration and MHPL, (ii) cash adjustments from dividends distributed by SPEX in 2021 and 2022 estimated at approximately U.S.$212 million, and (iii) a drawdown of up to U.S.$140 million under a senior bridge settlement facility entered into by Prime Exploration, MHPL, and MEXP, which senior facility will be paid from SPEX's cash at completion of the transaction. The mezzanine facility and senior settlement facility will be secured, among others by share charges over the shares in MEXP and SPEX, and account charges over SPEX's accounts. MEXP expects to pay any contingent payments due under the SPEX SPA and amounts due under the senior bridge settlement facility and mezzanine facility from the cashflows of SPEX.

Under the terms of the MEXP SPA, Prime Exploration will pay Malampaya Holdings, (i) an aggregate of U.S.$42,000,000 (inclusive of the initial deposit of U.S.$5,000,000) upon the completion of the SPEX Sale, (ii) U.S.$42,000,000 on the first anniversary of the SPEX Sale, and (iii) U.S.$36,000,000 on the second anniversary of the SPEX Sale. Subject to the terms of the MEXP SPA, until three business days after the long stop date of the SPEX SPA, Prime Exploration has the right (but not the obligation) to require Malampaya Holdings to buy back all the shares of MEXP. In case Prime Exploration exercises such option, Malampaya Holdings is required to also return the initial deposit of U.S.$5,000,000 to Prime Exploration, subject to certain conditions. Prime Exploration intends to fund the balance of the initial payment under the MEXP SPA on the completion of the SPEX Sale from loans, and the payments to Malampaya Holdings post-completion of the SPEX Sale from the cashflows of SPEX.

None of the payments due under the SPEX SPA and MEXP SPA will be funded by proceeds from the Offer.

The Company considers SPEX, assuming the completion of the SPEX Sale, as part of its energy business. In particular, the Company views the SPEX Sale as its initial foray into the upstream energy market and expects the SPEX Sale to further diversify the Group's energy assets. The consolidation of SPEX as a member of the Group is expected to significantly impact the assets and liabilities, revenues and cash flows of the Group. For example, had the acquisition been completed as of January 1, 2021, the Group's assets would have increased by more than 10% as of December 31, 2021 while its revenues would have approximately doubled for the year ended December 31, 2021. SPEX's revenues are expected to significantly decrease in 2024, which coincides with the expiration of the license of the SC38 Consortium (as defined below). In the event of any extension of the SC38 Consortium's license, revenues from the existing wells are expected to significantly decrease upon the expected expiration of the useful life of the wells in 2027. Any additional drillings or rejuvenation of existing wells will require significant capital expenditure by the SC38 Consortium, including SPEX. SPEX's revenues and net income also depend on the extension of existing, or the execution of new, gas sale and purchase agreements, and are affected by the fluctuation of natural gas prices, among others. Post-completion of the SPEX Sale, the dividends expected to be received by the Company will be affected by payments to be made under the SPEX SPA and MEXP SPA and related financing, apart from factors affecting SPEX's net income. See "*Risk Factors—Risks Relating to the Potential Acquisition of the Malampaya Gas Field*" for more information.

Because SPEX operates as a separate integral unit, the Group expects SPEX to continue operating consistent with past practice and in the ordinary course of business post-completion of the SPEX Sale.

There can be no assurance that the SPEX Sale will be completed. In particular, the transaction is subject to the consent of PNOC-EC and the DOE, among other conditions precedent. In addition, the Government may attach conditions to such consents, the nature and impact of which is unknown as of the date of this Prospectus. See "*Risk Factors−Risks Relating to the Potential Acquisition of the Malampaya Gas Field−There is no assurance that the SPEX Sale will be completed, or that the transition of SPEX's operations to the Group will be successful.*"

As of the date of this Prospectus, MEXP does not own any shares in SPEX. The shares of SPEX will only be transferred to MEXP after the relevant consents have been obtained. Further, as of the date of this Prospectus, the Group does not intend to acquire the 45% interest of UC38 LLC (a subsidiary of Udenna Corporation) in the SC38 Consortium.

The historical information included in this Prospectus does not give effect to the completion of the SPEX Sale. No pro forma financial statements giving effect to such potential acquisition has been included in this Prospectus.

**DIVIDEND POLICY**

The Issuer is authorized to declare dividends. The Issuer may pay dividends in cash, property, or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the Board, while stock dividends, in addition to the approval by the Board, require the approval of stockholders representing at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose. Additionally, Philippine SEC approval is required if the issuance of stock dividends requires an increase in authorized capital stock. Dividends may be declared only from available unrestricted retained earnings, representing the net accumulated earnings of the Issuer with its unimpaired capital, which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC. The Board may not declare dividends which will impair the Issuer's capital.

The Board will periodically review the amount of dividends to be paid and the frequency of dividend payment in light of the Issuer's earnings, financial condition, cash flows, capital requirements and other considerations while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Issuer can operate on a standalone basis. Please see the section entitled "*Dividends and Dividend Policy*" in this Prospectus for further details.

**TRACK RECORD REQUIREMENT UNDER THE PSE AMENDED LISTING RULES**

As a holding company, the Issuer will be relying on the track record of its wholly-owned subsidiary, Prime BMD. In this respect Prime BMD satisfied the requirement of the PSE Amended Listing Rules i.e. that such subsidiary (a) must have a cumulative net income, excluding non-recurring items, of at least ₱75 million for three full fiscal years immediately preceding the application for listing and minimum net income of ₱50 million for the most recent fiscal year, and (b) must further be engaged in materially the same business and must have a proven track record of management throughout the last three years prior to the filing of the application. The PSE Amended Listing Rules prohibit the Issuer from divesting its shareholdings in Prime BMD for a period of three years from the date of the listing of its shares, provided that the prohibition shall not apply if the divestment plan is approved by majority of the Issuer's shareholders. In addition, the PSE Amended Listing Rules also prohibit the Issuer from conducting a secondary offering during the initial public offering.

## INVESTOR RELATIONS OFFICE

The Issuer's Investor Relations Office will be tasked with (a) the creation and implementation of an investor relations program that reaches out to all shareholders and informs them of corporate activities and (b) the formulation of a clear policy for accurately, effectively, and sufficiently communicating and relating relevant information to the Issuer's shareholders as well as to the broader investor community.

Anna Katrina C. De Leon has been appointed by the Board as the head of the Issuer's investor relations office and to serve as the Issuer's Investor Relations Officer ("**IRO**"). The IRO will ensure that the Issuer complies with, and files on a timely basis, all required disclosures and continuing requirements of the Philippine SEC and the PSE. In addition, the IRO will oversee most aspects of the shareholder meetings, press conferences, investor briefings, and management of the investor relations portion of the Issuer's website.

The Issuer's Investor Relations Office is located at 16th Floor, Three E-Com Center, Block 21, Bayshore Drive corner Ocean Drive, Mall of Asia Complex, Pasay City, Philippines with contact details as follows:

Landline: +63 2 8396 5328 loc. 124

E-mail: investorrelations@primeinfra.ph

## ISSUER INFORMATION

The Issuer is a Philippine corporation organized under the laws of the Philippines with its registered principal office address at 16th Floor, Three E-Com Center, Block 21, Bayshore Drive corner Ocean Drive, Mall of Asia Complex, Pasay City, Philippines and with telephone number: +63 2 8396 5320. The Issuer's corporate website is www.primeinfra.ph. Information on the website is not incorporated by reference into, and does not form part of, this Prospectus.

## SUMMARY OF THE OFFER

*The following does not purport to be a complete listing of all the rights, obligations, and privileges attaching to or arising from the Offer Shares. Some rights, obligations, or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of the Issuer and the Offer Shares. Each prospective investor must rely on its own appraisal of the Issuer and the Offer Shares, and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and must not rely solely on any statement or the significance, adequacy, or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. The Issuer reserves the right to withdraw the offer and sale of Offer Shares at any time, and the Joint Bookrunners reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, the Issuer shall subsequently notify the Philippine SEC and the PSE.*

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| **Issuer ......................................** | Prime Infrastructure Capital, Inc., a corporation organized under Philippine law. The trading symbol shall be "[PFR]." |
| **Joint Bookrunners.................** | CLSA Limited ("**CLSA**"), UBS AG, Singapore Branch ("**UBS**"), BDO Capital & Investment Corporation ("**BDO Capital**") and BPI Capital Corporation ("**BPI Capital**"). |
| **Local Underwriters ...............** | BDO Capital, BPI Capital, First Metro, PNB Capital and RCBC Capital. |
| **Joint Bookrunners and Joint Local Underwriters ...........** | BDO Capital and BPI Capital. |
| **Domestic Co-Lead Underwriters.......................** | First Metro Investment Corporation ("**First Metro**"), PNB Capital and Investment Corporation ("**PNB Capital**"), and RCBC Capital Corporation ("**RCBC Capital**"). |
| **Joint International Bookrunners .......................** | CLSA and UBS. |
| **Sole Global Coordinator.......** | CLSA. |
| **Offer Shares...........................** | The Firm Shares and the Option Shares. |
| **The Offer................................** | Offer of up to [1,793,752,000] Firm Shares, with an offer of up to [179,375,200] Option Shares pursuant to the Over-allotment Option (as described below). The Firm Shares will comprise [1,793,752,000] new Common Shares to be issued and offered by the Issuer on a primary basis. The Option Shares will comprise up to [179,375,200] new Common Shares of the Issuer to be issued and offered on a primary basis. |
| **Institutional Offer ................** | Up to [1,255,626,400] Firm Shares, or approximately 70% of the Firm Shares, are being offered for sale (i) outside the United States by the Joint International Bookrunners in offshore transactions in reliance on Regulation S under the U.S. Securities Act, (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to Domestic QIBs and other investors in the Philippines by the |

Local Underwriters. The Option Shares will form part of the Institutional Offer.

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Issuer and the Joint Bookrunners as well as oversubscription or undersubscription of either or both the Trading Participants and Retail Offer and the Institutional Offer. See "—*Reallocation*" below.

**Trading Participants and Retail Offer .........................** [538,125,600] Firm Shares, or approximately 30% of the Firm Shares, (the "**Trading Participants and Retail Offer Shares**") are being offered in the Trading Participants and Retail Offer in the Philippines at the Offer Price.

[358,750,400] Trading Participants and Retail Offer Shares (approximately 20% of the Firm Shares) are being allocated to all of the [125] PSE Trading Participants at the Offer Price and [179,375,200] Trading Participants and Retail Offer Shares (approximately [10]% of the Firm Shares) are being allocated at the Offer Price to local small investors ("**LSIs**").

Each PSE Trading Participant shall initially be allocated [2,870,000] Firm Shares. Based on the initial allocation for each PSE Trading Participant, there will be a total of [400] residual Firm Shares to be allocated as may be determined by the Joint Bookrunners and Joint Local Underwriters.

Each LSI applicant may subscribe up to a minimum of [100] Common Shares at the Offer Price. The Local Underwriters shall purchase the Trading Participants and Retail Offer Shares not reallocated to the Institutional Offer or otherwise not taken up by the PSE Trading Participants or clients of the Local Underwriters or the general public in the Philippines pursuant to the terms and conditions of the Domestic Underwriting Agreement.

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Issuer and the Joint Bookrunners as well as oversubscription or undersubscription of either or both the Trading Participants and Retail Offer and the Institutional Offer. See "—*Reallocation*" below.

**Eligible Investors ..................** The Trading Participants and Retail Offer Shares may be purchased by any natural person of legal age regardless of nationality, or any corporation, association, partnership, trust account, fund, or entity residing in and organized under the laws of the Philippines, regardless of nationality, subject to the restrictions on ownership, as described below, and in consultation with the Joint Bookrunners, the Issuer's right to reject an Application or reduce the number of the Firm Shares applied for subscription.

The Institutional Offer Shares are being offered for sale for sale (i) outside the United States by the Joint International Bookrunners in offshore transactions in reliance on Regulation S under the U.S. Securities Act, (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under

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| | the U.S. Securities Act, and (iii) to Domestic QIBs and other investors in the Philippines by the Local Underwriters.<br><br>Purchase of the Offer Shares in certain jurisdictions may be restricted by law. Foreign investors interested in purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares. |
| **Offer Price............................** | Up to ₱[14.60] per Offer Share. The Offer Price will be determined based on a book building process and discussions between the Issuer and the Joint Bookrunners. |
| **Stabilizing Agent ..................** | CLSA Limited and its affiliates. |
| **Over-allotment Option..........** | [Subject to the approval of the Philippine SEC, the Issuer has granted the Stabilizing Agent an option, exercisable in whole or in part, to purchase the Option Shares to be sold by the Issuer at the Offer Price, on the same terms and conditions as the Firm Shares as set out in this Prospectus, and effect price stabilization transactions. The Over-allotment Option is exercisable from and including 30 calendar days after the Listing Date. See the section entitled "*Plan of Distribution – The Over-allotment Option*" in this Prospectus.] |
| **Restriction on Ownership.....** | The Offer Shares may be subscribed by any individual of legal age, or by any corporation, association, partnership, or trust, regardless of citizenship or nationality, subject to nationality limits under Philippine law.<br><br>The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities or those who own land. In particular, while the Issuer does not own any land, it has the ability to own land under its Articles of Incorporation and may acquire land in the Philippines in the future.<br><br>The operating subsidiary from which the Issuer invokes its operational track record, Prime BMD, is a corporation engaged in the business of general construction for projects located in the Philippines. It is likewise subject to the nationality requirements under the Foreign Investments Act of 1991 in that at least 60% of its ownership must be held by Philippine nationals.<br><br>Some of the Issuer's other subsidiaries are engaging in nationalized or partly nationalized activities in the Philippines, and are, therefore, subject to the foreign equity requirements under the law. These subsidiaries include WasteFuel Philippines (which is engaged in the manufacture, processing, and sale of biofuels, a natural resource), Manila Water (a public utility, which, among other activities, supplies water to the general public), WawaJVCo (a corporation which supplies water in bulk for municipal use), Ahunan Power (which is engaged in the business of hydropower generation), Terra Solar Philippines (which is likewise engaged in the business of power generation through renewable resources), and SP |

Tanauan (which is engaged in the business of constructing, operating, and maintaining power generating plants).

For more information relating to restrictions on the ownership of the Common Shares, please see the sections entitled "*Risk Factors*," *"Description of the Issuer and the Group*,*"* and "*Regulatory and Environmental Matters – Nationality Restriction*" in this Prospectus.

In the event that foreign ownership of the Issuer's outstanding capital stock will exceed such allowable maximum percentage, the Issuer has the right to reject a transfer request by a stockholder to persons other than Philippine Nationals and the right not to record such purchases in the Issuer's books.

Moreover, if any share is inadvertently issued and/or transferred in violation of the said restriction, the shares issued and/or transferred in excess of the allowable maximum percentage shall be null and void, and the Issuer may immediately proceed to cancel and demand the surrender of the certificate of stock covering such shares. Should any stockholder acquire shares in excess of the foregoing restriction, such stockholder shall not be considered a stockholder and shall have no right with respect to such shares, except to demand payment therefor from us or transferor, as the case may be, or to dispose of the same to qualified shareholders within 30 days of receipt of notice from the Issuer.

Foreign investors interested in subscribing or purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares.

**Offer Period ..........................** The Offer Period shall begin at 9:00 a.m. (Manila time) on [October 26], 2022 and end at 12:00 noon (Manila time) on [November 3], 2022. The Issuer and the [Joint Bookrunners] reserve the right to extend or shorten the Offer Period, subject to the approval of the PSE and the Philippine SEC.

Applications must be received by the Receiving Agent not later than 12:00 noon, Manila Time on [November 3], 2022 whether filed through a participating PSE Trading Participant or the Local Underwriters or filed directly with the Receiving Agent or through PSE EASy for LSI applications. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to the Receiving Agent, and shall be subject to the terms and conditions of the Offer as stated in this Prospectus and in the Application. The actual subscription and/or purchase of the Offer Shares shall become effective only upon the actual listing of the Offer Shares on the PSE.

**Minimum Subscription .........** Each application must be for a minimum of [100] Common Shares, and thereafter, in multiples of [100] Common Shares. Applications for multiples of any other number of Common Shares may be rejected or adjusted to conform to the required multiple, at the Issuer's discretion.

**Use of Proceeds......................** The Issuer intends to use the net proceeds from the Offer to fund disbursements related to (i) projects in the Group's energy business, (ii) projects in the Group's water business and (iii) projects in the Group's waste and sustainable fuels business.

See the section entitled "*Use of Proceeds*" in this Prospectus for further details.

**Reallocation............................** The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as may be determined by the Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. Unless otherwise agreed by the Joint Bookrunners the reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer, on the one hand, and the Institutional Offer, on the other hand.

**Lock-up ..................................** Pursuant to Sections 1(b)(ii) and 2(a)(ii) under Part D, Article III of the PSE Consolidated Listing and Disclosure Rules, as amended (the "**PSE Listing Rules**") in relation to item 8 of PSE Guidance Note 25, even if the applicant company is unable to meet the track record requirement of the PSE but is able demonstrate compliance with Section 1(b)(ii) of Article III, Part D of the PSE Listing Rules (i.e., the applicant company is a newly formed holding company which uses the operational track record of its subsidiary), the 180-day lock-up period applies to the said applicant company (the "**180-day lock-up**").

In addition, under the PSE Listing Rules, if there is any issuance or transfer of shares (i.e., private placements, asset for shares swaps, or similar transactions) or instruments which lead to the issuance of shares (i.e., convertible bonds, warrants, or similar instruments) done and fully paid for within 180 calendar days prior to the commencement of the offer period, and the transaction price is lower than that of the offer price in the initial public offering, all such shares issued or transferred shall be subject to a lock-up period of at least 365 calendar days from the full payment of the aforesaid shares.

Based on the foregoing, all the shares held by Prime Strategic Holdings, Inc. shall be subject to the 180-day lock-up as follows:

| **Shareholder** | **Subject to 180-day Lock-up Period (from Listing Date)** |
|---|---|
| Prime Strategic Holdings, Inc. ... | 6,948,408,603 |
| **TOTAL ..........................** | **6,948,408,603** |

The following shall also be subject to the lock-up period of 365 days from full payment:

| Shareholder | Subject to 365-day Lock-up Period (from full payment of shares) |
|---|---|
| Prime Strategic Holdings, Inc. ... | 6,448,408,603 |
| Enrique K. Razon, Jr ................. | 716,666 |
| Christian R. Gonzales................ | 5,000,000 |
| Guillaume Lucci........................ | 16,666,666 |
| Stephen A. Paradies................... | 7,000,001 |
| Rafael D. Consing, Jr. ............... | 2,500,001 |
| Jesus Bernardo M. Palma III ...... | 833,333 |
| Donato Almeda ......................... | 7,499,999 |
| Eric Recto................................. | 7,000,000 |
| Danilo S. Feliciano.................... | 1 |
| Panfilo M. Lacson ..................... | 1 |
| **TOTAL ..........................** | **6,495,625,271** |

To implement this lock-up requirement, the Issuer and Prime Strategic Holdings, shall enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution. See the sections entitled "*Principal Shareholder*" and "*Plan of Distribution – Lock-Up*" in this Prospectus.

[The Issuer and Prime Strategic Holdings have agreed with the Joint Bookrunners that they will not, without the prior written consent of the Joint Bookrunners, issue, offer, sell, contract to sell, pledge, or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any common shares or securities convertible or exchangeable into or exercisable for any common shares or warrants or other rights to purchase common shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 calendar days after the listing of the Common Shares.]

**Registration, Listing, and Trading...............................**

The Issuer has filed an application with the Philippine SEC for the registration, and an application with the PSE for the listing, of all its outstanding capital stock (including the Offer Shares). The Philippine SEC [is expected to issue/issued] an Order of Registration and Permit to Sell [prior to the commencement of the Offer Period]/[on [●]] and the PSE issued the Notice of Approval on [●], 2022].

The Offer Shares are expected to be listed on the PSE Main Board under the symbol "[PFR]," on or about [November 11], 2022. Trading of the Issuer's issued and outstanding Common Shares that are not subject to lock-up is expected to commence on the same date.

**Dividends and Dividend Policy ...................................**

The Issuer is authorized to declare dividends. The Issuer may pay dividends in cash, property, or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the Board, while stock dividends, in addition to the approval by the Board, require the approval of stockholders representing at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose. Additionally, Philippine SEC approval is required if the issuance of stock dividends requires an increase in authorized capital stock. Dividends may be declared only from available unrestricted retained earnings, representing the net accumulated earnings of the Issuer with its unimpaired capital, which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC. The Board may not declare dividends which will impair the Issuer's capital.

The Board will periodically review the amount of dividends to be paid and the frequency of dividend payment in light of the Issuer's earnings, financial condition, cash flows, capital requirements and other considerations while maintaining a level of capitalization that is commercially sound and sufficient to ensure that the Issuer can operate on a standalone basis. Please see the section entitled "*Dividends and Dividend Policy*" in this Prospectus for further details.

**Procedure for Application for the Trading Participants and Retail Offer.................**

For PSE Trading Participants

"Application to Purchase" forms and specimen signature cards (the "**Application**") may be obtained from any of the Local Underwriters and the participating PSE Trading Participants, and shall be made available for download on the Issuer's website.

Applicants shall complete the application form, indicating all pertinent information such as the applicant's name, address, taxpayer's identification number, citizenship, and all other information as may be required in the application form. Applicants shall undertake to sign all documents and to do all necessary acts to enable them to be registered as holders of the Offer Shares. Failure to complete the application form may result in the rejection of the Application.

All Applications shall be evidenced by the application to purchase form, in quadruplicate, duly executed by the applicants themselves or by the authorized signatory(ies) of the applicant (in the case of an applicant that is not a natural person), and accompanied by two completed specimen signature cards, which for applicants other than a natural person, should be authenticated by the corporate secretary (or its equivalent), and the corresponding payment for the Offer Shares covered by the Application and all other required documents.

If the applicant is an individual person, the Application should be submitted in quadruplicate and accompanied by the following documents:

- the required attachments as enumerated in the Application;

- two (2) duly executed specimen signature cards, duly authenticated by the Applicant's nominated PDTC Participant (as defined below) or the Local Underwriters and Local Selling Agents (if the Applicant is a client of the Local Underwriters);

- photocopy of two (2) valid and current government-issued IDs (e.g., SSS, GSIS, Driver's License, Passport or PRC) (Note: For joint applications (i.e. multiple Applicants in one Application), one (1) valid and current government-issued IDs of each applicant/investor will be required);

- proof of payment; and

- such other documents as may be reasonably required by the Local Underwriters in compliance with its internal policies regarding "knowing your customer," anti-money laundering, and combating financing of terrorism, among others.

If the applicant is a corporation, partnership, trust account, or any other legal person, the Application must be accompanied by the following documents:

- two (2) duly executed specimen signature cards of the authorized signatory(ies), duly authenticated by the Applicant's corporate secretary (or the equivalent corporate officer);

- a certified true copy of the applicant's latest articles of incorporation and by-laws (or the equivalent documents) and other constitutive documents (each as amended to date) duly certified by its corporate secretary (or the equivalent corporate officer authorized to provide such certification);

- a certified true copy of the applicant's certificate of registration issued by the relevant regulating body of the applicant's country of incorporation or organization duly certified by its corporate secretary (or the equivalent corporate officer authorized to provide such certification);

- a duly notarized corporate secretary's certificate (or the equivalent document) setting forth the resolutions of the applicant's board of directors or equivalent body, namely: (i) authorizing the purchase of the Offer Shares indicated in the Application, (ii) identifying the list of designated signatory(ies) authorized for the purpose mentioned in (i), including each signatory's specimen signature, and (iii) certifying the percentage of the applicant's capital or capital stock held by Philippine nationals;

- a photocopy of two (2) valid and current government-issued IDs (e.g. SSS, GSIS, Driver's License, Passport or PRC ID) of (a) the authorized signatory/ies, duly certified as a true copy by the Corporate Secretary and (b) the Corporate Secretary, duly certified as true copy by an authorized officer of the corporation;

- proof of payment;

- if applicable, a Notarized Affidavit of Undertaking to Submit Original Copies of the Documents ("**Undertaking to Submit**"), attached as Annex [●] to the Implementing Guidelines for the Reservation and Allocation of the Company Offer Shares to the Trading Participants of the PSE (the "**TP Guidelines**"), within five (5) business days from the submission of the electronic mail of the scanned copies; and

- such other documents as may be reasonably required by the Local Underwriters in compliance with their respective internal policies regarding "knowing your customer," anti-money laundering, and combating financing of terrorism, among others.

In addition, PSE Trading Participants must submit the following:

- properly accomplished sales report in excel and pdf format, duly certified by the respective authorized signatories of the PSE Trading Participant. For physical copies, there must be four (4) copies each bearing the wet ink signature of the certifying authorized signatories of the PSE Trading Participant;

- a certified true copy of the applicant's Philippine BIR certificate of registration duly certified by its corporate secretary (or managing partner in the case of a partnership); and

- the PSE Trading Participant's notarized Endorsement and Certification, attached as Annex [●], to the TP Guidelines.

For foreign corporate and institutional Applicants, in addition to the foregoing documents, a certification, in quadruplicate, representing and warranting that their investing in the Offer Shares subject of the Application will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.

<u>For Local Small Investors</u>:

Applications to purchase the Trading Participants and Retail Offer Shares must be done online through the PSE EASy. The system will generate a reference number and payment instruction. Applications for the Offer Shares must be settled within the Offer Period.

An LSI applicant should nominate in the Application the PSE Trading Participant through which its shares will be lodged. Otherwise, the Application shall not be accepted.

In the event that an LSI Applicant does not have a PSE Trading Participant, the LSI Applicant may open a trade account with the Local Underwriters affiliated brokers, BDO Securities Corporation or BPI Securities Corporation, and nominate said entity as its endorsing PSE Trading Participant by accomplishing an account opening form and submitting the same (done through https://www.bdo.com.ph/securities/opening-account for BDO Securities Corporation and done through https://www.bpitrade.com and by clicking on "Open An Account" for BPI

Securities Corporation), together with any required attachments, to the relevant broker prior to submission of the Application.

LSI applications will be processed on a first-come, first-served basis while final allocation of the Trading Participants and Retail Offer Shares will be determined pursuant to allocation mechanics. This section should be read in conjunction with the Offer Implementing Guidelines which will be published on the PSE EDGE website.

**Payment Terms for the Trading Participants and Retail Offer .........................**

[The purchase price must be paid in full in Philippine Pesos upon the submission of the duly completed and signed application form and specimen signature card together with the requisite attachments.

For the Institutional Offer, payment for the Offer Shares shall be made either by: (i) a personal or corporate check drawn against an account with a BSP-authorized bank having a clearing period of no more than one business day, or (ii) a manager's or cashier's check issued by a BSP-authorized bank having a clearing period of no more than one business day.

For the PSE Trading Participants, payment for the Offer Shares shall be made through over-the-counter cash or check deposit payment in [name of bank or other agent] under the account "PFR IPO."

For the LSIs, payment for the Offer Shares shall be made either by: (i) over-the-counter cash or check deposit payment in any [name of bank or other agent] under the account "[●]" [, or (ii) online payment via internet banking under the biller account "[●]"]. Applicants participating in the Retail Offer may contact the Receiving Agent for alternative modes of payment.

For check payments, only personal or corporate checks, and manager's or cashier's checks with a clearing period of not more than one business day and drawn against any BSP-authorized agent bank will be accepted as a valid mode of payment. The check must be dated as of the date of submission of the Application, made payable to "[●]," and crossed "Payee's Account Only." Checks subject to clearing periods of over one (1) business day shall not be accepted.

The applications and required documents (including proof of payments) shall be transmitted to the Receiving Agent by electronic mail at [●] on or before the end of the offer period, with the physical copies delivered to the Receiving Agent's address at 34th Floor, Unit-D, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City no later than 12:00 noon two (2) business days after the end of the offer period.]

For more details on the Procedure for Application for the Offer, please refer to the Offer Implementing Guidelines which will be published on the PSE EDGE website prior to the start of the Trading Participants and Retail Offer Period.

**Acceptance or Rejection of Applications for the Trading Participants and Retail Offer .........................**

Applications for the Trading Participants and Retail Offer Shares are subject to confirmation by the Joint Bookrunners and Joint Local Underwriters and the final approval of the Issuer. The Issuer, in consultation with the Joint Bookrunners and Joint Local Underwriters, reserves the right to accept, reject, or scale down the number and amount of Trading

Participants and Retail Offer Shares covered by any application. The Issuer and the Joint Bookrunners and Joint Local Underwriters have the right to reallocate available Offer Shares in the event that the Offer Shares are insufficient to satisfy the total applications received. The Offer Shares will be allotted in such a manner as the Issuer and the Joint Bookrunners and Joint Local Underwriters may, in their sole discretion, deem appropriate, subject to distribution guidelines of the PSE.

Applications may be rejected if (i) the subscription price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonored upon first presentment; (iii) the Applications are not received by the Receiving Agent or the Local Underwriters or the Local Selling Agents on or before the end of the Offer Period; (iv) the number of Offer Shares subscribed is less than the minimum amount of subscription; (v) the Applications do not comply with the terms of the Offer; (vi) the sale of the Offer Shares will result in a violation of foreign ownership and single entity ownership restrictions; (vii) the Applicant is not an Eligible Investor; (viii) the Applications do not have sufficient information as required in the application form or are not supported by the required documents; (ix) the underwriting agreement is suspended, terminated or cancelled on or before the Listing Date; (x) Applications received beyond the Offer Period on 12:00 noon of [November 3], 2022; (xi) there exists a legal restriction prohibiting the acceptance or consummation of the Application; (xii) the Issuer will suffer actual or potential prejudice if the Application, by itself or together with any other Application, is accepted; (xiii) the Applicant is currently the subject or the target of any sanctions administered or enforced by the U.S. Government, (including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State and including, without limitation, the designation as a "specially designated national" or "blocked person"), the United Nations Security Council the European Union, Her Majesty's Treasury, or other relevant sanctions authority; (xiv) the Applicant, to the knowledge of any of the Local Underwriters, (a) used any funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (b) made or committed an act in furtherance of an offer, promise or authorization of any direct or indirect unlawful payment or benefit to any foreign or domestic government or regulatory official or employee, including of any government-owned or controlled entity, or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office; (c) violated or is in a violation of any provision of the Anti-Graft and Corrupt Practices Act (Republic Act No. 3019), Foreign Corrupt Practices Act of 1977, as amended (the "**FCPA**") or the rules or regulations thereunder, or any applicable law or regulation implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, or committed an offence under the Bribery Act 2010 of the United Kingdom, or any other applicable anti-bribery or anti- corruption laws; or (d) made, offered, agreed, requested or committed an act in furtherance of any unlawful bribe or other unlawful benefit, including, without limitation, any rebate, payoff, influence payment, kickback or other unlawful or improper payment or benefit, or (xv) as otherwise set out in the Offer Implementing Guidelines.

| | |
|---|---|
| | Notwithstanding the acceptance of any application, the actual acquisition of or subscription to the Trading Participants and Retail Offer Shares by an applicant will be effective only upon the crossing and listing of the Trading Participants and Retail Offer Shares on the PSE. |
| **Refunds for the Trading Participants and Retail Offer** .................................... | In the event that the number of Offer Shares to be received by an Applicant, as confirmed by the Local Underwriters, is less than the number covered by its Application, or if an Application is rejected by the Issuer, then the Receiving Agent shall refund, without interest, within five (5) business days from the end of the Offer Period, all or a portion of the payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be made through the Receiving Agent, at the Applicant's risk.<br><br>Check refunds shall be available for pick-up at the office of the Receiving Agent within five (5) business days after the end of the Offer Period. If such check refunds are not claimed after 30 days following the beginning of the refund period, such checks shall be mailed to the Applicant's registered address at the Applicant's risk.<br><br>For LSIs, all refunds shall be made directly to the LSI Applicants unless respective LSI Applicants' nominated PSE Trading Participants consented to process LSI refunds. In that case, all refunds may be made through the nominated PSE Trading Participant, at the LSI Applicant's risk. The refunds will be processed by the Receiving Agent directly to the nominated PSE Trading Participant by transferring immediately available funds to the relevant bank account of, or via check to, each relevant nominated PSE Trading Participant in such amount representing the total refund due to all the clients of the relevant PSE Trading Participant on or before the fifth (5th) Banking Day after the end of the Offer Period or on [●]. The affected LSI Applicants may coordinate directly with their respective nominated PSE Trading Participant, as indicated in the submitted LSI Application. |
| **Registration and Lodgment of Shares with PDTC**.......... | The Offer Shares will be in scripless form and are required to be lodged with the PDTC upon listing. The applicant must provide the information required for the PDTC lodgment of the Offer Shares. The Offer Shares will be lodged with the PDTC.<br><br>Investors may maintain the Offer Shares in scripless form or opt, at their own cost and expense, to have the stock certificates issued to them by requesting an upliftment of the relevant Offer Shares from the PDTC's electronic system after the Offer Shares are listed on the PSE. |
| **Registration of Foreign Investments** ......................... | The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP only if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See the section entitled "*Regulatory and Environmental Matters—Other Laws —Registration of Foreign Investments and Exchange Controls*" in this Prospectus. |

| | |
|---|---|
| **Tax Considerations ..............** | See the section entitled "*Taxation*" in this Prospectus for information on the Philippine tax consequences of the purchase, ownership, and disposal of the Offer Shares. |
| **Expected Timetable..............** | The timetable of the Offer is expected to be as follows: |

| | |
|---|---|
| Pricing........................................................ | [October 21], 2022 |
| Notice of final Offer Price to the PSE and SEC ........................................................ | [October 21], 2022 |
| Receipt of Permit to Sell from the SEC......... | [October 25], 2022 |
| Offer Period .................................................. | [October 26] to [November 3], 2022 |
| Submission of Firm Order and Commitments by PSE Trading Participants ....................... | 12 noon on [October 31], 2022 |
| Trading Participants and Retail Offer Settlement Date ........................................... | [November 3], 2022 |
| Settlement Date and Listing Date of Shares on the PSE....................................................... | [November 11], 2022 |

The dates included above are subject to the approval of the PSE and the SEC, market, and other conditions, and may be changed.

If, for any reason, any day of the above periods or dates is a not a business day, then such period or date may be extended or moved, as the case may be, to the next immediately succeeding business day, or such other date as may be agreed upon by the Issuer and the Joint Bookrunners. Notice of any adjustment to the Listing Date shall be made by publication by the Issuer in two newspapers of general circulation, provided that any adjustment to the Listing Date shall be subject to the approval of the PSE.

| | |
|---|---|
| **Stock Transfer Agent...........** | Stock Transfer Service, Inc. |
| **Receiving Agent....................** | Stock Transfer Service, Inc. |
| **Escrow Agent........................** | BDO Unibank, Inc. Trust and Investments Group. |
| **Philippine Counsel for the Issuer ..................................** | Picazo Buyco Tan Fider & Santos. |
| **International Counsel for the Issuer ..................................** | Milbank LLP. |
| **Philippine Counsel for the Joint Bookrunners.............** | Romulo Mabanta Buenaventura Sayoc & de los Angeles. |
| **International Counsel for the Joint Bookrunners.............** | Latham & Watkins LLP. |

**Independent Auditors ..........** SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited.

**Risks of Investing .................** Before making an investment decision, prospective investors should carefully consider the risks associated with an investment in the Offer Shares. These risks are discussed in the section entitled "*Risk Factors*" in this Prospectus and include: (i) risks relating to the Issuer and the Group; (ii) risks relating to the Group's water business; (iii) risks relating to the Group's energy business; (iv) risks relating to the potential acquisition of the Malampaya gas field; (v) risks relating to the Group's construction business; (vi) risks relating to the Group's waste and sustainable fuels business; (vii) risks relating to the Offer Shares and an investment in the Issuer; and (viii) risks relating to the presentation of information in this Prospectus.

## SUMMARY FINANCIAL AND OPERATING INFORMATION

*The following tables present the summary of financial information pertaining to the Group and should be read in conjunction with the independent auditors' reports and the Group's audited consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information as of and for the years ended December 31, 2021, 2020, 2019 and 2018, and as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 were derived from the Group's audited consolidated financial statements and were prepared in accordance with PFRS and were audited by SGV & Co., a member firm of Ernst & Young Global Limited in accordance with the PSA.*

*The Issuer was incorporated on August 20, 2020 and completed the acquisitions of Prime Metroline and Prime Metro Power in December 2020 pursuant to deeds of assignment from Prime Strategic Holdings. Prior to their acquisition by the Issuer, Prime Metroline and Prime Metro Power were each wholly-owned subsidiaries of Prime Strategic Holdings since their respective incorporation dates. As such, Prime Metroline and Prime Metro Power were deemed to be the accounting acquirer for accounting purposes under PFRS 3, Business Combinations and, accordingly, the Group's audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 have been prepared as a continuation of the respective consolidated financial statements of Prime Metroline and Prime Metro Power. The difference in the legal capital of the Issuer as compared to Prime Metroline and Prime Metro Power is presented as "Equity reserve" in the Group's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018. See* "*Risk Factors—Risks Relating to the Presentation of Information in this Prospectus.*"

*The Group's summary financial information below should not be considered indicative of the results of future operations.*

*The translation of Peso amounts into U.S. dollars as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 is provided for convenience only and is unaudited. For readers' convenience only, amounts in Pesos as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 were converted to U.S. dollars using the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin on July 1, 2022 of ₱54.97 = U.S.$1.00. As of September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89.*

***Statements of Comprehensive Income***

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022(1) | 2022 |
| | ₱ (Audited) | | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Continuing operations** | | | | | | | | |
| Revenues | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 275.6 | 3,421.4 | 12,601.8 | 229.2 |
| Cost of services | 1,040.2 | 1,822.3 | 2,353.6 | 7,584.1 | 138.0 | 1,816.4 | 6,294.3 | 114.5 |
| Gross profit | 139.3 | 472.3 | 880.8 | 7,566.3 | 137.6 | 1,605.0 | 6,307.5 | 114.7 |
| Operating expenses | 311.7 | 417.4 | 736.3 | 3,487.6 | 63.4 | 814.5 | 2,317.3 | 42.2 |
| | (172.4) | 54.9 | 144.5 | 4,078.7 | 74.2 | 790.5 | 3,990.2 | 72.5 |
| **Other income (expenses):** | | | | | | | | |
| Revenue from development and rehabilitation works | – | 2,706.8 | 1,138.3 | 14,355.7 | 261.2 | 1,561.2 | 12,740.9 | 231.8 |
| Cost of development and rehabilitation works | – | (2,704.0) | (974.6) | (14,335.7) | (260.8) | (1,558.4) | (12,717.6) | (231.4) |
| Gain on acquisition of a subsidiary | – | – | – | 9,120.3 | 165.9 | 9,120.3 | – | – |
| Interest expense | (6.3) | (19.5) | (48.4) | (1,954.7) | (35.6) | (275.9) | (1,797.7) | (32.7) |
| Foreign currency differentials | – | – | – | 951.5 | 17.3 | 699.7 | 2,176.2 | 39.6 |
| Foreign exchange gain (loss) – net | 3.2 | (4.2) | (7.0) | (1,200.8) | (21.8) | (395.6) | (1,549.7) | (28.2) |
| Equity share in net income of associates | – | – | – | 270.4 | 4.9 | 29.2 | 307.3 | 5.6 |
| Interest income | 0.7 | 10.6 | 273.3 | 393.5 | 7.2 | 128.7 | 274.6 | 5.0 |
| Amortization of deferred credits | – | – | – | 17.0 | 0.3 | – | – | – |
| Others | 0.1 | 0.1 | 0.6 | (99.5) | (1.8) | 93.6 | 32.8 | 0.6 |
| | (2.3) | (10.2) | 382.2 | 7,517.7 | 136.8 | 9,402.8 | (533.2) | (9.7) |
| **Income (loss) before income tax from continuing operations** | (174.7) | 44.7 | 526.7 | 11,596.4 | 211.0 | 10,193.3 | 3,457.0 | 62.8 |
| **Provision for (benefit from) income tax** | (29.5) | 65.8 | 84.0 | 752.5 | 13.7 | 167.8 | 907.0 | 16.5 |

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022[1] | 2022 |
| | | ₱ (Audited) | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Net income (loss) from continuing operations** | (145.2) | (21.1) | 442.7 | 10,843.9 | 197.3 | 10,025.5 | 2,550.0 | 46.3 |
| **Net loss after tax from discontinued operations** | – | – | – | (12.3) | (0.2) | 0.4 | (0.6) | (0.0) |
| **Net income (loss)** | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.4 |
| **Other comprehensive income (loss):** | | | | | | | | |
| Items that will be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Gain on cash flow hedge - net of tax | – | – | – | 457.9 | 8.3 | – | 411.3 | 7.5 |
| Costs of hedging - net of tax | – | – | – | (35.7) | (0.6) | – | (258.6) | (4.7) |
| Cumulative translation adjustment - net of tax | 0.0 | (57.2) | (650.1) | 583.0 | 10.6 | (22.8) | 66.2 | 1.2 |
| | 0.0 | (57.2) | (650.1) | 1,005.2 | 18.3 | (22.8) | 218.9 | 4.0 |
| Items that will not be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Actuarial gain on pension liabilities - net of tax | – | – | – | 93.0 | 1.7 | – | – | – |
| Actuarial gain on long-term employee benefits – net of tax | – | – | – | – | – | – | 13.1 | 0.2 |
| Unrealized gain (loss) on equity instrument designated at FVOCI – net of tax | – | – | 347.2 | (145.5) | (2.6) | (90.0) | 310.1 | 5.6 |
| | – | – | 347.2 | (52.5) | (1.0) | (90.0) | 323.2 | 5.8 |
| **Other comprehensive income** | 0.0 | (57.2) | (302.9) | 952.7 | 17.3 | (112.8) | 542.1 | 9.9 |
| **Total comprehensive income (loss)** | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.2 |
| **Net Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company | (117.3) | (78.5) | 356.0 | 9,363.6 | 170.3 | 9,408.9 | 464.5 | 8.4 |
| Non-controlling interests | (27.9) | 57.4 | 86.7 | 1,468.0 | 26.7 | 617.0 | 2,084.9 | 37.9 |
| | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.4 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company | (117.3) | (135.7) | 53.0 | 9,690.0 | 176.3 | 9,196.8 | 840.7 | 15.3 |
| Non-controlling interests | (27.9) | 57.4 | 86.8 | 2,094.3 | 38.1 | 716.3 | 2,250.8 | 40.9 |
| | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.2 |
| **Earnings per Share before Discontinued Operations** | | | | | | | | |
| Basic/diluted | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.4 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |
| **Earnings per Share** | | | | | | | | |
| Basic/diluted | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.3 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |

*Note:*

(1) The Group's decrease in par value on June 8, 2022 resulted in a share split of 10:1 for its issued shares of 50,000,000. In accordance with PAS 33, *Earnings Per Share*, the weighted average number of common shares for the six months ended June 30, 2022 and 2021 was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred on January 1, 2021.

***Statements of Financial Position***

| | As of December 31, | | | | | As of June 30, | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 (as restated)[(1)] | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | U.S.$ millions (Unaudited) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 323.0 | 686.2 | 1,343.3 | 15,902.3 | 289.3 | 10,930.9 | 198.9 |
| Short-term investments | – | – | – | 458.5 | 8.3 | 350.9 | 6.4 |
| Trade and other receivables | 158.0 | 523.5 | 975.0 | 3,863.3 | 70.3 | 4,162.0 | 75.7 |
| Contract assets - current portion | 38.9 | 20.1 | 176.3 | 1,410.6 | 25.7 | 1,050.1 | 19.1 |
| Inventories | 8.3 | 11.3 | 79.8 | 502.2 | 9.1 | 630.3 | 11.5 |
| Due from related parties | – | 3.6 | 0.5 | – | – | – | – |
| Prepayments and other current assets | 202.6 | 89.5 | 251.4 | 2,556.7 | 46.5 | 3,025.5 | 55.0 |
| **Total current assets** | **730.8** | **1,334.2** | **2,826.3** | **24,693.6** | **449.2** | **20,149.8** | **366.6** |
| **Non-current assets** | | | | | | | |
| Contract asset classified as non-current | – | 3,012.2 | 3,495.8 | 6,938.9 | 126.2 | 9,220.9 | 167.7 |
| Service concession asset | – | – | – | 119,820.5 | 2,179.7 | 128,661.5 | 2,340.6 |
| Investments in associates | – | – | – | 11,452.4 | 208.3 | 12,153.7 | 221.1 |
| Financial assets at fair value through other comprehensive income | – | – | 1,885.2 | 1,617.0 | 29.4 | 2,030.5 | 36.9 |
| Property, plant and equipment | 279.0 | 380.6 | 516.6 | 7,705.3 | 140.2 | 7,929.7 | 144.3 |
| Project development costs | 514.4 | 104.6 | 138.2 | 222.9 | 4.1 | 315.3 | 5.7 |
| Goodwill and other intangible assets | – | – | – | 1,864.1 | 33.9 | 1,834.5 | 33.4 |
| Deferred tax assets – net | 50.8 | 106.8 | 148.1 | 1,590.7 | 28.9 | 1,499.3 | 27.3 |
| Other non-current assets | 63.1 | 146.0 | 502.9 | 10,454.1 | 190.2 | 13,771.9 | 250.5 |
| **Total non-current assets** | **907.3** | **3,750.2** | **6,686.8** | **161,665.9** | **2,941.0** | **177,417.3** | **3,227.5** |
| **Total assets** | **1,638.1** | **5,084.4** | **9,513.1** | **186,359.5** | **3,390.2** | **197,567.1** | **3,594.1** |
| **Current liabilities** | | | | | | | |
| Accounts payable and other current liabilities | 584.8 | 669.6 | 1,294.8 | 14,825.1 | 269.7 | 14,323.5 | 260.6 |
| Short-term loans | 47.2 | 42.2 | – | 52.5 | 1.0 | 4,067.0 | 74.0 |
| Current portion of: | | | | | | | |
| Long-term loans | – | 52.7 | 56.8 | 5,371.7 | 97.7 | 6,135.0 | 111.6 |
| Service concession obligations | – | – | – | 626.5 | 11.4 | 632.4 | 11.5 |
| Lease liabilities | 50.2 | 30.9 | 35.0 | 168.6 | 3.1 | 102.6 | 1.9 |
| Contract liabilities | 265.0 | 475.6 | 303.1 | 883.4 | 16.1 | 342.4 | 6.2 |
| Income tax payable | – | 54.2 | 82.1 | 170.8 | 3.1 | 507.9 | 9.2 |
| Due to related parties | 637.1 | 55.7 | – | – | – | – | – |
| **Total current liabilities** | **1,584.3** | **1,380.9** | **1,771.8** | **22,098.6** | **402.0** | **26,110.8** | **475.0** |
| **Non-current liabilities** | | | | | | | |
| Long-term loans - net of current portion | – | 86.7 | 1,574.8 | 81,236.8 | 1,477.8 | 84,540.1 | 1,537.9 |
| Contract liabilities - net of current portion | – | – | – | 151.5 | 2.8 | 570.8 | 10.4 |
| Lease liability - net of current portion | 140.7 | 46.6 | 26.1 | 328.9 | 6.0 | 323.3 | 5.9 |
| Deposit for future stock subscription | – | 2,973.5 | – | – | – | – | – |
| Service concession obligation | – | 366.3 | 386.4 | 8,841.0 | 160.8 | 9,105.6 | 165.6 |
| Retirement liability – net | 9.9 | 14.3 | 27.5 | 160.7 | 2.9 | 216.7 | 3.9 |
| Deferred tax liabilities – net | – | 0.0 | 12.8 | 583.9 | 10.6 | 721.3 | 13.1 |
| Provisions | – | – | – | 1,167.0 | 21.2 | 1,083.2 | 19.7 |
| Other non-current liabilities | – | – | – | 5,151.0 | 93.7 | 5,398.0 | 98.3 |
| **Total non-current liabilities** | 150.6 | 3,487.4 | 2,027.6 | 97,620.8 | 1,775.9 | 101,959.0 | 1,854.8 |

| | As of December 31, | | | | | As of June 30, | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 (as restated)[1] | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | U.S.$ millions (Unaudited) |
| **Total liabilities** | **1,734.9** | **4,868.3** | **3,799.4** | **119,719.4** | **2,177.9** | **128,069.8** | **2,329.8** |
| **Equity Attributable to Equity Holders of the Company** | | | | | | | |
| Common stock | – | – | 50.0 | 50.0 | 0.9 | 684.8 | 12.5 |
| Additional paid-in capital | – | – | 6,318.6 | 6,318.6 | 114.9 | 6,300.0 | 114.6 |
| Deposit for future stock subscription | – | 391.4 | – | 634.8 | 11.5 | – | – |
| Subscription receivable | – | – | (596.1) | – | – | – | – |
| Cumulative translation adjustment | 0.0 | (57.2) | (707.3) | (422.6) | (7.7) | (415.5) | (7.6) |
| Cumulative changes in fair value of financial assets at FVOCI | – | – | 347.2 | 201.7 | 3.7 | 511.8 | 9.3 |
| Hedging reserves | – | – | – | 150.3 | 2.7 | 204.6 | 3.7 |
| Remeasurement gain on defined benefit plans | – | – | – | 37.1 | 0.7 | 41.7 | 0.8 |
| Other equity reserve | 3.1 | 3.1 | 3.1 | 3.1 | 0.1 | (67.5) | (1.2) |
| Retained earnings | (164.8) | (243.4) | 112.6 | 9,476.3 | 172.4 | 9,940.7 | 180.8 |
| **Net Equity Attributable to Equity Holders of the Company** | **(161.7)** | **93.9** | **5,528.1** | **16,449.3** | **299.2** | **17,200.6** | **312.9** |
| **Equity Attributable to Non-controlling interests** | **64.9** | **122.2** | **185.6** | **50,190.8** | **913.1** | **52,296.7** | **951.4** |
| **Total Equity (Capital Deficiency)** | **(96.8)** | **216.1** | **5,713.7** | **66,640.1** | **1,212.3** | **69,497.3** | **1,264.3** |
| **Total liabilities and equity** | **1,638.1** | **5,084.4** | **9,513.1** | **186,359.5** | **3,390.2** | **197,567.1** | **3,594.1** |

*Note:*

(1) As of June 30, 2022, the fair values of the identifiable net assets of SP Tanauan have been finalized. Accordingly, the provisional fair values as of December 31, 2021 have been restated to reflect the final fair value amounts. Please refer to Note 4 of the Group's audited consolidated financial statements as of June 30, 2022, which are included elsewhere in the Prospectus.

***Statements of Cash Flows***

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | | U.S.$ millions (Unaudited) |
| Net cash provided by (used in) operating activities | 870.1 | (1,694.9) | 90.1 | (1,158.4) | (21.1) | 791.2 | (4,852.5) | (88.3) |
| Net cash provided by (used in) investing activities | (575.1) | (819.4) | (2,925.9) | 7,031.7 | 127.9 | 10,839.0 | (3,032.2) | (55.2) |
| Net cash provided by (used in) financing activities | (79.8) | 2,883.3 | 3,496.9 | 8,591.7 | 156.3 | 10,341.4 | 2,922.6 | 53.2 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 0.0 | (5.8) | (4.1) | 94.0 | 1.7 | 178.0 | (9.4) | (0.2) |
| Net increase (decrease) in cash and cash equivalents | 215.3 | 363.2 | 657.1 | 14,559.0 | 264.9 | 22,149.6 | (4,971.4) | (90.4) |
| Cash and cash equivalents at beginning of year / period | 107.7 | 323.0 | 686.2 | 1,343.3 | 24.4 | 1,343.3 | 15,902.3 | 289.3 |
| Cash and cash equivalents at end of year / period | 323.0 | 686.2 | 1,343.3 | 15,902.3 | 289.3 | 23,492.9 | 10,930.9 | 198.9 |

## *Key Financial and Operating Data*

| Key Financial Ratios | For the year ended December 31, 2018 | 2019 | 2020 | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Revenues (in ₱ millions) | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 12,601.8 |
| EBITDA (in ₱ millions) (1) | (148.3) | 147.9 | 700.3 | 6,970.2 | 6,693.3 |
| Core Net Income (Loss) Attributable to the Company (in ₱ millions)(2) | (117.3) | (78.6) | 356.0 | 243.3 | 550.3 |
| Current Ratio(3) | 0.46 | 0.97 | 1.60 | 1.12 | 0.77 |
| Debt to Equity(4) | N/A | 0.84 | 0.29 | 1.30 | 1.36 |
| Return on Equity (in %)(5) | N/A | (35.56) | 14.93 | 29.94 | 7.49 |
| Asset to Equity(6) | N/A | 23.52 | 1.66 | 2.80 | 2.84 |

*Notes:*

(1) EBITDA is calculated as the Group's consolidated net income (loss) excluding provision for taxes, interest expense, depreciation and amortization, foreign exchange gains/losses, interest income from banks, and other income. The following table sets forth the computation of the Group's EBITDA for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 (in ₱ millions) (Audited) | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Net income (loss) | (145.1) | (21.2) | 442.8 | 10,831.6 | 2,549.4 |
| Net loss from discontinued operations | – | – | – | 12.3 | 0.6 |
| Provision for (benefit from) income tax | (29.5) | 65.8 | 84.0 | 752.5 | 907.0 |
| Other income - net | (0.1) | (0.1) | (0.7) | (9,050.1) | (32.8) |
| Interest income | (0.7) | (7.6) | (2.9) | (176.2) | (29.6) |
| Foreign exchange losses (gains) - net | (3.2) | 4.2 | 7.0 | 249.3 | (626.5) |
| Interest expense | 6.3 | 19.5 | 48.4 | 1,954.7 | 1,797.7 |
| Depreciation and amortization | 24.0 | 87.3 | 121.7 | 2,396.1 | 2,127.5 |
| **EBITDA** | **(148.3)** | **147.9** | **700.3** | **6,970.2** | **6,693.3** |

(2) Core Net Income (Loss) Attributable to the Company is computed as the sum of the net income (loss) of each investment after eliminations and excluding non-recurring items, multiplied by the respective economic interest of the Company. Non-recurring items are defined as gains or losses that are infrequent and do not occur in the normal course of the Group's business. The following table sets forth the computation of the Core Net Income (Loss) Attributable to the Company for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 (in ₱ millions) (Audited) | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Net Income (Loss) Attributable to the Company | (117.3) | (78.6) | 356.0 | 9,363.6 | 464.5 |
| Gain on acquisition of a subsidiary | – | – | – | (9,120.3) | – |
| Provision for impairment loss on Chico Hydropower Project | – | – | – | – | 85.8 |
| **Core Net Income (Loss) Attributable to the Company** | **(117.3)** | **(78.6)** | **356.0** | **243.3** | **550.3** |

(3) Current ratio is derived by dividing current assets by current liabilities at the end of a given period. Current ratio measures the Company's ability to pay short-term obligations.

(4) Debt to equity ratio is derived by dividing the Company's interest-bearing liabilities (loans payable and bonds payable) by the total equity as of the end of the period. Debt to equity ratio measures the degree of the Company's financial leverage.

(5) Return on equity is derived by dividing net income (loss) by total average equity. Return on equity presented for the six months ended June 30, 2022 is annualized (computed as interim net income (loss) multiplied by 12/6).

(6) Asset to equity ratio is derived by dividing total assets by total equity. Asset to equity ratio measures the Company's financial leverage and long-term solvency.

# RISK FACTORS

*An investment in the Offer Shares involves a number of risks. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses, rather than profit, may be incurred as a result of buying and selling securities. The Group's past performance is not a guide to the Group's future performance. There may be a large difference between the buying price and the selling price of the Offer Shares. For investors that deal in a range of investments, each investment carries a different level of risk.*

*Prospective investors should be aware of the potential risks of investing in companies with smaller market capitalizations and should make the decision to invest only after due and careful consideration. The characteristics of companies with smaller market capitalizations mean that such companies are more suited to professional and other sophisticated investors.*

*Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, may have an adverse effect on the Group's business, financial condition, results of operations, the market price of the Offer Shares, and the Issuer's ability to make dividend distributions to the Issuer's shareholders. All or part of an investment in the Offer Shares may be lost.*

*This Prospectus also contains forward-looking statements and forward-looking financial information that involve risks, uncertainties and assumptions. The actual results of the Group could differ materially from those anticipated in these forward-looking statements and forward-looking financial information as a result of certain factors, including the risks faced by the Group as described below and elsewhere in this Prospectus.*

*The means by which the Group intends to address the risk factors discussed herein are principally presented under the sections entitled "Description of the Issuer and the Group," "Description of the Group's Water Business," "Description of the Group's Energy Business," "Description of the Group's Construction Business," Description of the Group's Waste and Sustainable Fuels Business," "Management's Discussion and Analysis of Financial Condition and Results of Operation," and "Board of Directors and Senior Management – Corporate Governance" in this Prospectus. See also the industry reports of GlobalData and LMC International attached to this Prospectus.*

*This risk factors discussion does not purport to disclose all of the risks and other significant aspects of investing in the Offer Shares. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Issuer from the Philippine SEC. An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of this Offer or the nature of risks involved in purchasing, holding and trading the Common Shares. Each investor should consult his or her own counsel, accountant, and other advisers as to the legal, tax, business, financial, and other related aspects of an investment in the Common Shares.*

*The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only.*

## RISKS RELATING TO THE ISSUER AND THE GROUP

***The Issuer is a holding company and depends on dividends and distributions from its subsidiaries.***

The Issuer is a holding company and conducts no significant business operations. The operating assets of the Group are held by the Operating Subsidiaries and Portfolio Companies, which the Issuer holds or is invested in through its shareholdings in the Intermediate Holding Companies. See "*Description of the Issuer and the Group—Corporate and Shareholding Structure*" on page [208].

The Issuer expects to depend upon the dividends and distributions from the Intermediate Holding Companies, who in turn will depend upon the Operating Subsidiaries and Portfolio Companies, for almost all of its cash flow. The Issuer's assets are held by, and its earnings and cash flows are ultimately attributable to the Operating Subsidiaries and Portfolio Companies. As a holding company, the Issuer's income, on a standalone basis, is derived from dividends and distributions from the Intermediate Holding Companies. The Issuer's liquidity, ability to pay expenses, and meet obligations, are dependent upon the flow of funds from the Operating Subsidiaries and

Portfolio Companies through the Intermediate Holding Companies. See "*Dividends and Dividend Policy*" on page [118] for further details on the dividend policies adopted by the Group.

The ability of the Operating Subsidiaries and Portfolio Companies to pay dividends to their respective shareholders, and ultimately to the Issuer, is subject to applicable laws (including remittance laws), availability of foreign exchange such as U.S. dollars, and may be subject to restrictions contained in loans and/or debt instruments of the Operating Subsidiaries and Portfolio Companies, and may also be subject to taxes. For example, under the terms of WawaJVCo's loan with BDO Unibank, Inc., WawaJVCo is not permitted to declare or pay dividends on its shares, among others, under the later of its full commercial operations date or from the 61st month of the initial drawdown date. Please see Note 17 in the Audited Consolidated Financial Statements for further details. Currently, the payment of dividends by a Philippine corporation to another Philippine corporation is not subject to tax.

Under Philippine law, dividends may be declared by a corporation's board of directors; however, any stock dividend declaration requires the approval of shareholders holding at least two-thirds of such corporation's total outstanding capital stock. Additionally, Philippine SEC approval is required if the issuance of stock dividends requires an increase in such corporation's authorized capital stock. There can be no assurance that the Operating Subsidiaries and Portfolio Companies will generate sufficient cash flows to pay dividends or otherwise distribute sufficient funds to the Issuer to enable it to meet its own financial obligations and declare dividends to its shareholders.

In addition, certain of the Intermediate Holding Companies and Operating Subsidiaries and Portfolio Companies are subject to certain debt covenants in their loan agreements, which may affect their ability to declare or pay dividends under certain circumstances, such as in the event of default or if any such payments would result in an event of default, or if certain financial ratios are not maintained. Failure to comply with these covenants could result in the debt becoming immediately due and payable. This could affect the Group's liquidity and ability to generally fund its day-to-day operations. In the event this occurs, it may be difficult to repay or refinance such debt on acceptable terms or at all. Please see Note 17 in the Audited Consolidated Financial Statements for further details. Certain subsidiaries of the Group may also undertake public offerings, which would require such subsidiaries to maintain a minimum public float level and potentially dilute the ownership of the Group over such subsidiary.

Any restriction or prohibition on the ability of the Operating Subsidiaries and Portfolio Companies or any of the Intermediate Holding Companies to distribute dividends or make other distributions to the Issuer, either due to regulatory restrictions, debt covenants, contractual undertakings, operating or financial difficulties or other limitations, could have a negative effect on the Issuer's cash flow, prospects and financial condition. See "*Dividends and Dividend Policy— Dividend Policy*" on page [118] for further details on the dividend policies of the Group.

See also "*Risks Relating to the Group's Energy Business*," "*Risks Relating to the Group's Water Business*," and "*Risks Relating to the Group's Construction Business*," generally below for further details. The Issuer believes these risks can be managed through the generation of cashflow through the execution of its competitive strengths and business strategies. However, there is no assurance that the Issuer or any of its subsidiaries can effectively manage such risks or that the Group will not use the generated cashflow to reinvest in projects for the long-term growth and expansion of the Group. See "*Description of the Issuer and the Group—Competitive Strengths*" on page [198] for information on the Group's strengths generally. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*" and "*Description of the Issuer and the Group—Business Strategies—Focus on executing critical projects in the pipeline*."

***The Group's ability to grow its revenue in the future will depend, in part, on its ability to acquire additional companies or additional stakes in existing component companies.***

As part of its business strategy, the Issuer and certain members of the Group have acquired and expect to continue to acquire businesses and assets in the Philippines and other jurisdictions, including additional stakes in existing component companies. No assurance can be given as to the timing of any additional acquisitions, or the likelihood that the Issuer or such members of the Group will complete a transaction on favorable terms and conditions, or at all. The Issuer's ability to continue to expand successfully through acquisitions or alliances depends on many factors, including its ability to identify new targets and to negotiate, finance, and close the acquisitions.

Furthermore, certain sectors in which the Group companies operate, or may in the future operate, are undergoing consolidation, and several parties may compete for a given opportunity. In respect of these opportunities, some of the Group's competitors may have greater resources, financial or otherwise, which could reduce the likelihood that the Group will successfully complete desirable acquisitions. In addition, for acquisitions within certain sectors, such as public utilities, the Group's bid may be subject to regulatory approval processes, which the Group may not be able to complete on a timely basis, or at all.

The Group believes that it is able to manage the foregoing risks through the organic growth of the business of the members of the Group. As the population grows in the Philippines and other jurisdictions in which the Group operates, the demand for water, power, and waste and sustainable fuels services in such jurisdictions are expected to increase. The Group also believes that it is not overly reliant on growing its businesses through acquisitions as the Group's strategy also includes expanding its existing businesses into other territories and related business lines. See "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects,*" "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*" and "*Description of the Issuer and the Group—Business Strategies—Focus on executing critical projects in the pipeline*."

***The Issuer faces risks associated with inorganic growth through acquisitions and may experience difficulties managing its growth and the impact of acquisitions and investments could be less favorable than anticipated.***

The Issuer has expanded its portfolio of assets over the past few years. This rapid expansion into new business sectors has presented, and will continue to present, significant challenges for the Group's management, operational and administrative systems and its ability to maintain effective systems of internal controls. The Group may have to continue to train new personnel and expand and improve its management, operational, administrative, and financial control and auditing systems relating to new businesses or the expansion of existing businesses. There can be no assurance that the Group will not experience difficulties in managing its existing investments and growth. If the Group fails to develop and maintain its management, administrative, and internal control systems, as well as other resources, its business, financial condition, prospects and results of operations could be materially and adversely affected.

Growth through acquisitions involve business risks, including unforeseen contingent risks or latent business liabilities that may only become apparent after the acquisition is finalized, successful integration and management of the acquired entity within the Group, retention of key personnel, ability to realize synergies with other Group companies, and management of a larger business. Acquisitions could also materially increase the Group's costs or liabilities and divert management from its other business activities. If the Issuer is unable to successfully progress, manage and/or grow any potential or future acquisitions, the Group's business, financial condition, prospects and results of operations could be adversely affected.

The Group believes that it is able to manage the foregoing risks through the Issuer's senior management team's experience and the support of the Razon Group of Companies' network and experience in mergers and acquisitions and project development. The Issuer's senior management team is composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to support the rapid expansion of the Group. See the following for additional details: "*Description of the Issuer and the Group—Competitive Strengths—Leveraging on the solid track record of the Issuer's senior management team's agile and forward thinking*," "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure," "Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience,"* and "*Description of the Issuer and the Group—Business Strategies—Leverage on the existing global network of the Razon Group of Companies for international expansion*."

***Failure to obtain financing on reasonable terms or at all could affect the execution of the Group's growth strategies and increased debt financing may have a material adverse effect on the Group.***

The Issuer's and the Group's ability to make strategic investments and acquisitions are expected to depend on external fundraising activities, including debt and equity financing. The Group's debt ratio for the year ended December 31, 2021 and the six months ended June 30, 2022 was 64.2% and 64.8%, respectively. The Issuer's and the Group's ability to raise additional equity financing from non-Philippine investors is subject to prevailing market risks and foreign ownership restrictions imposed by the Philippine Constitution and applicable laws. The Issuer's and other Group members' access to debt financing for new projects and acquisitions and its ability to refinance maturing debt is subject to many factors, some of which are outside of the Group's control. For example, political instability, economic downturns, liquidity of the U.S. dollar and Peso debt capital and the banking market, social unrest or changes in the Group companies' regulatory environments could increase the Issuer's or other Group member's cost of borrowing or restrict the Issuer's or such Group member's ability to obtain debt financing. The Issuer cannot guarantee that it or any other Group member will be able to arrange financing on acceptable terms, if at all. The inability of the Issuer or any other Group member to obtain debt financing from banks and other financial institutions would adversely affect the Issuer's and other Group members' ability to execute their growth strategies or refinance maturing debt.

In addition, any future debt incurred by the Group may:

- increase the Group's vulnerability to adverse economic and industry conditions, limit the Group's flexibility to react to changes in the sectors in which its companies operate, and place the Group at a competitive disadvantage in relation to competitors that have less debt;
- restrict the Group's ability to make additional capital expenditures;
- require the Group to dedicate a substantial portion of its cash flow to service debt payments; and/or
- subject the Group companies to restrictive financial and other covenants, including restrictions on the ability of the Group companies to declare dividends or incur additional indebtedness.

Any of these factors, alone or together, could materially and adversely affect the Group's business, financial condition, prospects or results of operations.

The Group believes that it is able to manage the foregoing risks through the Issuer's senior management team's experience and its comprehensive financial management systems. The Issuer's senior management team is also composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to progress, manage, and grow the Group's potential or future acquisitions and properly execute external fundraising activities. The Group also takes a prudent approach in financial management and closely monitors its capital, cash, and debt positions and maintains discipline in its capital and debt commitment. See also "*Description of the Issuer and the Group—Competitive Strengths—Leveraging on the solid track record of the Issuer's senior management team's agile and forward thinking*," "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience*" and "*Description of the Issuer and the Group—Business Strategies—Continuously manage costs at the parent and operating company levels*."

***The Group's business segments must produce enough cashflow to service its existing indebtedness in a timely manner and the Group or members of the Group may face difficulty complying with its or their respective debt covenants.***

As of June 30, 2022, the Group had ₱94,742.1 million (equivalent to 48.0% of the Group's total assets of ₱197,567.1 million) in outstanding indebtedness comprising ₱46,411.0 million of Philippine Peso-denominated long-term loans and revolving credit lines, ₱33,283.1 million of U.S. dollar-denominated bonds, and ₱15,048.0 million of other foreign-currency loans.

In the ordinary course of business due to the nature of the Group's business segments and to optimize capital structure, members of the Group obtain debt financing, including short-term credit facilities, project finance loans, and bonds or notes. These debt facilities or instruments may be secured or unsecured. For example, WawaJVCo has entered into a project finance loan with BDO Unibank, Inc., which includes a security package customary for project finance loans, such as a pledge over the shares of WawaJVCo, real estate mortgage over real property rights, assignment or pledges of personal property, assignment of permits, and others. As another example, Manila Water issued 10-year U.S.$500 million of sustainability bonds in July 2020. These bonds have an annual coupon rate of 4.375%, and mature on July 30, 2030 unless previously redeemed or repurchased or cancelled in the event of a gross-up event, a change of control triggering event or regulatory redemption triggering event (each as defined in the terms and conditions of such sustainability bonds) or at the option of Manila Water on any payment business day (as defined in the terms and conditions of such sustainability bonds) on or after July 30, 2025 and up to but excluding July 30, 2030, in accordance with the terms and conditions of such sustainability bonds. See Note 17 of the Audited Consolidated Financial Statements for more information on these indebtedness, including grounds for redemption of Manila Water's sustainability bonds.

Certain members of the Group are also required to comply with certain loan covenants in their existing long-term facilities with various banks, including the following:

- minimum debt service coverage ratio ranging from [1.0x to 1.20x];
- maximum debt to equity ratio ranging from [2.50x to 3.0x]; and/or
- negative covenants, such as change in nature of business, change in ownership, sale of assets, suspension of operations, among others.

The covenants are customary and monitored on a quarterly basis or as frequent as necessary to ensure compliance at all times.

If any member of the Group fails to produce enough cashflow to service its existing debt, or refinance all or a part of its existing debt, such debt may be accelerated or cause lenders to foreclose on the security for such debt. Any failure to pay or breach of any debt covenant may also cause lenders to declare an event of default or trigger cross-default provisions of such Group member's other debt or the debt of other members of the Group. Any such acceleration, foreclosure of assets, event of default or cross-defaults may result in a material adverse effect on such Group member's and the Group's financial condition, results of operation and business prospects.

To manage these risks, the Group ensures that it has sufficient liquid assets to cover its current liabilities, and the Group monitors its overall leverage. Further, the Group monitors the tenor of its loans to match the life of the project (from construction to commercial operations) and the expected cashflows to be generated from each project. The Group also aims to finance its development projects with non-recourse project finance loans which would limit the risk of default to the project company and its assets (with limited sponsor exposure). In particular, for the Group's Terra Solar Power Plant, Ahunan Laguna Power Plant, Tanauan Power Plant, and Wawa Bulk Water Supply Project, the Group is targeting to obtain 70% to 75% non-recourse project financing at the asset level. The Issuer's senior management team is also composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to progress, manage, and grow the Group's potential or future acquisitions and properly execute external fundraising activities. The Group also takes a prudent approach in financial management and closely monitors its capital, cash, and debt positions and maintains discipline in its capital and debt commitment.

***The Issuer depends on the continued service of its senior management team, and its ability to attract and retain talented personnel.***

The Issuer is, and will continue to be, dependent on the continued service of its senior management team, whose details are set out in "*Board of Directors and Senior Management*." The Issuer's senior management team is critical to the Group's success and the loss of the services of any key member of the team could materially impair its operations and impede the execution of its strategies. The Issuer does not carry key person insurance and may not be able to replace members of its senior management within a reasonable period of time or with a person of equivalent expertise and experience, which could materially and adversely affect the Group's business, financial condition, prospects and results of operations.

To manage this risk, the Issuer offers competitive salaries and benefits to attract and retain talented personnel and members of its senior management team. It has also established a stock incentive plan with a three year vesting period that is intended to encourage participants to remain with the Group. The Issuer focuses on improving the professional skills of its employees. Among other programs, it offers paid Udemy courses to employees. Udemy is one of the world's largest providers of online productivity and professional skills courses. The Group has an established succession planning program for identified replacements of retiring employees to ensure leadership strength and technical knowledge preservation necessary for continued business operation and for high-potential employees to accelerate their development and assume leadership roles in the future. See also "*Board of Directors and Senior Management–Significant Employees*."

***The Group's corporate structure, which consists of a number of companies in multiple business lines, exposes the Group to challenges not found in companies with a single business line.***

The Group consists of portfolio companies operating in multiple industries, and include both privately held and publicly traded companies. Due to the diverse characteristics of the Issuer's portfolio companies, the Issuer and the Group face challenges not found in companies with a single business line. In particular:

- The Group is exposed to business and market risks relating to different industries. The Issuer needs to devote substantial resources to monitor changes in different operating environments so that it can react with appropriate strategies that fit the needs of the portfolio companies affected.

- Some of the Group companies are subject to stringent government regulation, including Manila Water, which is regulated by the Metropolitan Waterworks and Sewerage System Regulatory Office (the "**MWSS-RO**"), the National Water Resources Board (the **"NWRB**") and the Philippine Department of Health (**"DOH**"); Prime BMD, which is regulated by the Construction Industry Authority of the Philippines (**"CIAP**"); Ahunan Power, Terra Solar and SP Tanauan, which are regulated by the Philippine Energy Regulatory Commission ("**ERC**") and the Philippine Department of Energy ("**DOE**"). Pursuant to existing regulations, such portfolio companies are required to obtain licenses and comply with regulations, obtain permission to engage in certain activities, and maintain certain operating and financial standards. The large number of regulators and regulatory regimes impacting the Group companies' businesses requires a significant amount of Issuer's management's time and effort to understand and oversee the regulatory compliance of its portfolio companies.

- Due to the Issuer's large number of portfolio companies, its success requires an effective management system that emphasizes accountability, imposes financial discipline on portfolio companies, and creates value-focused incentives for management.

- As Manila Water is publicly traded, transfers of funds into or out of Manila Water are subject to various regulatory restrictions. Intra-group transactions may also be subject to applicable disclosure and other regulatory requirements, such as issuing press notices, securing shareholders' approval at general meetings, and disclosing material information in annual reports and accounts.

The failure of the Issuer or the Group to meet the challenges mentioned above could materially and adversely affect the Group's business, financial condition, prospects and results of operations.

The Group believes it is able to manage the foregoing risks through the Issuer's senior management team's experience in businesses in regulated markets. The Issuer's senior management team is composed of members who have years of experience in the relevant industries and a proven track record in the different business of the Group. See also "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience*," and "*Description of the Issuer and the Group—Business Strategies— Focus on regulated markets*."

***The Group's reputation may be affected by the operations of some of its portfolio companies.***

Actions taken that adversely impact the reputation of one Group company may also have an adverse impact on other Group companies or the Group as a whole. If the Issuer's or any Group companies' reputation or corporate image were to suffer, the Group's business, financial condition, prospects and results of operations would be materially and adversely effected.

The Group believes it is able to manage the foregoing risks through its focus on key ESG principles and core values. The Group's ESG principles focus on sustainable thinking and innovative practices, the forging of community partnerships, and the pursuit of profit with integrity in mind. The Group's core values are value creation for the community in its investments, integrity in the conduct of its business, innovation in its processes, passion in its work, and tenacity it its approach. This allows the Group to build strong relationships in the communities in which it operates and foster trust and confidence that the Group's operations and actions are driven by its ESG principles and core values, and not solely profit. See also "*Description of the Issuer and the Group—Competitive Strengths—Driving impact and sustainable development with its ESG commitment*," and "*Description of the Issuer and the Group—Business Strategies—Identify and invest in opportunities guided by the Company's core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity*."

***The Issuer is effectively controlled by Razon & Co. and its interests may differ significantly from the interests of other shareholders.***

As of June 30, 2022, Razon & Co. beneficially owned approximately 97.25% of the issued share capital of Issuer. Upon completion of the Offer and assuming full exercise of the Over-allotment Option, Razon & Co. is expected to beneficially hold at least [78]% of the issued share capital of the Issuer. As a result, Razon & Co. effectively controls the Issuer. Shareholders of Razon & Co., who either individually or collectively have controlled the Issuer since its inception, may have private interests in a number of companies either alone or together with other family members. The respective businesses or activities of these companies do not directly compete with the Issuer's businesses or activities. However, certain of these companies have significant commercial transactions with the Group companies. See Note 28 to the audited consolidated financial statements of the Group as of and for the years ended December 31, 2021, 2020, 2019 and 2018. All of these transactions have been entered into on arm's length commercial terms. However, there can be no assurance that, given Razon & Co.'s interests both within and outside the Group, conflicts of interest will not arise.

The Group believes that it is able to manage the foregoing risks given the track record of the Razon Group of Companies of growing and expanding their businesses. The Group also expects to experience rapid growth and expansion through leveraging the existing global footprint of the Razon Group of Companies, which will enable the Group to manage the potential adverse effects arising from potential conflicts of interest. Further, the Issuer aims to implement robust corporate governance policies and related party transaction policies in line with best practices for Philippine public companies. In particular, the Issuer has a Related Party Transactions Committee that is responsible for reviewing the integrity and transparency of related party transactions based on the Issuer's related party transaction policy. In addition, material or significant related party transactions will also be disclosed in the Issuer's Annual Corporate Governance Report. See also "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," and "*Description of the Issuer and the Group—Business Strategies—Leverage on the existing global network of the Razon Group of Companies for international expansion*."

***The interests of the joint venture partners of the Group companies may conflict with the interests of the Issuer and its shareholders.***

A significant proportion of the Group's operations are held through joint venture or other similar structures between a Group company and third parties. For example, Prime BMD is a joint venture which is 60% owned by Prime Metroline and 40% owned by BMD International Pty Ltd., a large Australian civil contractor company; WawaJVCo is a joint venture enterprise between Prime Infrastructure, which has an 82% share, and San Lorenzo Ruiz Builders & Developers Group, Inc.; 85% of Ahunan Power is owned by Prime Infrastructure and the remaining 15% owned by JBD Water Power, Inc. (formerly JBD Management and Consulting Services, Inc.); and the entities which own and operate the Group's solar power plants are also structures through which the Group shares ownership or control with third parties. See "*Description of the Group's Construction Business*" and "*Description of the Group's Energy Business*" in this Prospectus for more details.

These relationships and any similar future relationships subject the Issuer and the Group companies to the risk that the interests of their joint venture partners may conflict with the interests of the Issuer and its shareholders. For instance, the Group companies' joint venture partners may:

- have economic or business interests or goals that are inconsistent with those of the Issuer and its shareholders;

- take actions contrary to the instructions or requests of or contrary to the policies and objectives of the Issuer and its shareholders;

- be unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements;

- experience financial difficulties;

- have disputes with the Issuer or the Group companies; or

- decide against renewal of the relevant joint venture agreement, and partner with a competitor of the Group.

A serious dispute with the joint venture partners of the Group companies, the dissolution of the joint venture or the early termination of the respective arrangements or agreements with the joint venture partners could materially and adversely affect the Group's business, financial condition, prospects and results of operations.

The Group believes it is able to manage the foregoing risk though its diverse portfolio of assets and projects, allowing it to reduce reliance on one or a few assets or projects and minimize the risks involved and limit the impact on the Group should an adverse event take place with a joint venture partner. Additionally, the Group carefully considers and assesses each potential joint venture partner, including financial, technical and legal aspects, before committing to any joint venture agreement, and aims to maintain good relationships with its joint venture partners, with the aim of expanding and growing their mutual investments. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***Manila Water is publicly traded. In addition, certain subsidiaries of the Issuer may become publicly listed and traded companies in the future. The trading price of the Company's common shares may be affected by the trading prices of the securities of Manila Water and any other subsidiary that becomes publicly listed.***

Manila Water is publicly traded. In addition, certain subsidiaries of the Issuer may become publicly listed and traded companies in the future in compliance with applicable law and regulations. The trading prices of listed securities have generally fluctuated significantly in the past. The market value of a publicly listed company varies with its financial condition and results of operations, the market values of companies engaging in similar businesses, as well as investor sentiment in the Philippines and capital markets in general. If the market prices and trading volumes of the securities of Manila Water, or any other subsidiary of the Issuer that becomes publicly listed in the future, fluctuates significantly, the trading price of the Common Shares may be affected.

The Group believes it is able to manage the foregoing risk though its diverse portfolio of assets and projects, allowing it to reduce reliance on Manila Water (or any other subsidiary) and minimize the risks related to a potential fluctuation in the trading price of Manila Water's or the relevant subsidiary's securities. The Group also believes in the inherent valuation of Manila Water and does not seek to trade Manila Water's securities which could give rise to fluctuations in its balance sheet. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***The Issuer is required to maintain a minimum public ownership of 20%.***

Pursuant to PSE Circular No. 2020-0076, the Issuer is required to maintain a minimum public ownership ("**MPO**") of 20.0% of its total issued and outstanding shares. Listed companies that become non-compliant with the MPO requirement will be suspended from trading for a period of not more than six months and will automatically be delisted if they remain non-compliant with the MPO requirement after the lapse of the suspension period. Suspended or delisted shares will not be traded on the PSE. In addition, the sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax. See "*The Philippine Stock Market—Amended Rule on Minimum Public Ownership*" on page [324].

To manage this risk, the Issuer will regularly monitor its public ownership levels, and at the minimum, in line with the requirements of the PSE. Further, after the Issuer is listed with the PSE, it will be required to disclose quarterly reports of its public ownership report.

***The Issuer and the Group enter into transactions with related parties.***

In the ordinary course of business, the Issuer and its subsidiaries transact with related parties, and in particular the Razon Group of Companies. These transactions have principally consisted of: (i) an offtake agreement entered into between WawaJVCo and Manila Water (and Metropolitan Waterworks and Sewerage System ("**MWSS**")) for the supply of raw water from WawaJVCo to Manila Water; (ii) construction contracts entered into between Prime BMD and WawaJVCo; and (iii) a consultancy agreement between Prime Infrastructure and Manila Water. Construction contracts have also been entered into between Prime BMD and members of the Razon Group of Companies, such as International Container Terminal Services, Inc. and Sureste Properties, Inc.

On January 23, 2013, the BIR issued Revenue Regulations No. 2-2013 on Transfer Pricing Guidelines (the "**Transfer Pricing Guidelines**") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines. The Transfer Pricing Guidelines are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Guidelines define related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises.

The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR can make the necessary adjustments to the taxable profits of the related parties so as to reflect the true value that would otherwise be derived on an arm's length basis.

There is no assurance if the BIR will view the Group's transactions as arm's length on the basis of the Transfer Pricing Guidelines. There can be no assurance that the Company's level of related party transactions, if questioned, will not have an adverse effect on the Group's business or results of operations.

While the Issuer believes that all past related party transactions have been conducted at arm's length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to the Issuer and the Group.

To address this, the Issuer has instituted internal policies with respect to related party transactions and ensures that it is compliant with the policies instituted on transactions involving related parties. For example, the offtake agreement between WawaJVCo and Manila Water was executed before Trident Water acquired the latter. The acquisition was reviewed and approved by the Philippine Competition Commission ("**PCC**"). The engineering, procurement and construction ("**EPC**") contract with WawaJVCo was awarded to Prime BMD after a competitive selection process based on bidding documents common to all bidding participants. Prime BMD follows related party transaction principles if it is considering entering into a contract with a related party. To help ensure impartiality, the approval of a director nominated by Prime BMD is required. Manila Water, being a listed company, has a related party transaction committee comprised exclusively of three independent directors.

Relevant related party transactions are also discussed at the Related Party Transactions Committee of the companies who oversee such matters. See "*Related Party Transactions*" on page [304] of this Prospectus.

***The COVID-19 pandemic has caused interruptions, negatively impacted global and regional economic growth and may adversely affect the Group. Further, the continuing impact of the COVID-19 pandemic are highly unpredictable and uncertain and have caused, and will continue to cause, disruptions in the Philippine and global economy and financial markets.***

On January 30, 2020, the World Health Organization ("**WHO**") declared the COVID-19 outbreak a Public Health Emergency of International Concern, and subsequently, a pandemic on March 11, 2020. In response to the pandemic, on March 12, 2020, the Philippine Government placed Metro Manila under "community quarantine" starting on March 15, 2020, which, among others, restricted traveling through land, domestic air, and domestic sea from Metro Manila. On the second day of the implementation of the said community quarantine, the Philippine Government declared a Luzon-wide "enhanced community quarantine" ("**ECQ**") to arrest the continuing effect of the disease. The enhanced community quarantine mandated the temporary closure of all public and private offices, non-essential shops and businesses, prohibited mass gatherings and all means of public transportation, and restricted traveling through air, sea and land in and out of Luzon, except for diplomats and uniformed workers (carrying medical supplies), among others. In line with this, private establishments providing basic necessities, essential services and such other activities related to food and medicine were allowed to continue operations. On April 7, 2020, the Philippine Government extended the ECQ period until April 30, 2020, which was further extended to May 15, 2020. After the ECQ was lifted in certain areas, a modified ECQ ("**MECQ**"), general community quarantine, ("**GCQ**") or modified GCQ ("**MGCQ**") was implemented. The graduated lockdown schemes from ECQ, MECQ, GCQ and MGCQ impose varying degrees of restrictions on travel and business operations in the Philippines. The Government has continued to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. On March 27, 2021, following a spike in COVID-19 cases, the Government placed Metro Manila and certain neighboring provinces under ECQ from March 29, 2021 until April 11, 2021. On April 11, 2021, the Government announced that Metro Manila and certain neighboring provinces would shift to MECQ starting April 12, 2021 until April 30, 2021, which was extended through May 15, 2021. On May 13, 2021, the Government announced that Metro Manila and adjacent provinces would shift to GCQ with heightened restrictions until the end of May, which was later extended until the end of June. On July 22, 2021, the Government announced that the entire National Capital Region ("**NCR**") and certain provinces would be subject to GCQ with heightened restrictions beginning July 23, 2021 until July 31, 2021. On July 29, 2021, the Government announced that NCR will be escalated to the ECQ scheme beginning August 6, 2021 until August 20, 2021, while certain provinces will shift to MECQ, following the spike of new 'Delta' variant cases of COVID-19. On September 13, 2021, the IATF approved the guidelines for a new Alert Level and Granular System implemented from September 16, 2021. This new system shall replace the previous quarantine classifications comprised of ECQ, MECQ, GCQ and MGCQ. Under the new guidelines, the quarantine classifications are composed of five Alert Levels that determine the activities allowed in cities and/or municipalities. The new guidelines also authorize the city and municipal mayors to impose granular lockdowns with respect to their component barangays, including streets, villages, condominiums and other smaller specific areas in a city or town, which are tagged as critical zones or high-risk for COVID-19 by the local government unit. As the Delta variant subsided, the Omicron variant, first discovered in South Africa, arrived in Philippine shores towards the end of 2021, with local transmission being confirmed on December 31, 2021. Most of the country was placed under the highest or second highest Alert Level possible as cities and municipalities struggled to curb high infection rates. However, by March 2022, infections began to fall, and coupled with an increasing rate of vaccination both in major cities and the countryside, Alert Levels all around the country began to be scaled down.

As of the date of this Prospectus, Metro Manila is under Alert Level 1 until August 15, 2022, and is subject to further extensions, with other regions under varying levels of quarantine restrictions.

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty and volatility, all of which have impacted, and may continue to impact, the Group's businesses. While the Group has taken numerous steps to mitigate the impact of the pandemic on its results of operation, there can be no assurance that these efforts will be successful. For instance, disruptions due to COVID-19 have resulted in delays to construction projects undertaken by Prime BMD and related maintenance projects, and the timing of the completion of such projects. There is no assurance that areas that are currently under quarantine restrictions will not be put under more stringent community quarantine in the future.

Moving forward, despite uncertainties and factors beyond its control, the Group remains focused on managing its financial resources enabling it to operate business as usual under COVID-19 conditions. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there is a subsequent “wave” or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Group operates;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures as well as measures taken by regulators;
- restrictions on operations, including complete or partial closure of offices, plants and other facilities;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, the Group’s personnel and the Group’s ability to maintain staffing needs to effectively operate its businesses;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- impacts—financial, operational or otherwise—on suppliers and third-party contractors, particularly for ongoing maintenance and construction of certain energy, water and construction projects and other assets;
- volatility in the credit and financial markets during and after the pandemic;
- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or the Group’s actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Group’s businesses and operations.

The above factors and uncertainties, or others of which the Group is not currently aware, may result in an adverse impact to the Group’s businesses, results of operations, cash flows, financial condition and prospects due to, among other factors:

- delays to the Wawa Bulk Water Supply Project undertaken by WawaJVCo, construction projects undertaken by Prime BMD and related maintenance projects, and the timing of the completion of such projects;
- suppliers or contractors claiming force majeure events under their contracts and sharing of additional costs caused by the delay or disruption due to COVID-19 and related Government restrictions;
- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;
- further destabilization of the markets and decline in business activity negatively impacting customers’ ability to pay for services when due or at all;
- decline in business activity causing customers to experience liquidity difficulties that impede their ability to pay for services;
- government moratoriums or other regulatory or legislative actions that limit changes in pricing, delay or suspend customers’ payment obligations.
- delay or inability to receive the necessary permits for development projects due to delays or shutdowns of government operations;
- increased volatility in foreign exchange and commodity markets;

- deterioration of economic conditions, demand and other related factors; and
- delay or inability in obtaining regulatory actions and outcomes that could be material to the Group's businesses.

The extent to which the COVID-19 pandemic will continue to impact the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects the Group's businesses and financial results, it may also have the effect of heightening many of the other risks described in this Prospectus.

See "*Description of the Issuer and the Group—Impact of COVID-19*" beginning on page [206] describing the operations of the Group in the course of the COVID-19 pandemic and measures it has taken to address the pandemic. As certain members of the Group, such as Manila Water, provide an essential service, their day-to-day operations have not been significantly affected and they have been able to maintain a stable financial position. The Group remains focused on managing its financial resources enabling it to operate under COVID-19 conditions and has implemented various initiatives to protect the workplace, stakeholders, facilities and communities. Further, the Issuer believes the continuing risk brought about by the COVID-19 pandemic can be managed by leveraging on the Group's collective experience in project management and operations during the pandemic (and through various quarantine levels) for the past two years.

***The Group's significant or material agreements may not be renewed or there may be non-compliance by parties thereto.***

Because the Group is engaged primarily in infrastructure and other large projects, members of the Group have, and may continue to enter into, significant or material agreements such as water supply and offtake agreements, loan agreements, engineering, procurement, and construction contracts, concession agreements, consultancy agreements, service agreements, and investment agreements, among others.

The business, cash flows, earnings, results of operations and financial condition of the Group could be materially and adversely affected if any Group member is unable to comply with, or breach or default on its obligations under any of these agreements, or if such Group member is unable to meet its payment obligations under existing agreements.

To manage this risk, members of the Group have their respective contracts management system in place to monitor compliance with and performance of their obligations under their material agreements. Further, the Group is led by a reputable and experienced board and management team with a long track record in execution of projects and oversight of operations. See "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience*" for further details.

***The Group may fail to fulfill the terms and conditions of licenses, permits and other authorizations, or fail to renew them on expiration.***

The Group is required to maintain business licenses, permits and other authorizations, and is also required to obtain and renew various permits, including business permits and permits concerning, for example, health and safety and environmental standards. Many of the Group's licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. If any of the members of the Group fails to meet the terms and conditions of any of its licenses, permits or other authorizations necessary for its operations, these may be suspended or terminated, leading to temporary or potentially permanent closing of operations, facilities, properties, or other adverse consequences. In addition, there is no certainty that any given license, permit or authorization will be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such license, permit or authorization.

There can be no assurance that the Group will continue to be able to renew the necessary licenses, permits and other authorizations for its properties as necessary or that such licenses, permits and other authorizations will not be revoked. The Group's failure to obtain, maintain, or renew, the material licenses, permits and certifications, as listed under *"Description of the Group's Water Business – Regulatory Compliance," "Description of the Group's Energy Business – Regulatory Compliance," "Description of the Group's Construction Business – Regulatory Compliance" and "Description of the Group's Waste and Sustainable Fuels Business – Regulatory Compliance"* on pages [225], [241], [251] and [253] of this Prospectus, respectively, could have an adverse effect on the Group's business, financial condition, prospects and results of operations, or otherwise subject the Group to the payment of fines or charges imposed by the relevant regulatory agency.

The Group believes it is able to manage the foregoing risks through its senior management team's experience in businesses in regulated markets and dealings with regulators and permitting issues. Further, the Group regularly consults relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. The Group has also appointed a Chief Compliance Officer to oversee, among others, compliance with and fulfillment of the terms and conditions as well as the renewal of the Group's licenses, permits, and other authorizations. The Group also believes it has a strong compliance culture and has processes in place in order to manage adherence to laws and regulations. See also "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure,*" "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience,*" and "*Description of the Issuer and the Group—Business Strategies—Focus on regulated markets*."

***The Group is active in many regulated sectors and any inability to anticipate changes in the political and regulatory landscapes may affect the Group's profitability and brand value.***

The Group engages or has interests in the energy, water, construction, and waste and sustainable fuels sectors. Some of its business activities are in regulated industries that regularly undergo a significant amount of regulatory and/or political changes. While the Issuer and certain member companies of the Group have dedicated resources and personnel to monitor, study and influence policymaking in their respective industries in the Philippines and elsewhere, the Issuer cannot fully ensure the accuracy of such studies or the effectiveness of such attempts in a constantly shifting environment. Any inability to anticipate changes in the political and regulatory landscapes may affect the Group's profitability and brand value. Any failure to accurately predict or successfully influence or address policy outcomes may have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group believes it is able to manage the foregoing risks through the Issuer's senior management team's experience in businesses in regulated markets and its diverse portfolio of assets and projects. The Group also has a strong compliance culture and has processes in place in order to manage adherence to laws and regulations. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*" "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure,*" "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience,*" and "*Description of the Issuer and the Group—Business Strategies—Focus on regulated markets*."

***The Group's information technology systems may be subject to cyberattacks.***

As certain members of the Group, such as Manila Water, are operators of critical infrastructure, the Group may face a heightened risk of cyberattacks from internal or external sources. The Group's information technology systems may be vulnerable to unauthorized external or internal access due to hacking, ransomware, viruses, or other cybersecurity breaches. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact the Group's customers, employees, suppliers, and other third parties. Further, third parties, including vendors, suppliers, and contractors, who perform certain services for the Group or administer and maintain its sensitive information, could also be targets of cyberattacks and unauthorized access. While the Group has instituted safeguards to protect its information technology systems, those safeguards may not always be effective due to the evolving nature of cyberattacks and cyber vulnerabilities. The Group cannot guarantee that such protections will be completely successful in the event of a cyberattack.

If the Group's information technology systems, or those of third parties on which its relies, are affected by a significant cyberbreach, this could result in, among other things, a significant disruption to operations; misappropriation of confidential information of the Group or that of its customers, employees, business partners or others; litigation and potential liability; enforcement actions and investigations by regulatory authorities; loss of customers and contracts; harm to the Group's reputation; and a loss of management time, attention and resources from regular business operations, any of which could have a negative impact on the Group's business, results of operations, and cash flows. These types of events, either impacting the Group's facilities or the industry in general, could also cause the Group to incur additional security and insurance related costs.

To manage this risk, the Issuer invests in an up to date and integrated information technology systems with demonstrated capabilities. The Company also engages reputable third-party service providers for web services requirements and online platforms. It has implemented IT security tools and established a 24/7 Security Operations Center (SOC) effective March 1, 2022 for proactive monitoring, detection, reporting/alerting and prevention measures, which include Alert Logic (as Vulnerability Management, Security Information and Event Management Tool), Crowdstrike Enterprise (as Next Generation Anti-Virus Software) and KnowBe4 (as Online Education, Learning and Phishing Email Simulation Testing Tool).

The Issuer also has a full-time IT team that continually monitors threats and ensures that the Issuer is able to withstand cyberattacks. The IT department regularly advises employees on latest threats and best security practices.

***The Group's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where its projects and investments are located.***

In addition to the Philippines, the Group's portfolio of projects and investments are located in other jurisdictions around the world, including in Indonesia, Iraq, the Kingdom of Saudi Arabia ("**KSA**"), Thailand and Vietnam. See "*Description of the Group's Water Business*" and "*Description of the Group's Energy Business*" in this Prospectus for further details. Existing operations and future plans for international expansion may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, government interference in the economy in certain countries and changes in regulatory conditions. As a result, there is no guarantee that the Group's operations, investments and expansion plans will be successful in those countries. The Group's financial condition, prospects and results of operations could be adversely affected if it is not successful internationally or if these international markets are affected by changes in political, economic and other factors, over which the Group has no control.

The Group believes it is able to manage the foregoing risks through the Issuer's senior management team's experience and its diverse portfolio of assets and projects. The Issuer's senior management team is composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to adapt to changes in the macroeconomic, social, and political climate of countries where its projects and investments are located. The Group's diverse portfolio of assets and projects allows it to reduce specific asset and geographic risks. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*" "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," and "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience.*"

***The Group operates in a number of emerging markets that have experienced economic and political instability in the past and whose institutions may not be as developed as more mature markets.***

The Group operates mainly in emerging markets, many of which have experienced political and economic instability in the past. Many of these countries are still undergoing developments into market economies. Many of the countries in which the Group operates or may operate in the future may face political instability, significant budget deficits, limited foreign currency reserves, volatile exchange rates and highly regulated and less sophisticated banking sectors. In addition, the regulatory environments in these countries may change frequently. There can be no assurance that these factors, among others, will not affect regional economies in an adverse manner. Furthermore, many of the countries in which the Group operates, including the Philippines and Iraq, have experienced changes in governments, political scandals, terrorist attacks and civil strife. The Group, through Menatech, operates a power plant in Iraq, which remains in a state of ongoing political instability and potentially escalating conflicts. See also *"—Risks Relating to the Group's Energy Business*." External forces may also be an issue in countries where certain of the Group's operations are located, including in the KSA, where certain of the Manila Water Group's operations are located. See also *"—Risks Relating to the Group's Water Business*."

No assurance can be given that that the future economic or political environment in these countries will be stable or that current or future governments will adopt economic policies conducive for sustainable economic growth. In the event of any severe disruption to the political or economic environment in any of these countries, or continuing challenges or downturn in any of these countries' economies, the Group's financial condition, prospects and operations will be adversely affected, and the Group may have to recognize impairment charges on its existing material agreements in such jurisdictions.

The Group believes it is able to manage the foregoing risks through the Issuer's senior management team's experience and its diverse portfolio of assets and projects. The Issuer's senior management team is composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to adapt to changes in the macroeconomic, social, and political climate of countries where its projects and investments are located. The Group's diverse portfolio of assets and projects allows it to reduce specific asset and geographic risks. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*" "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," and "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience."*

***Independent contractors may not always be available, and once hired by the Group, may not be able to meet the Group's quality standards or to complete projects on time and within budget.***

The Group relies on independent contractors to provide various services, including land clearing, infrastructure development and various construction projects. There can be no assurance that the Group will be able to find or engage an independent contractor for any particular project or find a contractor that is willing to undertake a particular project within the Group's budget and schedule (including as a result of a lack of manpower due to a shortage of available and qualified workers), which could result in cost increases or project delays. Furthermore, there can be no assurance that the services rendered by any of its independent contractors will always be satisfactory or match the Group's requirements for quality and timing or specifications under contract. Contractors may also experience financial or other difficulties up to insolvency, and shortages or increases in the price of construction materials or labor may occur, any of which could delay the completion or increase the cost of completing projects, and the Group may incur additional costs as a result thereof. Any of these factors could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group believes it is able to manage the foregoing risks through its focus on its core values of value creation, integrity, pioneering, passion, and tenacity. The Group likewise maintains good relationships with its independent contractors and monitors their performance on a regular basis to ensure an acceptable level of service and standard operating procedures. See also "*Description of the Issuer and the Group— Business Strategies — Identify and invest in opportunities guided by the Company's core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity."*

***Competition for the acquisition of land for new projects and risks relating to the management of the Group's land bank, including fluctuations in demand and prices, may adversely affect the Group's business.***

The growth and development of the Group's businesses, including its solar power business and waste and sustainable fuels business, is dependent, in part, on its ability to acquire additional tracts of land suitable for such projects. There is no assurance that the Group will not experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to the Group. Furthermore, land acquired by the Group may have pre-existing tenants or obligations that prevent immediate commencement of new developments. In the event the

Group is unable to acquire suitable land at prices and in locations that are attractive to the Group, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

Further, the market value of land can fluctuate significantly because of changing market conditions. There can be no assurance that the measures the Group employs to manage land inventory risks will be successful. In the event of significant changes in economic, political, security or market conditions, the Group may be forced to sell land or lease its properties at significantly lower margins or at a loss. Changes in economic or market conditions may also require the Group to defer the commencement of its projects. Any of the foregoing events would have a material adverse effect on the Group ’s business, financial condition, prospects and results of operations.

The Group believes it is able to manage the foregoing risks through the Issuer’s senior management team’s experience and its diverse portfolio of assets and projects. The Group also relies on the experience of management to effectively manage its land banking requirements, including embarking on long-term land banking plans for pipeline projects. See also “*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*,” “*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth,*” “*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*” “*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company’s vision of developing sustainable infrastructure*,” and “*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience.”*

***The Issuer was incorporated in 2020, and the Issuer and certain of its subsidiaries do not have an established track record and operating history.***

The Issuer was incorporated on August 20, 2020 and is a holding company without an established track record and operating history. As such, the Issuer has a limited record by which its past performance may be evaluated and it has no operating history that could guide investors in assessing the likely future performance of the Issuer. Certain of the Issuer’s subsidiaries, including Prime Infrastructure, WasteFuel Philippines, Prime Integrated Waste Solutions, Terra Renewables Holdings, Inc. (“**TRHI**”), Ahunan Power, Terra Solar and PrimeRES Energy Corporation, were also recently incorporated and do not have an established track record and operating history.

Further, as a holding company, the Issuer will be relying on the track record of its wholly-owned subsidiary, Prime BMD. In this respect Prime BMD satisfied the requirement of the PSE Amended Listing Rules i.e. that such subsidiary (a) must have a cumulative net income, excluding non-recurring items, of at least ₱75 million for three full fiscal years immediately preceding the application for listing and minimum net income of ₱50 million for the most recent fiscal year, and (b) must further be engaged in materially the same business and must have a proven track record of management throughout the last three years prior to the filing of the application. The PSE Amended Listing Rules prohibit the Issuer from divesting its shareholdings in Prime BMD for a period of three years from the date of the listing of its shares, provided that the prohibition shall not apply if the divestment plan is approved by majority of the Issuer’s shareholders. In addition, the PSE Amended Listing Rules also prohibit the Issuer from conducting a secondary offering during the initial public offering.

The Group’s current business segments are diverse, and many of the Group’s subsidiaries are non-operating, in the pre-development stage or are non-revenue generating as of June 30, 2022. There can be no assurance that the Group will be able to expand or generate sufficient capital growth or revenue from operations at expected levels of its shareholders.

To manage this risk, the Group relies on the track record of the Issuer’s senior management team in executing complex transactions and delivering on projects. In particular, the Issuer’s senior management team has a strong track record of executing infrastructure projects, in terms of quality control, cost control, and delivering in accordance with agreed timelines.

## RISKS RELATING TO THE GROUP'S WATER BUSINESS

***Either Manila Water or MWSS may terminate the Concession Agreement, pursuant to its terms, prior to its scheduled expiration in the event of certain conditions.***

The Concession Agreement contains termination provisions that allow either Manila Water or MWSS to terminate the Concession Agreement before its expiration, if certain conditions are present. For MWSS such circumstances include the insolvency of Manila Water as well as Manila Water's failure to perform its obligations under the Concession Agreement, which, in the reasonable opinion of the MWSS-RO, jeopardizes the provision of essential water and sewerage services to all or any significant part of the East Zone. Similarly, Manila Water has the right to terminate the Concession Agreement if MWSS fails to perform its obligations under the contract, which, in turn, prevents Manila Water from carrying out its contractual responsibilities.

There can be no assurance that MWSS will not attempt to terminate the Concession Agreement, prior to its expiry, by relying on the termination provisions therein. Likewise, there can be no assurance that MWSS will not fail to perform its obligations, thereby preventing Manila Water from performing and causing Manila Water to seek to terminate the Concession Agreement. A premature termination of the Concession Agreement would have significant adverse effects on the business and financial prospects of Manila Water and thereby the business and financial prospects of the Group.

However, the Group believes that it is able to manage the foregoing risks with the recent enactment of Republic Act No. 11601 (the "**East Zone Franchise Law**") on December 10, 2021, which became effective on January 25, 2022 and granted a franchise to Manila Water to operate as a public utility over the East Zone of Metro Manila. The franchise was accepted by Manila Water on March 21, 2022. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise. The Group also believes that any action by the Government to revoke the franchise granted to Manila Water during the concession period will require a significant shift in policy and law, involving both executive and legislative branches of the Government, and extensive discussions with stakeholders.

***Manila Water is subject to significant government regulation and supervision, and its failure to maintain its franchise could materially and adversely affect its operating and financial performance.***

Manila Water, being a public utility, is required to secure a franchise from the Philippine Congress in order to engage in its business. The recent enactment of the East Zone Franchise Law allows it to operate as a public utility over the East Zone of Metro Manila. Manila Water's franchise is subject to review, interpretation, modification, or termination by the Government. The franchise may not be renewed on terms commercially acceptable to Manila Water, and the relevant government authorities, including the Philippine Congress, have ultimate discretion over whether the franchise may be renewed or revoked. Any revocation of or failure to renew the franchise will significantly affect Manila Water's business and operations.

The Group intends to manage this risk by monitoring compliance with its obligations under its franchise and aiming to continuously improve its services to its concession zone.

***Manila Water's business is affected by a tariff rate that ensures financial and economic viability. Manila Water's operating costs, construction costs, and costs of providing services can be volatile and may rise faster than its revenues.***

The Concession Agreement provides for the rebasing or review of tariffs every five years in order to "reset" rates at a level that will permit Manila Water to recover, over the life of the Manila Concession, expenditures prudently and efficiently incurred and to earn an appropriate rate of return on net expenditures. Prior to each Rate Rebasing exercise, Manila Water submits a service improvement plan for the remaining concession period in order to update earlier assumptions to better reflect current conditions for future plans, as well as to assess whether the performance of Manila Water in the previous five years has matched or exceeded the targets set in the previously-approved plan.

During the last Rate Rebasing exercise, the MWSS-RO challenged some of Manila Water's assumptions, resulting in the negative tariff adjustment which became the subject of the now-completed arbitration proceedings between Manila Water and MWSS, with Manila Water later waiving the arbitral award as part of the settlement with MWSS that resulted in the Revised Concession Agreement. See "*Description of the Group's Water Business—The Manila Concession.*" The determination by the MWSS-RO of a rate that will ensure the ability of Manila

Water to meet its service obligations, while remaining economically viable, is critical for the sustainability of Manila Water's business. There can be no guarantee that any future tariff adjustment by the MWSS under the Concession Agreement will result in a tariff that will allow Manila Water to remain economically viable. Manila Water endeavors to maintain close ties with the MWSS and, in connection with each Rate Rebasing exercise, to submit service improvement plans based on its best assessments of existing conditions.

Manila Water's ability to increase rates over time to finance its business and operations as provided under the Concession Agreement is dependent upon the approval of rate adjustments by MWSS, which may be inclined, for political or other reasons, to limit rate increases. However, Manila Water's costs are subject to market conditions and other factors, which may increase significantly. For example, costs for chemicals used to treat water and wastewater, as well as costs for power used to operate pumps and other equipment, may become volatile. Manila Water relies on a stable and adequate supply of electricity and chemicals for the delivery of water, and an interruption in the supply of these inputs or increases in their prices could adversely affect Manila Water's results of operations.

Additionally, a large component of Manila Water's operating costs after water production is made up of salaries and wages. These costs are directly affected by the local supply and demand for qualified labor. Other large components of Manila Water's costs are general insurance, workers' compensation insurance, employee benefits, and health insurance costs. These costs may increase disproportionately to rate increases authorized by utility regulators and may have a material adverse effect on Manila Water's, and thus the Group's, financial condition, prospects and results of operations.

The Group believes that it is able to manage the foregoing risks through the Rate Rebasing exercise under the Concession Agreement. See "*Description of the Group's Water Business—Overview and Structure —The Manila Concession*" for further details.

***Under the Concession Agreement, Manila Water is bound to comply with certain service obligations and is required to meet numerous performance and business efficiency targets.***

Manila Water is bound under the Concession Agreement to comply with certain service obligations relating to, among other things, water service coverage, sewerage and sanitation service coverage, and water quality and availability. These service obligations and targets are reviewed and set during the Rate Rebasing exercise. The Concession Agreement outlines certain financial penalties should Manila Water fail to meet any service obligation for more than 15 days after written notice thereof from the MWSS-RO.

The Concession Agreement likewise enumerates events of early termination for causes attributable either to MWSS or Manila Water. Manila Water's failure to meet its service obligations, amounting to an effective abandonment of the Concession Agreement, is one such event. In the case of an event of termination caused by Manila Water, the Manila Water's rights may be assigned to a qualified replacement operator or revert to MWSS, following an agreed procedure in the Concession Agreement. Even if a qualified replacement operator is not timely nominated, Manila Water would still be entitled to receive an early termination payment. There is no assurance that such termination payment would fully cover the cost of Manila Water's investments under the Concession Agreement. The occurrence of any event of termination may render Manila Water unable to continue its operations.

To meet its service obligations, Manila Water takes measures to maximize existing water sources and expand new water sources. In 2019, Manila Water built an additional water supply capacity of over 100 million liters of water per day ("**MLD**") by expanding the water treatment plant at Cardona and drawing ground water from various deep wells. In addition, in August 2019, Manila Water and WawaJVCo entered into a raw water supply and offtake agreement with MWSS for the supply of an additional water supply capacity of at least 518 MLD. See also "*Description of the Group's Water Business—WawaJVCo*." The Group also believes that Manila Water practices extensive pressure management and network reconfiguration to efficiently distribute water, manage its levels of Non-Revenue Water ("**NRW**"), and meet its obligation to maintain a sufficient level of water pressure throughout the East Zone water distribution system.

***Manila Water's full recovery of its expenditures on assets and infrastructure is not assured.***

While Manila Water has the right to manage, operate, repair, decommission, and refurbish specified MWSS facilities in the East Zone pursuant to the Concession Agreement, legal title remains with MWSS. However, the legal title to all fixed assets contributed by Manila Water to the existing MWSS water distribution system during the Manila Concession remains with Manila Water until the expiration (or earlier termination) of the Concession Agreement, at which time, all rights, titles, and interests, in such assets automatically vest in MWSS. As a result, there can be no assurance that Manila Water will be able to recuperate the value of the fixed assets that Manila Water contributes to the East Zone water distribution system prior to the expiration (or earlier termination) of the Concession Agreement. While the Concession Agreement provides for the recovery of the concessionaire's expenditure through the standard tariff rates, recovery is not assured unless the expenditure is determined, by the MWSS, to be efficiently and prudently incurred. As Manila Water has invested heavily into the improvement of the water distribution system for the East Zone since the beginning of the Manila Concession in 1997, the expiration (or earlier termination) of the Concession Agreement may diminish the returns from Manila Water's investments, and could adversely affect its and the Group's financial condition, results of operations and prospects.

However, the Group believes that it is able to manage the foregoing risks of early termination with the recent enactment of the East Zone Franchise Law on December 10, 2021, which became effective on January 25, 2022 and granted a franchise to Manila Water to operate as a public utility over the East Zone of Metro Manila. The franchise was accepted by Manila Water on March 21, 2022. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise. The Group also believes that any action by the Government to revoke the franchise granted to Manila Water during the concession period will require a significant shift in policy and law, involving both executive and legislative branches of the Government, and extensive discussions with stakeholders.

***Ayala Corporation, a significant minority common shareholder of Manila Water, is required by the Concession Agreement to have a defined level of shareholding in Manila Water.***

Ayala Corporation, one of the leading conglomerates in the Philippines, holds approximately 30.05% of the common shares of Manila Water as of June 30, 2022. Pursuant to the terms of the Concession Agreement, Ayala Corporation, as local sponsor, is required to own, either directly or through a subsidiary that is at least 51% owned and controlled, at least 10% of the outstanding capital stock of Manila Water unless waived by MWSS-RO.

As a result of the Concession Agreement's contractual requirement, Ayala Corporation may be in breach of the Concession Agreement if Ayala Corporation's shareholding in Manila Water falls below such threshold (without the consent of MWSS) which may allow the other parties to the Concession Agreement to claim remedies for breach of contract including damages and/or specific performance. There is no assurance that Ayala Corporation will continue to be a significant minority shareholder of Manila Water.

The Group intends to manage this risk by regularly communicating with Ayala Corporation and MWSS-RO and seeking the necessary waivers where necessary under the Concession Agreement. The Group also believes Ayala Corporation is committed to retain the needed level of ownership in Manila Water. Ayala Corporation has not signified any intent to go below the minimum ownership requirement of the Concession Agreement, and in any case, appropriate consents and rules provided in the Concession Agreement will be obtained and followed if required.

***Manila Water has limited sources of raw water and the volume of raw water available to Manila Water may be constricted or limited by various factors beyond Manila Water's control and may not increase with expected increases in water demand.***

Manila Water relies on surface waters coming from the Angat River system as its primary source of raw water. The surface waters from the sources are collected and impounded through the Angat dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and aqueducts to La Mesa. Only a very small amount of Manila Water's water supply is ground-sourced through deep wells.

The volume of raw water available to Manila Water to deliver to customers may be constricted or limited by various factors beyond its control and may not increase with expected increase in water demand as population in the East Zone grows. Manila Water's water supply volumes are affected by the level of water in MWSS' reservoirs, the condition of the MWSS reservoirs and dams, the development of new water supply projects undertaken by MWSS and the terms of the permits issued to MWSS by the NWRB that limit the amount of water that MWSS may abstract from its reservoirs. Drought, changing weather patterns and other unforeseen circumstances may result in major shortages in Manila Water's water supply.

Beginning in March 2019, Manila Water experienced significant supply deficits as water levels at La Mesa and the Angat dam breached their respective critical levels. At the worst point of the crisis in June 2019, Manila Water experienced a deficit of almost 350 MLD when the NWRB reduced allocation for domestic use in Metro Manila from the Angat dam. As a result of the matter, the MWSS imposed a penalty of ₱534.05 million on Manila Water for inability to meet Manila Water's service obligations to provide 24/7 water supply to its consumers. There can be no assurance that supply shortages will not reoccur in the future if adequate water sources are not developed in time.

There can be no assurance of adequate supply of water, and the failure of Manila Water to secure adequate water supply would have a material adverse effect on Manila Water's, and thus the Group's, results of operations, financial condition and prospects. However, the Concession Agreement provides for the payment of extraordinary price adjustment, in favor of Manila Water, in case of events of force majeure which include, among others, unusually severe weather conditions. In addition, during the course of each Rate Rebasing exercise, Manila Water takes into account historical trends in water supply availability and aligns its plans accordingly. Further, the Group believes that it can manage the foregoing risks through a successful execution of the Wawa Bulk Water Supply Project undertaken by WawaJVCo to supply water to Manila Water. WawaJVCo will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila and is expected to increase Manila Water's water capacity by over 30% from approximately 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project.

***Manila Water faces litigation risks and regulatory disputes in the course of its business.***

In the ordinary course of business, claims and disputes involving Manila Water, its subsidiaries, employees, customers, and regulatory authorities may be brought against Manila Water or other members of the Group, and by Manila Water or other members of the Group in connection with Manila Water's business. Claims may be brought against Manila Water or other members of the Group for breach of contract, law, or regulation, as well as claims relating to taxes, among others. If found to be liable, Manila Water or other members of the Group would have to incur a charge against earnings to the extent a reserve had not been established for the matter in its accounts, or to the extent the claims were not sufficiently covered by its insurance. Manila Water may also engage in disputes with regulatory authorities on tax-related matters in connection with Manila Water's business and operations. Manila Water is currently engaged in several potentially material proceedings. See "*Description of the Group's Water Business—Legal Proceedings*." Some of the cases, if adversely decided, may have particularly negative impacts on the ability of Manila Water to operate the Manila Concession as well as negative financial implications in the form of judgments or penalties. See "*—Manila Water is involved in a legal proceeding involving alleged violations of the Philippine Clean Water Act*" for discussion on the risks associated with the case regarding Manila Water's alleged violations of R.A. 9275 or the "Philippine Clean Water Act of 2004"(the "**Philippine Clean Water Act**").

As a policy, Manila Water seeks to maintain good relationships with its employees, its customers, regulators and other parties whom Manila Water regularly deals with and to resolve disputes in a timely and amicable way. However, when appropriate, both claims brought against Manila Water and by Manila Water, if not resolved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings such that the amounts ultimately realized from claims by Manila Water could differ from the balances included in its financial statements. Such claims could therefore have an adverse impact on the business, financial condition, prospects and results of operations of Manila Water, and therefore, the Group. The Group believes it is able to further manage the foregoing risks as Manila Water created the new role of a Chief Regulatory Officer in 2021 specifically to dedicate more resources for regulatory management.

***Manila Water is involved in a legal proceeding involving alleged violations of the Philippine Clean Water Act.***

In 2009, Manila Water was involved in legal proceedings in respect of allegations of its violation of the Philippine Clean Water Act. On September 17, 2019, Manila Water received the Supreme Court decision dated August 6, 2019 which ordered Manila Water, jointly and severally with MWSS, to pay ₱921.46 million (as of August 6, 2019) in fines for its non-compliance with the Philippine Clean Water Act. In addition to the said amount, MWSS and Manila Water are jointly and severally liable to pay a fine in the amount of ₱322,102.00 per day subject to further 10% increase every two years until full compliance with Section 8 of the Philippine Clean Water Act. See "*Description of the Group's Water Business–Legal Proceedings–Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al.*" Manila Water has filed a Motion for Reconsideration. While resolution from the Supreme Court is currently pending, any final decision on or payment of fines may have a material adverse effect on the Group. Nevertheless, Manila Water has made provisions in its books for any possible liability or penalty should the Supreme Court determine against MWSS and Manila Water.

Manila Water has likewise submitted a Manifestation to the Supreme Court on January 26, 2022 informing the Court of Republic Act (RA) No. 11601 which granted a legislative franchise to Manila Water. RA 11601 gives Manila Water until 2037 to achieve one hundred percent (100%) water and combined sewerage and sanitation coverage over Manila Water's concession area. This validates the position taken by petitioner Manila Water that the Philippine Clean Water Act does not mandate the installation of a complete centralized sewerage system within five years from the passage of the same but only the interconnection of existing sewage lines to then-available sewerage systems.

Manila Water has made provisions in its books in case the Supreme Court decides against it.

***Manila Water is involved in legal proceedings in connection with its status as agent of MWSS.***

In June 2006, the Freedom from Debt Coalition petitioned the Supreme Court to annul resolutions of the MWSS Board of Trustees ruling that Manila Water and Maynilad Water Services, Inc. are not public utilities but agents and contractors of MWSS. While Manila Water was not impleaded as a respondent, certain contingent or adverse financial and/or regulatory consequences might result from a decision granting the petition. Manila Water believes that it is not a public utility but an agent and contractor of the MWSS, which remains as the public utility, a position supported by Section 2.1 of the Concession Agreement, MWSS Board Resolution dated July 30, 2004, National Water Resources Board Resolution dated June 17, 2005, and a Memorandum from the Office of the Government Corporate Counsel dated June 1, 2005. On December 10, 2007, the Supreme Court dismissed the petition on the following grounds: (a) the petitioners should have appealed the MWSS resolutions to the NWRB instead of filing a certiorari petition with the Supreme Court; (b) the petition did not name as respondents Maynilad Water Services, Inc. and Manila Water, the two MWSS concessionaires, whom are indispensable parties; (c) the petitioners disregarded the hierarchy of courts principle by filing the petition directly with the Supreme Court instead of a lower court; and (d) the case involves factual issues, which the Supreme Court cannot resolve. Recently, Manila Water received information that the Freedom from Debt Coalition has filed a motion for reconsideration with the Supreme Court.

***The Wawa Bulk Water Supply Project might not be fully completed or may not commence commercial operations within the target schedule, leading to a loss on exemptions and incentives from its registration with the Board of Investments.***

The Wawa Bulk Water Supply Project is currently under development, with the Tayabasan Weir currently undergoing testing and commissioning, and the Upper Wawa Dam approximately 18.61% completed as of September 19, 2022. The Group is also in the process of amending the Wawa Bulk Water Supply Project's Environmental Compliance Certificate ("**ECC**") to cover modifications to the project involving the integration of the spillway to the main body of the dam, the change from a water conveyance pipeline to a water conveyance tunnel, the change from a diversion tunnel to a diversion culvert, and the relocation of the project site's temporary office. In the event that the amendment to the ECC is not timely secured or the development of the project is otherwise delayed, the Wawa Bulk Water Supply Project may not be completed on time or may be unable to commence commercial operations within the target schedule. The delay may result in the cancellation of incentives granted by the Board of Investments, which may materially and adversely affect the results of operations, financial condition and prospects of the Group.

The Group intends to manage these risks through continuously progressing the development and construction of the project ahead of schedule. Further, the Group has been diligent in applying for permits and licenses needed for the project, which has received an ECC and a Special Use Agreement in Protected Areas ("**SAPA**") from the DENR, consents of indigenous peoples communities, local governments and other key permits. The Tayabasan Weir phase has also received a certification precondition ("**CP**") from the National Commission on Indigenous People ("**NCIP**") and the Upper Wawa Dam expects to receive a CP from the NCIP within 2022. The Group also intends to manage the risk of WawaJVCo losing incentives granted by the Board of Investments in the event that the Wawa Bulk Water Supply Project is not completed or does not commence commercial operations within the target schedule by requesting an amendment to the Certificate of Registration issued by the Board of Investments to reflect the revised scheduled commercial operations date.

***Climate change may adversely affect the Group's water business and prospects.***

The Group is currently involved in supplying water to localities in the Philippines and abroad through the Manila Water Group, and will also supply water in the Philippines through WawaJVCo, Inc. in the future. The physical effects of climate change, such as changes in rainfall, water shortages, rising sea levels, increased storm intensities and higher temperatures, may disrupt the Group's operations or damage its facilities. The effects of climate change, particularly changing rain patterns, variations in temperature and extreme weather events, may cause extended periods of drought and therefore significantly reduce the amount of raw water accessible to the Group. Such effects of climate change would make it difficult for the Group to accurately predict how much raw water it can draw from its water sources to meet its customers' demands on a year-to-year basis. Policy and regulatory changes, technological developments, and market and economic responses relating to climate change may also affect the Group's business and the markets in which it operates. The enactment of an international agreement on climate change or other comprehensive legislation focusing on greenhouse gas emissions, which are beyond the Group's control, could increase the Group's applicable energy prices and, in turn, water tariff rates. As a result of the above, the Group's business, financial condition, results of operations, and prospects may be materially and adversely affected.

Manila Water believes it was one of the first Philippine corporations to formulate a policy on climate change. While the Group is undertaking climate change mitigation measures such as investments in sustainable in waste and sustainable fuels solutions, there is a current emphasis towards climate change adaptation such as intensifying watershed rehabilitation work, vulnerability assessment of water sources and assets, improving the climate-resiliency of existing and future water and wastewater facilities, strengthening risk reduction and management systems with a business continuity plan, and development of new water sources. There can be no assurance, however, that the Group's current efforts to combat climate change will be sufficient to eliminate or reduce the various possible negative impacts of climate change on its water business.

***The Manila Water Group's operations are, and WawaJVCo's operations will be, subject to various regulations.***

The Manila Water Group's business is subject to various regulations. Manila Water is obligated to operate its business under the terms and conditions of the Concession Agreement. The Original Concession Agreement established the MWSS-RO (under the jurisdiction of the MWSS board of directors) which has the duty to, among other things, monitor the awarded Concession Agreement, review and monitor the water supply and sewerage rates, implement the Rate Rebasing provisions, monitor contracts between Manila Water and its customers, and monitor and enforce standards of service to Manila Water's customers.

The Manila Water Group is also subject to laws and regulations relating to the protection of human health and the environment. Water extraction, water potability and environmental compliance relative to water and used water treatment and disposal are among the activities subject to regulation and supervision by certain governmental agencies, such as the NWRB, the Department of Health and the Department of Environment and Natural Resources of the Philippines ("**DENR**"). The Group expects WawaJVCo to be subject to regulations and laws of a similar scope once it commences operations. The Manila Water Group has incurred, and will continue to incur, expenditures to comply with these laws and regulations. If environmental regulations are amended, the Manila Water Group's level of capital expenditures and expenses for environmental compliance may increase in the future.

Furthermore, any delay or restriction on the issuance of required permits by the DPWH, the Metro Manila Development Authority or local government units may likewise restrict or delay construction of repair works on the water supply and sewerage facilities, which in turn may restrict or delay the Manila Water Group's execution of its business plans or operations. If the Manila Water Group is unable to complete its capital projects, it may be unable to meet its performance and business efficiency targets or comply with its regulatory commitments, which may adversely affect the Group's results of operations and financial condition.

The Group believes it is able to manage the foregoing risks as Manila Water created the new role of a Chief Regulatory Officer in 2021 specifically to dedicate more resources for regulatory management.

***Manila Water's business operations consume significant amounts of energy, particularly electricity.***

Manila Water's operations of facilities consume significant amounts of energy, particularly electricity, and, as a result, Manila Water is one of the largest consumers of electricity in Metro Manila. Historically, Manila Water has also used gasoline and diesel fuel to provide energy to operations, but electricity consumption has consistently and vastly exceeded consumption of fuel. Future increases in energy costs, particularly for electricity, would increase Manila Water's operating expenses and, in turn, exert cost pressures on Manila Water's operations.

Additionally, in the event of an energy crisis, the Government may implement electricity conservation measures, as have been implemented in the past. If Manila Water is unable to receive an adequate supply of electricity, it may have to resort to operate its own electricity generators to provide water supply and sewerage services. If Manila Water is required to pay significantly higher electricity rates or if the electricity supply is materially constrained, these could have an adverse effect on the Group's results of operations, and financial condition.

The Group believes that it is able to manage the foregoing risks through the Rate Rebasing exercise under the Concession Agreement. See "*Description of the Group's Water Business—Overview and Structure —The Manila Concession*" for further details.

***The Manila Water Group depends upon an adequate supply of chemicals for the delivery of water, and an interruption in the supply of these inputs or increases in their prices could adversely affect the Manila Water Group's results of operations.***

The Manila Water Group requires bulk supplies of chemicals for water and wastewater treatment. For chemicals that are critical to treatment operations, the Manila Water Group has expanded its pool of vendors to help ensure sustainable supplies. The impact of the COVID-19 pandemic has put further pressure on the supply chain, and the Manila Water Group has updated its procurement plan in case of an extended outbreak. While these initiatives are designed to minimize any supply issues, any unforeseen event which can cause a severe interruption of chemicals supply may affect the Manila Water Group's ability to perform its key functions adequately. Some chemicals are available only from a single source or a limited number of sources. Even with the efforts to maintain a dependable supply chain, there is no assurance that the Manila Water Group's suppliers will continue to produce the chemicals in the quantities and quality and at the times they are needed. Moreover, the replacement of any of these suppliers could lead to significant delays and increase in costs.

The Group intends to manage this risk through continuous efforts to maintain a dependable supply chain, including sourcing of and expanding additional and alternative suppliers and improving its procurement plans.

***Manila Water and WawaJVCo are presently involved, and may in the future be involved, in large, controversial infrastructure projects, which may have significant environmental and social impact.***

One of the Manila Water Group's most significant challenges is assuring a sufficient supply of raw water for its water services for the Manila Concession. See "*—Manila Water has limited sources of raw water and the volume of raw water available to Manila Water may be constricted or limited by various factors beyond Manila Water's control and may not increase with expected increase in water demand*." Manila Water relies on surface water coming from the Angat River System as its primary source of raw water. That source, collected and impounded through the Angat dam, has not increased since 1997, so Manila Water is reliant on ongoing Government projects to increase the supply of raw water for Metro Manila. The Government's flagship project in this space is the New Centennial Water Source Project, which will entail the construction of several new dams and water facilities.

MWSS has contracted Manila Water to perform various pipe-laying packages in connection with the Kaliwa Water Source, a medium-term water source which is the first major component of the New Centennial Water Source Project and a precursor to the planned Kaliwa Dam. Manila Water expects that it may be involved in further aspects of the New Centennial Water Source Project in the future. The Manila Water Group is also involved in several smaller-scale water source improvement projects around Laguna Lake and the Marikina River, among others. In addition, WawaJVCo will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila and is expected to increase Manila Water's water capacity by over 30% from approximately 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project.

Environmental groups have protested the proposed Kaliwa Dam, claiming that it will inundate a significant portion of the Sierra Madre mountain range, which is the habitat for numerous endangered species. The project is expected to submerge approximately 93 hectares of forestland, including 12 sites considered sacred by indigenous communities. Manila Water's involvement in this project and other potentially controversial projects may facilitate adverse environmental and social outcomes and negatively impact public perception of the Group. The Group may also face drawn-out litigation or other proceedings in connection with the environmental and social controversies associated with these large-scale infrastructure projects. There can be no assurance that Manila Water's involvement in such projects will not have an adverse effect on the financial condition and results of operations of the Group.

The Group believes it is able to manage the foregoing risks through its community development initiatives and track record of consulting with indigenous peoples via a free, prior and informed consent process. For instance, WawaJVCo is developing a Wawa Eco-Tourism Project in the areas surrounding the Upper Wawa Dam and the

Tayabasan Weir to boost eco-tourism and promote the development of communities surrounding the Wawa Bulk Water Supply Project and has signed a memorandum of agreement with concerned indigenous peoples for the development of the Wawa Bulk Water Supply Project. In addition, the Group's commitment to MWSS is limited to the development of the pipe-laying packages, treatment plant and ancillary facilities.

***Liability for water supply or sub-soil contamination could result in material losses and costs.***

The Group's water business, in particular Manila Water's supply of water to end-users, is subject to the risk of water supply and sub-soil contamination, including contamination from compounds, chemicals in groundwater systems, pollution resulting from man-made sources (such as perchlorate and methyl tertiary butyl ether), and possible biological terrorist attacks, which could result in disease or death, or otherwise endanger public health. As a result of any future contamination event, the Group may have to interrupt the supply of water to customers until it can install treatment equipment, substitute the flow of water from an uncontaminated water source, or take other remedial actions to mitigate source-water or sub-soil contamination. Cleaning up water sources can be very expensive. If the water supply or the sub-soil becomes contaminated, the Group could be subject to civil, criminal, or regulatory enforcement actions, private lawsuits, and expensive clean-up obligations. Manila Water's water quality currently surpasses, and has consistently surpassed, the Philippine National Standards for Drinking Water set by the DOH. Manila Water has also established sampling points within its facilities and within the distribution system to ensure that the quality of water is within set regulatory standards. Despite these efforts, in case of an event of a contamination, the Group could suffer material loss and additional costs.

Additionally, Manila Water is subject to the risk of terrorist attacks and have borne, and will continue to bear, increased costs for security precautions to protect its facilities, operations, and supplies from such risks. In the wake of a number of terrorist attacks in the Philippines over the last five years, including on infrastructure, Manila Water has taken steps to increase security measures at its water facilities and heighten employee awareness of threats to the water supply. Manila Water has also tightened security measures regarding the delivery and handling of certain chemicals used in its business.

Although Manila Water maintains insurance against many of these risks, consistent with what is generally considered appropriate for the water supply industry, there can be no assurance that insurance proceeds received under such insurance policies would be adequate to cover all liabilities which might result. Manila Water's inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source or sub-soil in a cost- effective manner, may have a material adverse effect on the financial condition, results of operations and prospects of the Group.

***Risks associated with the collection, treatment, and disposal of wastewater and the operation of water business may impose significant costs.***

The wastewater collection, treatment, and disposal operations of Manila Water's utilities are subject to substantial regulation and involve significant environmental risks. If wastewater collection or sewage systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, potentially causing damage to persons or property, injury to the environment including aquatic life, and economic damages, which may not be recoverable through water tariffs. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect the Group's business, results of operations, financial condition and prospects. Moreover, in the event that any member of the Group is deemed liable for any damage caused by overflow, losses might not be covered by insurance policies, and such losses may make it difficult to secure insurance in the future at acceptable insurance premium rates. Similarly, any related business interruption or other losses might not be covered by insurance policies, which would also make it difficult for the Group to secure insurance in the future at acceptable insurance premium rates.

The Group may also incur liabilities under environmental laws and regulations requiring investigations and clean-up of environmental contamination at its properties or at off-site locations where there have been adverse environmental impacts. The discovery of previously unknown conditions, or the imposition of clean-up obligations in the future, could result in significant costs, and could adversely affect the Group's financial condition, results of operations, cash flow, liquidity and prospects. Such remediation losses may not be covered by insurance policies and may make it difficult for the relevant members of the Group to secure insurance in the future at acceptable insurance premium rates.

The Group intends to manage these risks through its continuous maintenance and monitoring programs of the facilities that it operates and adherence to operating standards under the Concession Agreement, environmental laws and requirements of the MWSS and DENR. Manila Water also builds "fit for use" facilities using a modular approach rather than adopting an ultimate design to minimize capital expenditure risk. Manila Water further optimizes the use of power sources to lower power costs - i.e., open access, peak, off peak, and renewable energy. Further, Manila Water continues to adopt new or proven technology that can help improve efficiency of operations. These include implementation of appropriate levels of automation and digitization and reduction of NRW. Finally, proper maintenance of all existing assets is ensured to extend and maximize asset life.

***The Group is subject to industrial risks that could adversely affect its results of operations.***

The operations of the Manila Water Group's water and wastewater treatment plants involve physical, chemical, and biological processes. In addition, the Manila Water Group's and WawaJVCo's operations involve, or will involve, respectively, the use of pumps, generators, and other industrial equipment. As a result, these operations are subject to various industrial risks, including chemical spills, discharges, or releases of toxic or hazardous substances or gases, effects resulting from confined operating spaces, fires, explosions, mechanical failures, storage tank leaks, and electric shock. These risks can result in personal injury, loss of life, catastrophic damage to or destruction of property and equipment or environmental damage, and related legal proceedings, including those commenced by regulators or others. They may also result in an unanticipated interruption or suspension of the Manila Water Group's or WawaJVCo's operations and the imposition of liability. The loss or shutdown over an extended period of operations at any of the Manila Water Group's or WawaJVCo's facilities or any losses relating to these risks could have a material adverse impact on the profitability, results of operations, liquidity, and cash flows of the Group. For example, for the Wawa Bulk Supply Project, in the event of a supply shortfall, WawaJVCo will be subject to a shortfall penalty amounting to the difference between the actual delivered volume of water and the guaranteed volume of water, multiplied by the tariff rate.

The Group believes it is able to manage the foregoing risks given Manila Water has undertaken business interruption planning to identify risks, inform its insurance coverage policies, and develop a mitigation plan. In addition, the Group believes it is able to manage the risks relating to the Wawa Bulk Supply Project as WawaJVCo owns water rights to over 1,000 MLD, almost double WawaJVCo's contractual obligation of 518 MLD, from the Wawa river system, the water source of the Wawa Bulk Water Supply Project, and the Upper Wawa Dam was designed to have a reservoir capacity of over 100 million cubic meters ("**MCM**"), which WawaJVCo believes is sufficient to ensure the delivery of at least 518 MLD.

***The Group is subject to the risks posed by water-borne diseases.***

A significant portion of Manila Water's operations include the collection and treatment of wastewater. Such wastewater can be an effective breeding ground for water-borne bacteria and other micro-organisms. If the wastewater handled by Manila Water is not treated thoroughly or with the correct chemicals or is not distributed appropriately within the water supply system, there is risk that such water-borne microbes could contaminate the water and cause disease. Contamination could result in personal injury, loss of life, and related legal proceedings. Manila Water may need to interrupt operations to remedy the contamination, and the Group may be exposed to legal liability or subject to legal or regulatory proceedings. In the event of any water-borne disease outbreak, the Group's reputation may suffer. Any losses resulting from this risk, whether tangible or intangible, could have a material adverse impact on the profitability, results of operations, liquidity, and cash flows of the Group.

The Group believes it is able to manage the foregoing risks through the water treatment processes implemented in Manila Water's facilities. See "*Description of the Group's Water Business—Water Operations—Water Treatment*," and "*Description of the Group's Water Business—Water Operations—Sewerage Operations*" for further details.

***Damage to, or other potential losses involving, Manila Water's assets and business may not be covered by insurance.***

Manila Water maintains comprehensive property and liability insurance policies with coverage features and insured limits that the Group believes are consistent with market practice in the water industry in the Philippines. Nonetheless, the scope of insurance coverage that Manila Water can obtain, or its ability to obtain such coverage at commercially reasonable rates, may be limited. As such, certain types of losses, generally of an unforeseen or catastrophic nature, such as natural disasters, terrorist acts, the outbreak of infectious disease, or any resulting losses causing disruptions to Manila Water's business operations, may not be covered. To the extent that the

Manila Water suffers losses or damages as a result of a risk for which it does not maintain insurance, or which is not covered by its insurance policies, or where the cost of the losses or damages exceeds its insurance coverage, the Group may have to bear such costs, which could have a material adverse effect on its business and financial results of operations.

To manage these risks, Manila Water dedicates substantial capital expenditures to the upkeep, upgrading, and refurbishment of its facilities. The Group takes a prudent approach to financial management and cost control, closely monitoring its capital and cash positions and maintaining discipline in its capital commitments. In addition, Manila Water has undertaken business interruption planning to identify risks, inform its insurance coverage policies, and develop a mitigation plan.

***A significant percentage of the Manila Water Group's business operations and facilities are concentrated in and around Metro Manila in connection with the Manila Concession.***

The Manila Water Group is highly dependent on the economic strength of Metro Manila, as the largest business for the Manila Water Group is its concession in the East Zone. Although the Manila Water Group has engaged, and continues to engage, in projects and concessions in other parts of the Philippines and abroad, the majority of the Manila Water Group's revenue is derived from customer payments for Manila Water's water and wastewater services in the Manila Concession. For the year ended December 31, 2021, Manila Water, through its East Zone operations under the Manila Concession, supplied an average of 1,562.7 million liters per day of clean and potable water and billed a corresponding volume of 488.5 million cubic meters of water. For the same period, through its wholly-owned subsidiary, Manila Water Philippine Ventures, Manila Water billed 109 million cubic meters of water for its Philippine operations outside the East Zone. Thus, the Group is directly affected by the risks that affect the water sector in Metro Manila. Consequently, a significant percentage of the Group's operations, facilities and attention in connection with its water business is focused on the East Zone. Some businesses outside Metro Manila, such as Clark Water and Boracay Water, have similar concession agreements and any changes to the Manila Concession could have an impact on the concession agreements of the other businesses. Furthermore, other entities that have partnerships with government entities and local water districts may also be affected.

This concentration of Manila Water's business operations and facilities in and around Metro Manila exposes the Group to certain risks. The Group is particularly susceptible to any natural disasters, economic disruptions, terrorist attacks, or similar events impacting Metro Manila. Such disruptions to this region may impact Manila Water's ability to supply water to the East Zone and otherwise meet its obligations under the Concession Agreement. To the extent that such disruptions prevent the residents of Metro Manila from being able to afford the water tariffs for the water services delivered by Manila Water, the Group's results of operations and prospects may suffer. Given the concentration of revenue of Manila Water generated from Metro Manila, such events may have a disproportionate effect on the overall results of operations and prospects of the Group. Additionally, in the event that the Concession Agreement is terminated or expires and is not extended, the loss of the Manila Concession would have a materially adverse impact on the financial condition and future prospects of the Group.

The Group believes it is able to manage the foregoing risks given the Manila Water Group's expansion in the Philippines outside the East Zone and through its investments outside the Philippines. See "*Description of the Group's Water Business—Overview and Structure—Manila Water*."

***Any failure of Manila Water's water and wastewater systems could result in losses and damages that may affect the Group's financial condition and reputation.***

Manila Water distributes water and collects wastewater through an extensive network of pipes and store water in reservoirs located across its service areas. As of December 31, 2021, Manila Water's network consisted of approximately 5,282 km of total pipeline, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene, polyvinyl chloride, among other materials. Steady reductions in Manila Water's levels of NRW are largely attributable to massive pipe replacements projects undertaken over time as well as improvements in Manila Water's water supply management systems.

While Manila Water has in place a business continuity plan to respond to the threat of failures or shutdowns in the water supply system, a failure of major pipes or reservoirs could result in injuries and property damage for which the Group may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of Manila Water's network in order to conduct repairs. Such repairs would likely be costly. Prolonged failures and shutdowns may limit Manila Water's ability to supply water in adequate volume and at adequate pressure to customers and to meet the water and wastewater service standards prescribed by applicable utility regulators and the Concession Agreement. Even relatively minor failures may result in increased levels of NRW and, consequently, lower levels of available supply for distribution. Such prolonged failures and shutdowns would adversely affect the Group's financial condition, results of operations, cash flow, liquidity, and reputation.

The Group intends to manage these risks through its continuous maintenance and monitoring programs of the facilities that it operates and adherence to operating standards under the Concession Agreement, environmental laws and requirements of the MWSS and DENR. To manage costs, Manila Water also builds "fit for use" facilities using a modular approach, maximizes power sources to lower energy costs, adopts new or proven technology that can help improve efficiency of operations, implement appropriate levels of automation and digitization, reduce NRW, and undertake proper maintenance of all existing assets to extend and maximize asset life.

***The Manila Water Group and WawaJVCo may be unable to attract and retain skilled personnel in a competitive job market.***

Any loss of key personnel and an inability of the Manila Water Group and WawaJVCo to replace personnel and to train and retain replacement personnel could materially and adversely affect Manila Water and WawaJVCo ability to provide services to customers. Manila Water has in place a robust succession plan to ensure a strong pipeline of employees with superior skills and talent for critical roles, thereby diminishing overdependence on key individuals. Manila Water has also instituted engagement and retention programs, including a Technical Development Curriculum, to ensure that it further strengthens and sustains its technical capabilities within the organization. Nonetheless, losses of trained personnel could result in Manila Water and WawaJVCo incurring additional expenses in hiring and training replacement personnel, and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel whom they replace. Any of the foregoing could have a material adverse effect on the Group's business, financial condition, prospects and results of operations.

The Group manages this risk through Manila Water's practice of offering its employees benefits and rewards above the industry standard. These include cash bonuses, performance incentives, de minimis allowances, vacation leaves, sick leaves, leave monetization, maternity/paternity leaves, special/other leaves, HMO coverage for employees and one dependent, medical and dental services, in-house fitness center, group life and accident insurance, flexible time and work arrangements, work hubs, uniforms, loans assistance, financial assistance and retirement benefits.

***A portion of Manila Water's employees are members of a union. The freedom period under the current collective bargaining agreement will commence in August 2023.***

As of December 31, 2021, 169 or 12.4% of Manila Water's permanent employees were members of the Manila Water Employees Union ("**MWEU**"). In 2018, Manila Water and the MWEU concluded negotiations on a new collective bargaining agreement (the "**CBA**") and in 2021 reached another agreement to cover certain economic provisions relating to the period from 2022 to 2023. The "freedom period" under the current CBA will commence in August 2023, which will signal the start of a new full five-year cycle for a new collective bargaining agreement.

The Group believes that Manila Water has cultivated a strong partnership with union officials and members, and there have been no labor strikes since Manila Water's inception. However, there can be no assurance that there will be no labor strike or other collective action in the future. While there is no indication in the current management and union relationship which would signal that a successful renegotiation of the CBA will not be completed, there can also be no assurance that the CBA will be successfully renegotiated in a manner satisfactory to both Manila Water and the MWEU.

***Manila Water relies on information technology systems to assist with the management of its business and customer relationships. A disruption of or interference with these systems could adversely affect the Group's business and operations.***

Manila Water's information technology systems, which includes information technology functions that are outsourced to various third-party service providers and software vendors, are an integral part of its business. For example, Manila Water's information technology systems enables it, among other things, to bill customers, provide customer service through its call center, manage certain financial records, track assets and accounts receivable collections, read certain water meters remotely, identify high water usage, and identify water theft from disconnected meters. A disruption of Manila Water's information technology systems could significantly limit its ability to manage and operate its business efficiently, which in turn could cause its business to suffer and its results of operations to be reduced.

Further, Manila Water's information technology systems are vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications, or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data, including as a result of security breaches, cyberattacks,
- misappropriation, and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and
- fires, floods, earthquakes, and other natural disasters.

Damages or interruptions due to any of the foregoing could result in, among other things, difficulties for Manila Water relating to managing and operating its business efficiently, such as untimely issuances of billings; physical and electronic loss of customer, employee or financial data; security breaches; misappropriation of property and other adverse consequences. The lack of redundancy for some of Manila Water's information technology systems, including billing systems, could exacerbate the impact of any of the foregoing events. Additionally, Manila Water may not be successful in further developing, implementing, or acquiring technology to continue to operate at its current level of efficiency or to meet the future needs of its business. Any of the foregoing could have a material adverse impact on business, financial condition, results of operations, prospects and cash flows of the Group.

To manage this risk, Manila Water aims to continuously improve its network security infrastructure to ensure that its information technology systems are protected against unauthorized external and internal access.

## RISKS RELATING TO THE GROUP'S ENERGY BUSINESS

***The Group's solar power and hydropower businesses are exposed to the risks inherent in the Philippines energy market.***

Through Prime Infrastructure, Prime Metro Power and certain of their respective subsidiaries and affiliates, the Group operates and invests in hydro and solar energy generation projects in the Philippines. The Group's solar energy business comprises (i) Prime Metro Power's preferred shares in SP Tarlac, which operates a 100MW (150MW upon completion) solar power facility in Tarlac, Philippines (the "**Tarlac Solar Power Plant**") that generates electricity sold to the Manila Electric Company ("**MERALCO**") under a 20-year power supply agreement; (ii) the 140MW solar power plant in Tanauan and Maragondon (the "**Tanauan Solar Power Plant**") which is owned and operated by SP Tanauan, a subsidiary of Prime Infrastructure; and (iii) the 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system in Bulacan and Nueva Ecija (the "**Terra Solar Power Plant**") which is owned by Terra Solar, a subsidiary of Prime Infrastructure. In addition, the Group's hydropower business comprises the Ahunan Laguna Power Plant being developed by Ahunan Power. As such, the Group's prospects and results of operations are highly dependent on the success of the Philippine energy market. Please see "See "*Description of the Issuer and the Group—Corporate and Shareholding Structure*" on page [208] for details on the Issuer's investments in the Operating Subsidiaries and Portfolio Companies.

Many factors contribute to the fluctuations in demand and prices of energy in the Philippines, including the general demand and supply of energy, increase and decrease in the economic activity, inflationary pressures, government policies with respect to the procurement of renewable energy and tax incentives.

There can be no assurance that the Philippine energy market will stabilize or continue to expand. Reduced levels of economic growth, adverse changes in the country's political or security conditions, or weaker performance of or slowdown in industrial activities may adversely affect the demand for, and price of, energy generated by the Group's power plants. In particular, the global economic downturn resulting from the COVID-19 pandemic has resulted in an economic slowdown and negative business sentiment, which may continue to affect the outlook on the Philippine energy market, which could materially and adversely affect the Group's results of operations. Moreover, the Group cannot foresee when the disruptions to industrial or business activities caused by the outbreak of COVID-19 will cease.

The Group believes that it is able to manage these risks as the energy sold to MERALCO by SP Tarlac from the energy generated by the Tarlac Solar Power Plant, the only operational solar power plant of the Operating Subsidiaries and Portfolio Companies as of the date of this Prospectus, is the subject of a "take or pay" contract whereby MERALCO must accept any and all energy deliveries up to a specified amount. The Group expects Terra Solar to enter into a similar contract with MERALCO. The Group also believes that the "must" dispatch of wind or solar energy and the "priority" dispatch of biomass, waste-to-energy and run-of-the-river hydro energy sources over conventional energy sources such as coal, and other Government initiatives to promote and encourage the growth of renewable energy industry in the Philippines, such as the Renewable Portfolio Standards ("**RPS**") proposed under the Government's National Renewable Energy Program which require distribution utilities to source a portion of their power from renewable energy sources, help manage the risk of a downturn in demand for energy in the Philippines. However, the Group is subject to risks inherent in the solar power and hydropower generation industry, and there is no assurance MERALCO or other offtakers will be able to support payments under the relevant power supply agreements in the future.

***The Group's investment in SP Tarlac comprises preferred shares which, unless earlier converted by Prime Metro Power into common shares of SP Tarlac, are redeemable by SP Tarlac.***

The Group's investment (through Prime Metro Power) in SP Tarlac, currently the only operational solar power plant of the Operating Subsidiaries and Portfolio Companies, comprises preferred shares which are redeemable at the option of SP Tarlac five years after the first subscription thereof unless earlier converted by Prime Metro Power into common shares.

The Group is able to manage this risk because (i) the preferred shares have a fixed cumulative annual dividend rate of 12%, and (ii) Prime Metro Power may choose to convert the preferred shares into common shares within five years from the issuance thereof. As such, the Group has downside protection through the fixed dividend and mandatory payment on redemption, and is able to participate in any upside by choosing to convert the preferred shares into common shares at Prime Metro Power's option within five years from the issuance of such preferred shares.

As a preferred and non-voting shareholder, Prime Metro Power does not directly participate in the day-to-day operations of SP Tarlac as it does not have the right to nominate directors or officers of SP Tarlac. However, as mentioned above, Prime Metro Power may convert its preferred shares into common shares which would give it the same rights and benefits (including voting rights) as other holders of common shares of SP Tarlac.

***The Government may amend, revoke, reduce or eliminate subsidies and economic incentives for renewable energy projects, which could impact the profitability of the Group's hydropower plants and solar power plants.***

Because the businesses of certain members of the Group focus on hydropower and solar energy generating projects, the Group's future profitability is affected by the support of the Government for the renewable energy sector. Under Republic Act 9513 or the Renewable Energy Act of 2008, the National Renewable Energy Board is mandated to formulate and promulgate feed-in tariff system rules, which cover, among others, the following:

- priority connections to the grid for electricity generated from emerging renewable energy resources within the Philippines; and
- priority purchase and transmission of, and payment for, such electricity by the grid system operators.

The revocation, reduction, modification or elimination of government mandates and economic incentives could materially and adversely affect the growth of the renewable energy industry or result in increased price competition, either of which could cause the Group's revenues to decline and materially and adversely affect the Group's results of operations.

While the Group believes that hydropower and solar power projects may continue to offer attractive internal rates of return, any changes that increase effective income tax rates may cause considerable downward pressure on the value of the Group's hydropower and solar power plants. The Group believes that it is able to manage the foregoing risks as the development of new solar energy technologies for instance has resulted, and will continue to result in higher capacity factor and lower capital expenditure for the development of solar power projects and will reduce the importance of Government incentives and subsidies in making solar power projects attractive and viable investments in the future. However, there is no assurance that such technologies will continue to be developed, or that the Group will be able to take advantage of such technologies in the future without having to incur significant capital expenditure or at all. The Group also believes that any action by the Government to revoke any incentives will require a significant shift in policy, involving both executive and legislative branches of the Government, and extensive discussions with stakeholders in the renewable energy industry and the financial sector.

***Operations of SP Tarlac are, and the future operations of SP Tanauan, Terra Solar, Ahunan Power and certain other members of the Group are expected to be, covered by certain tax exemptions and incentives, the loss of which could increase their tax liability and decrease any consolidated net income the Group might have in the future.***

SP Tarlac benefits from certain tax incentives, such as zero VAT rating, an income tax holiday for the first seven years of its commercial operations until 2026 (after which it shall be subject to a statutory income tax rate of 10% on its renewable energy operations), and a tax exemption on carbon credits. SP Tarlac also benefits from incentives from its registration with the Board of Investments, such as exemption from local business taxes, simplified customs procedures, simplified employment for foreign nationals, exemption from wharfage dues, and tax credits. If SP Tarlac's tax exemptions or incentives expire or are revoked or repealed, its income from its solar power plant will be subject to the corporate income tax rate, which is currently fixed at 25% of net taxable income, and which will reduce its profitability. There is no assurance that SP Tarlac will be able to sustain preferential tax rates for its solar power plant project or that SP Tarlac, SP Tanauan, Terra Solar, Ahunan Power or other members of the Group who intend to develop renewable energy projects in the Philippines will be able to obtain similar tax incentives for future projects.

The Group believes that any action by the Government to revoke any incentives will require a significant shift in policy, involving both executive and legislative branches of the Government, and extensive discussions with stakeholders in the renewable energy industry and the financial sector. However, SP Tarlac, as a solar power plant operator, is subject to risks inherent in the solar power generation industry, and there is no assurance that it will continue to be able to operate profitably without tax exemptions and incentives in the future.

***A decrease in the cost-competitiveness of solar energy, the development of new technologies to generate solar power and changes to Government laws and applicable rules and regulations may expose SP Tarlac, SP Tanauan and Terra Solar to stranded-asset risk.***

As SP Tarlac's business comprises, and the businesses of SP Tanauan and Terra Solar are expected to comprise, the operation of renewable energy plants, the Group is subject to risks inherent in the solar power generation industry. See "*—The Group's solar power and hydropower businesses are exposed to the risks inherent in the Philippines energy market.*" These risks include the reduction or removal of subsidies and economic incentives for solar energy, the loss of tax exemptions and incentives, new technological innovations and changes to societal attitudes about existing solar energy generation technologies. For further details, see "*The Government may amend, revoke, reduce or eliminate subsidies and economic incentives for renewable energy projects, which could impact the profitability of the Group's hydropower plants and solar power plants.*" and "*Operations of SP Tarlac are, and the future operations of SP Tanauan, Terra Solar, Ahunan Power and certain other members of the Group are expected to be, covered by certain tax exemptions and incentives, the loss of which could increase their tax liability and decrease any consolidated net income the Group might have in the future.*"

There can be no assurance that reduced Government support of the solar energy industry, the adoption of new technologies, changes to environmental laws and regulations or other developments in the future will not result in SP Tarlac, SP Tanauan and Terra Solar having to incur additional capital expenditures or operating expenses to upgrade, supplement or relocate their solar energy generation projects. In particular, developments in the downstream energy sector, such as in residential solar photo-voltaic ("**PV**") technologies and electricity storage, could materially and adversely affect the growth of those renewable energy companies such as SP Tanauan and consequently materially and adversely affect the Group's results of operations. Thus, a significant portion of the captive market may shift away from solar power plants utilizing existing solar power generation technologies towards those relying on other types of renewable energy technologies or even non-renewable energy sources, which may expose SP Tarlac, SP Tanauan and Terra Solar's businesses to stranded-asset risk (i.e., the hazard of an asset suffering from an unanticipated write-down, devaluation, or conversion to liability).

The Group believes that the "must" dispatch of wind and solar energy and the "priority" dispatch of biomass, waste-to-energy, run-of-the-river hydro energy sources over conventional energy sources such as coal, and other Government initiatives to promote and encourage the growth of renewable energy industry in the Philippines, such as the RPS proposed under the Government's National Renewable Energy Program, help manage the risk of a downturn in demand for energy in the Philippines.

***SP Tarlac's and Menatech's respective power plants are, and the Group's power projects under development will be, subject to the risk of losing revenue in the event they are rendered inoperable for an indefinite time period due to force majeure events, and SP Tarlac, Menatech and other members of the Group who intend to operate energy generation businesses may be required to undertake significant repair and replacement works.***

If any of SP Tarlac's or Menatech's power plants, or the power plants under development by other members of the Group, are rendered inoperable due to force majeure events, there can be no assurance that SP Tarlac, Menatech and such members of the Group, respectively, will be able to successfully achieve the required net electricity generation values, if any, under their relevant power supply agreements, which could materially affect the Group's business, prospects, financial condition, results of operations and cash flow.

To manage these risks, SP Tarlac maintains comprehensive insurance policies that cover business interruption for approximately 12 months for the Tarlac Solar Power Plant. The Group intends to obtain similar insurance policies for its other power projects under development. However, there can be no assurance that similar insurance policies to be adopted by the Group for its power projects under development will cover repair and replacement costs, whether partially or fully, which could materially affect the Group's business, prospects, financial condition, results of operations and cash flows. See "*Description of the Group's Energy Business – Insurance*" on page [240] of this Prospectus.

***SP Tarlac's and Menatech's respective power plants are, and the Group's power projects under development will be, exposed to unscheduled, unplanned and prolonged internal and external outages resulting in potential loss in revenues.***

Unscheduled or unplanned internal plant outages refers to unexpected breakdown of major equipment (including failure, damage to or explosions caused by battery storage) resulting in substantial or total power plant shutdown until such equipment is replaced or restored. From the commencement of operations at Tarlac Solar Power Plant on September 26, 2020 to December 31, 2021, SP Tarlac experienced an annual average loss of less than 10% of annual average solar power generation hours (i.e., total available operating hours for solar power generation) due to unscheduled internal outages. Menatech's gas-fired 29.3MW (67.8MW upon completion of the second phase) power plant in Umm Qasr Port, Basra, Iraq (the "**Umm Qasr Power Plant**") consistently achieved an average plant availability rate of 99.64% from June 2021 to May 2022.

On the other hand, unscheduled external outages refer to electricity grid outages at the regional or national level that disrupt the transmission of electricity and could result in curtailment of energy offtake below expected levels. For example, there could be failures in the transmission towers, power conductors or insulators of distribution utilities. From the commencement of operations at Tarlac Solar Power Plant on September 26, 2020 to December 31, 2021, SP Tarlac experienced an annual average loss of 0 hours or 0% of annual average solar power generation hours (i.e., total available operating hours for solar power generation) due to unscheduled external outages. During the same period, SP Tarlac also consistently achieved an average grid availability rate of 100%. From the commencement of operations at the Umm Qasr Power Plant on February 18, 2020 to December 31, 2021, Menatech experienced an annual average loss of 0 hours due to unscheduled external outages. The occurrence of any prolonged unscheduled internal or external outages would reduce the revenue of the SP Tarlac and Menatech, which could result in a material adverse effect on the Group's business, prospects, financial condition, results of operations and cash flows.

The Tarlac Solar Power Plant operated by SP Tarlac has a design life of 25 years, which can be further extended by another five years with additional capital expenditures at the end of the design life. The Umm Qasr Power Plant operated by Menatech has a design life of 25 years, which can be further extended by another five years with additional capital expenditures at the end of the design life. The Group believes that the operations teams of SP Tarlac and Menatech regularly and diligently conduct preventive and predictive maintenance on all major equipment in the respective power plants operated by them to minimize unscheduled or unplanned internal outages. SP Tarlac and Menatech have also each invested in a computerized monitoring and maintenance system to efficiently track various preventive maintenance programs and initiatives for their respective power plants. Each of SP Tarlac and Menatech also keeps an inventory of spare parts which are not locally available, and which may take a lead time of multiple months to order. Each of SP Tarlac and Menatech also maintains inventory for critical equipment to avoid any prolonged shutdown of their respective power plants.

Additionally, to manage the risk of external plant outages, the site for the Tarlac Solar Power Plant was carefully selected, taking into consideration transmission grid stability and reliability.

***SP Tarlac, Menatech and the Group's other portfolio energy companies may be unable to maintain sufficient operating cash for maintenance and other similar costs of power plants, and SP Tarlac's and Menatech's operating cash may be insufficient to cover necessary costs of their power plants.***

SP Tarlac, Menatech and the Group's other portfolio energy companies with projects under development expect to keep their respective power plants in good working order. Accordingly, they may from time to time expend funds to complete routine maintenance, as well as extraordinary maintenance, in the event of damage from weather disturbances such as typhoons, earthquake, or floods or from other unforeseen events.

To manage this risk, SP Tarlac and Menatech have in the past conducted, and expect to in the future conduct, regular maintenance with cash sourced through their respective operating cash flows.

However, there can be no guarantee that SP Tarlac and Menatech will be able to maintain operating cash at the desired level or that SP Tarlac's and Menatech's operating cash will be sufficient to cover maintenance and other similar costs in the event of an extraordinary occurrence. Insufficient operating cash may have an adverse effect on the Group's business, prospects, financial condition, and results of operations. Additionally, if SP Tarlac or Menatech is not able to generate sufficient cashflow, it may not be in a position to upstream any dividends to the Issuer.

***The Group's power plants may be subject to an increase in operating and other expenses.***

The ability of SP Tarlac, Menatech and the other subsidiaries of the Issuer that are developing power projects to make distributions to their shareholders, including the Intermediate Holding Companies, and thus the Intermediate Holding Companies' ability to make distributions to the Issuer, could be adversely affected if operating and other expenses of the Group's power plants increase without a corresponding increase in revenues. Factors which could increase operating and other costs include:

- increase in the cost of labor, materials and insurance;
- restoration costs in case of events such as floods, natural disasters and accidents;
- increase in raw material costs such as diesel fuel, water and coolants;
- adverse weather conditions;
- unforeseen legal, tax and accounting liabilities; and
- other unforeseen operational and maintenance costs.

Any significant increase in operations and maintenance costs will reduce the net operating revenue generated by SP Tarlac and Menatech from their power plants, materially and adversely affect the business, prospects, financial condition, results of operations and cash flows of SP Tarlac and Menatech, and adversely affect the ability of the Issuer to make distributions available to Shareholders.

To manage these risks, the Group intends to maximize operational efficiencies by leveraging on economies of scale as the Group's portfolio of solar assets continues to expand.

***Variations in hydrological conditions and irrigation requirements could adversely impact Ahunan Power's operations.***

Hydroelectric generation is dependent on the amount and location of rainfall and river flows, which vary widely from quarter to quarter and from year to year. Ahunan Power, a subsidiary of Prime Infrastructure, is developing the Ahunan Laguna Power Plant, a 1,400MW (gross) (1,200MW (net)) hydropower project under construction in Pakil, Laguna, Philippines.

The levels of hydroelectric production can vary from period to period depending on the water levels in the reservoirs and downstream irrigation and water supply requirements. In years of less favorable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoirs are expected to have low water levels, which will reduce the amount of power that hydropower plants are able to generate. Conversely, if too much rainfall occurs at any one time, such as during a typhoon, water may flow too quickly and at volumes in excess of the water intake capacity of the hydropower plants, which may cause release of water using the applicable spillways.

As the Ahunan Laguna Power Plant is a pumped storage hydropower plant, the Group manages the above risks through the project site's topography and proximity to the water source, and does not rely on natural inflow to either of its reservoirs. The Group believes that Laguna de Bay, which will serve as the project's lower reservoir, is capable of providing sufficient water source for energy generation.

***The loss of SP Tarlac's or Menatech's key customers or their failure to honor their existing contracts could have an adverse effect on the Group's financial condition and results of operations.***

As of June 30, 2022, SP Tarlac's only customer for the Tarlac Solar Power Plant is MERALCO and Menatech's only customer for the Umm Qasr Power Plant is General Company for Ports of Iraq ("**GCPI**").

Accordingly, the Group's financial condition and results of operations and ability to make distributions may be adversely affected by the bankruptcy or insolvency of, or any other disruption to, such customers. In addition, if a key customer decides not to honor, not to renew its power purchase agreement or to terminate its power purchase agreement before it expires, while subject to considerable pre-termination payments due to SP Tarlac and

Menatech, the financial condition and results of operations and ability of SP Tarlac and Menatech to make distributions to the Intermediate Holding Companies, whose ability in turn to make distributions to the Issuer, may be adversely affected, which therefore may decrease the ability of the Issuer to make distributions to the Shareholders.

For example, the Group has ₱1,712.7 million in gross receivables due from GCPI as of June 30, 2022 that is being disputed by GCPI. While the contract is based on the capacity made available, GCPI is still paying according to physical consumption. This results in a significant loss of revenues, which over the 23-year term of the contract of supplying, installation, management and operation of power plant, could significantly impact the Group's financial position and results of operations. The Group and Menatech are considering all options to have the dispute resolved as soon as possible.

The Group believes that SP Tarlac's sales to MERALCO and GCPI have a low risk of default given MERALCO's monopoly on electricity distribution in Metro Manila and GCPI's state ownership and control by the government of Iraq.

The Group also believes that SP Tarlac and Menatech have strong and stable relationships with their respective customers. SP Tarlac has a 20-year power supply agreement with MERALCO, which commenced on August 20, 2018 with respect to the sale of power from the Tarlac Solar Power Plant and Menatech has a 23-year contract of supplying, installation, management and operation of power plant with GCPI which commenced on February 9, 2020.

***SP Tarlac's operations are, and SP Tanauan and Terra Solar's operations will be, affected by seasonal weather changes.***

SP Tarlac's revenues are, and the Group expects SP Tanauan's and Terra Solar's revenues to be, directly correlated to the amount of electricity generated and sold by the respective solar power plants operated by them, which in turn is dependent upon irradiance and weather conditions generally. Irradiance and weather conditions have natural variations from season to season and from year to year and may also change permanently because of climate change or other factors. The Group has carefully selected the locations of the solar plants in its energy portfolio as those receiving solar irradiation between 4.5 – 5.5 kWh/m$^2$/day based on the long-term historical irradiation data of National Renewable Energy Laboratory, a national laboratory of the U.S. Department of Energy based in Texas.

The Group believes that such seasonality is effectively managed as SP Tarlac has installed systems to (i) monitor the daily output of the Tarlac Solar Power Plant and (ii) calibrate and improve output, as the need arises, based on an expected performance ratio with respect to the peak nominal rated capacity of PV panel modules installed. The installed systems monitor solar irradiation and PV panel degradation, spectrum temperature and the effects of seasonal weather variability. SP Tanauan and Terra Solar also expect to install such monitoring systems.

***Opposition from local communities and other parties may adversely affect the Group's prospects, financial condition, results of operations and cash flows.***

The operation of SP Tarlac's and Menatech's power plants, and the development and construction of power plants by SP Tanauan, Terra Solar and Ahunan Power may have significant consequences on the ecosystem of the areas where such power plants are located. Further, the repair or operation of SP Tarlac and Menatech's solar power plants and the construction of SP Tanauan, Terra Solar and Ahunan Power projects under development, or the expansion of SP Tarlac's and Menatech's power plants may disrupt the activities and livelihoods of local communities where such power plants are located and may be subject to opposition from the local communities. Power plant projects may be subject to opposition, such as through litigation or by other means from public interest groups, local communities, and non-governmental organizations in relation to their environmental impact or in relation to land acquisition, use of rights-of way and construction activities and the impact thereof on the livelihood of affected communities. Such opposition may result in delays and disruptions to the Group's business.

To manage these risks, the Group engages in significant community development activities. For instance, the Group is developing an eco-tourism project in the area surrounding the Wawa Dam in Rizal Province in the Philippines. As of the date of this Prospectus, the Group has not experienced any disruptions to SP Tarlac and Menatech's plant operations due to any local opposition.

***The Group's results of operations could be adversely affected by strikes, work stoppages or increased wage demands by employees or contractors of SP Tarlac, Menatech or members of the Group constructing power projects or other disputes between such entities and their respective employees or contractors.***

The power plants operated by SP Tarlac and Menatech engage full-time employees focused on the operations and maintenance of such solar power assets. In addition, the Group believes that SP Tarlac and Menatech's labor relations are generally harmonious. However, there can be no assurance that SP Tarlac and Menatech will not experience future disruptions to operations due to labor disputes or other issues with employees, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

Various labor laws govern SP Tarlac and Menatech's relationship with their employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations could materially affect SP Tarlac and Menatech's, and thus the Group's, business, prospects, financial condition, operating results or cash flow.

Further, SP Tarlac, Menatech and other members of the Group developing power projects may engage third-party service providers from time to time with respect to the operation and maintenance or construction, as applicable, of their respective power plants. The engagement of third-party service providers carries certain inherent risks, including potential actions from employees of third-party service providers who may claim an employee-employer relationship with members of the Group and the risk that third-party contracting arrangements in place in the Philippines may be found by the Department of Labor and Employment ("**DOLE**") to be "labor-only contracting," which could have a significant impact on labor costs. The Group is also exposed to litigation risk from its employees or the employees of various third-party contractors, who may implead SP Tarlac, Menatech and other members of the Group's energy business as a party to their labor cases and labor disputes against these third-party contractors.

To manage these risks, each of SP Tarlac, Menatech and other members of the Group implement a stringent procurement process that seeks to ensure among others that the third-party service providers they engage are legitimate, qualified, and competent with an outstanding record of experience with relevant accreditations.

***Damage to or other potential losses involving SP Tarlac's or the Group's power plants may not be covered by insurance or the Group's insurance policies may be insufficient.***

The operations of SP Tarlac's and Menatech's power plants are subject to a number of risks generally associated with the generation of electricity. These risks could include typhoons, fires, earthquakes and other natural disasters and calamities, breakdowns, failures or substandard performance of equipment, improper installation or operation of equipment, accidents, acts of terrorism, operational and logistical issues, and labor disturbances. These events may cause personal injury and loss of life and damage to, or the destruction of, property and equipment of SP Tarlac's and Menatech's power plants and may result in the limitation or interruption of the SP Tarlac's and Menatech's business operations and the imposition of civil or criminal liabilities. SP Tarlac's insurance policies may not be sufficient to cover any material losses that it may incur in the future, and it may not be able to renew its insurance arrangements, on similar terms or at all. In addition, certain types of losses such as the outbreak of infectious disease or any resulting losses, may be uninsurable or the required insurance premiums may be too expensive to justify obtaining insurance.

Moreover, the scope of insurance coverage that SP Tarlac and Menatech can obtain or their ability or the ability of other members of the Group developing power projects to obtain such coverage at reasonable rates may be limited and such insurance policies and terms of coverage will be subject to renewals and negotiations on a periodic basis and there is no assurance that adequate insurance coverage will be available on commercially reasonable terms in the future. Any material increase in insurance rates, decrease in available coverage or any failure to maintain adequate insurance in the future could adversely affect the Group's, business, financial condition, prospects and results of operations.

Further, in line with customary industry practice in Iraq pertaining to infrastructure assets, Menatech carries operational risk insurance but not political risk insurance. Accordingly, there may be circumstances in which Menatech will not be covered or compensated, in part or at all, for specific losses, damages and liabilities. If Menatech suffers a significant loss, the Group's business, financial condition, prospects and results of operations could be impacted. The Group believes that these risks are effectively managed due to the stability of the location of the area where the Umm Qasar Power Plant is located, which area has seen an increasing presence of other foreign locators. The Group also intends to continue to monitor the political and security situation in the area.

Further, to manage the foregoing risk, SP Tarlac maintains and the Group intends to adopt, where customary, comprehensive property and liability insurance policies with coverage features and insured limits that the Group believes are consistent with market practice in the energy industry and the jurisdictions in which it operates. The policies subscribed to by SP Tarlac cover acts of terrorism, sabotage, riots, strikes, civil commotion, malicious damage, rebellion, revolution, mutiny, war and counter insurgency. There are no significant or unusual excess or deductible amounts required under such policies.

***Disruptions and fluctuations in fuel supply could interrupt the operations of the Umm Qasr Power Plant.***

The operations of Umm Qasr Power Plant depends on the availability of natural gas. The Umm Qasr Power Plant's offtaker, the GCPI, has a fuel supply agreement with the Basrah Gas Company for the supply of fuel to Umm Qasr Power Plant via a specifically dedicated 15 km pipeline. GCPI's cost of fuel under its agreement with the Basrah Gas Company is deducted from Menatech's invoices to GCPI for its sale of electricity to the latter.

There is no assurance that there will not be any interruption or disruption in the supply of fuel to Umm Qasr Power Plant through GCPI. There is also no assurance that Menatech will be able to source alternative sources of fuel in case the supply of fuel to Umm Qasr Power Plant through GCPI is disrupted. These could negatively affect the stability and performance of the Umm Qasr Power Plant.

Such factors, which may include events which are beyond the control of the Group, could affect the normal operation of the Umm Qasr Power Plant or cause Menatech to incur significant costs to source replacement power or to reconfigure such plans, which could have material adverse effect on the business, financial condition, prospects and results of operations of the Group. See "*Description of the Group's Energy Business – Suppliers*" for further details.

The Group believes that these risks are effectively managed due to the stability of the location of the area where the Umm Qasar Power Plant is located, which area has seen an increasing presence of other foreign locators. The Group also intends to continue to monitor the political and security situation in the area.

***Menatech and SP Tarlac face litigation risks and regulatory disputes in the course of their business.***

In the ordinary course of business, claims and disputes involving Menatech, SP Tarlac, their subsidiaries, employees, customers, and regulatory authorities may be brought against SP Tarlac, Menatech or other Operating Subsidiaries and Portfolio Companies involved in the energy segment, and by Menatech, SP Tarlac or other Operating Subsidiaries and Portfolio Companies in connection with the Group's energy business. Claims may be brought against Menatech, SP Tarlac, or other such Operating Subsidiaries and Portfolio Companies for breach of contract, law or regulation, as well as claims relating to taxes, among others. If found to be liable, Menatech, SP Tarlac or such other Operating Subsidiaries and Portfolio Companies would have to incur a charge against earnings to the extent a reserve had not been established for the matter in its accounts, or to the extent the claims were not sufficiently covered by its insurance. Menatech and SP Tarlac and may also engage in disputes with regulatory authorities on tax-related matters in connection with their respective business and operations. See "*Description of the Group's Energy Business—Legal Proceedings*."

Claims brought against Menatech or SP Tarlac and by Menatech or SP Tarlac, if not resolved through negotiation, may be subject to lengthy and expensive litigation or arbitration proceedings such that the amounts ultimately realized from claims by Menatech or SP Tarlac could differ from the balances included in their respective financial statements or the Group's consolidated financial statements. For example, Menatech and GCPI are currently involved in discussions relating to payments for the contractual minimum production value of the Umm Qasr Power Plant. While Menatech and SP Tarlac endeavor to amicably discuss and settle such issues, there is no assurance that such issues will be resolved through negotiation and without litigation or arbitration proceedings. Such claims could therefore have an adverse impact on the business, financial condition, prospects and results of operations of Menatech or SP Tarlac, and therefore, the Group.

To manage these risks, as a policy, each of Menatech and SP Tarlac seek to maintain good relationships with its employees, its customers, regulators, and other parties whom it regularly deals with and to resolve disputes in a timely and amicable way, when appropriate.

***The operations of the Group's power projects are subject to significant government regulation, and the Group's margins and results of operations could be adversely affected by changes in the law or regulatory schemes.***

The Group's inability to predict, influence or respond appropriately to changes in law or regulatory schemes, including any inability or delay in obtaining expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, or any inability or delay in obtaining or renewing permits for any facilities, could adversely impact its results of operations and cash flow. Furthermore, changes in laws or regulations or changes in the application or interpretation of laws or regulations in jurisdictions where power projects are located, particularly utilities where electricity tariffs are subject to regulatory review or approval, could adversely affect the Group's business, including, but not limited to:

- adverse changes in tax law;
- changes in the timing of tariff increases or in the calculation of tariff incentives;
- change in existing subsidies and other changes in the regulatory determinations under the relevant concessions;
- other changes related to licensing or permitting which increase capital or operating costs or otherwise affect the ability to conduct business; or
- other changes that have retroactive effect and/or take account of revenues previously received and expose power projects to additional compliance costs or interfere with its existing financial and business planning.

Any of the above events may result in lower margins for the affected businesses, which could adversely affect the Group's results of operations.

The Group believes it is able to manage the foregoing risk though its diverse portfolio of assets and projects. The Group's diverse portfolio of assets and projects also reduces specific risk associated with changes in laws and regulatory schemes. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***Risks and delays relating to the development of greenfield power projects could have a material adverse effect on the Group's operations and financial performance.***

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of the Group.

For the Group's power projects under development, the estimated time frame and budget for the completion of critical tasks may be materially different from the actual completion date and costs, which may delay the date of commercial operations of the projects or result in cost overruns. For example, due to the impact of COVID-19 and related travel and movement restrictions in the Philippines, construction of certain renewable energy projects in the country, including the Group's projects, were interrupted, resulting in a delay in commercial operations date. As of the date of this Prospectus, SP Tanauan is incurring, and will continue to incur until the Tanauan Solar Power Plant commences operations, costs for replacement energy. Such replacement energy costs are computed as the positive difference between the Wholesale Electricity Spot Market ("**WESM**") price and the tariff rate under the $50MW_{AC}$ 20-year power supply agreement entered into by SP Tanauan on December 22, 2016 with MERALCO. SP Tanauan expects to commence construction of the Tanauan Solar Power Plant by the fourth quarter of 2022 and start operations by the second half of 2023, however, if there is any delay, SP Tanauan's incurring replacement energy obligations will continue until the Tanauan Solar Power Plant commences operations.

The Group is expanding its power generation operations and there are projects in its energy portfolio under construction. These projects involve environmental, engineering, construction and commission risks, which may result in cost overruns, delays or performance that is below expected levels of output or efficiency. In addition, projects under construction may be affected by the timing of the issuance of permits and licenses by government agencies, any litigation or disputes, inclement weather, natural disasters, accidents or unforeseen circumstances, manufacturing and delivery schedules for key equipment, defect in design or construction, and supply and cost of equipment and materials. Further, project delays or cancelations or adjustments to the scope of work may occur from time to time due to incidents of force majeure or legal impediments.

For example, the Terra Solar Power Plant, a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system, is currently in the pre-development phase. The Group is in the process of, among others, acquiring applicable government permits and possessory or ownership rights over approximately 3,500 hectares of land in Bulacan and Nueva Ecija. The Group intends to commence construction of the Terra Solar Power Plant by the third quarter of 2023. However, if the Group is unable to acquire possessory or ownership rights over the required area of land in a timely manner, the commencement of construction of the Terra Solar Power Plant may be delayed. In addition, as the Issuer believes that, upon completion, the Terra Solar Power Plant is expected to be one of the largest solar power plus battery storage systems in the world, the Issuer expects that a significant amount of solar panels and batteries will be required to operate the Terra Solar Power Plant. Accordingly, if the Group is unable to secure the required supply of solar panels and batteries, the commercial operations date for the Terra Solar Power Plant may be delayed.

Depending on the severity and duration of the relevant events or circumstances, these risks may significantly delay the commencement of new projects, reduce the economic benefit from such projects, including higher capital expenditure requirements and loss of revenues, which in turn could have a material adverse effect on the Group's business, prospects, financial condition, results of operations and cash flows.

The Group believes it is able to manage the foregoing risk though its diverse portfolio of assets and projects which reduced specific risks relating to any one project, and its experience in developing infrastructure projects. In particular, the Group believes it is able to manage the aforementioned risks relating to the Terra Solar Power Plant as the modular nature of solar panels enable the Group to avoid and build around lots of land over which the Group is unable to acquire possessory or ownership rights, and in relation to the Tanauan Solar Power Plant, the Group expects its replacement energy obligations to be manageable as the Group believes the tariff rate under the $50MW_{AC}$ 20-year power supply agreement between SP Tanauan and MERALCO is relatively high. In addition, the Group expects to engage multiple suppliers of solar panels and batteries well in advance to secure in a timely manner the requisite supply of solar panels and batteries for the operation of the Terra Solar Power Plant. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***Grid curtailments may limit the generation capacity of power projects.***

From time-to-time, national grid operators curtail the energy generation for a number of reasons, including to match demand with supply and for technical maintenance reasons, including as a result of grid infrastructure that is not up to international standards. In such circumstances, a power project's access to the grid and thus its generation capacity can be reduced. Such reductions result in a corresponding decrease in revenue, which if prolonged or occur frequently could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group believes it is able to manage the foregoing risk though its diverse portfolio of assets and projects which reduces its reliance on cashflow and the operations of its energy business or any specific power project. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***The Group faces increased competition in the Philippine power industry.***

The Group faces competition from major power generation companies in the Philippines and may face competition from new entrants in the future. Competition has a direct effect on the Group's ability to negotiate power supply agreements with new and existing offtakers, and also sell excess capacity in the WESM or compete for contestable customers for its operations in the Philippines. Competition in the Philippine energy markets typically results in lower selling prices in the WESM and under power supply agreements. Despite the demand for power in the Philippines, it has become necessary for power producers to keep their power rates competitive in order to sell on the WESM and attract new offtakers. The Group's ability to effectively manage the competitive landscape for its uncontracted capacity will have a significant impact on its results of operations. The market price of commodities, such as natural gas and coal, are important drivers of energy pricing and competition in most energy markets.

The Group intends to manage this risk by monitoring the status of its power supply or power purchase agreements and ensuring that it is able to fully contract out its generation capacity to the extent prudent and possible.

***The Group is subject to market limitations set by EPIRA.***

The EPIRA mandates that no generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of the EPIRA. As such, the Group will not be able to consolidate more generating capacity than the stated ceilings in the EPIRA.

The Group believes that the stated limitations are very high thresholds, given the current power supply and diversity of power generating companies in the Philippines. As such, the Group does not believe that such ceilings will curtail its current plans. In addition, the Group may continue to explore opportunities outside the Philippines.

***The Group is reliant on existing power transmission infrastructure operated by NGCP.***

The Group is reliant on existing power transmission infrastructure operated by the National Grid Corporation of the Philippines ("**NGCP**"). Generally, in respect of the distribution of electricity from a power plant to the customer in the Philippines, the governing law is EPIRA which segregates and privatized generation, transmission and distribution. The generator declares its available capacity and bids "blocks" of energy generation to the grid which is operated by NGCP as transmission system operator. The WESM, through a price stacking mechanism, determines the required energy volume (by stacking demand from distribution utilities and directly connected loads) gives a dispatch signal to all plants. The energy is transmitted via high voltage lines to distribution utilities and electric cooperatives which through lower voltage lines and transformers, transmit electricity to consumers.

The principal function of NGCP is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("**Grid Code**"). The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or the National Transmission Corporation ("**TransCo**"); (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or the Philippine Electricity Market Corporation ("**PEMC**"). These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

***PSAs are subject to approval of the ERC.***

PSAs entered into by members of the Group and a distribution utility or electric cooperative are subject to the approval of the ERC. The ERC governs the approval process for Power Supply Agreement ("**PSA**") between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures for Applications for Approval of Power Supply Contract other than those covered by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, Series of 2005). Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake, fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

There is no assurance that the PSAs of the Group will continue to be approved by the ERC on a timely manner or at all. In case of delay, the Group may have difficulty obtaining project financing for such projects as lenders may deem the lack of approval of a PSA as a factor against the bankability of a project. The lack of financing may lead to delays in the project which may materially and adversely affect the results of operations, financial condition and prospects of the Group.

The Group intends to manage such risks through regular coordination with the ERC and its counterparty distribution utility or electric cooperative, and through other contractual or sponsor type support if needed for the project financing.

***The Group may be unable to implement its investment and acquisition growth strategy in the energy sector.***

The Group may not be able to successfully implement its investment and acquisition growth strategy, and expand its portfolio of power projects, or make potential or future acquisitions or investments on favorable terms or within a desired time frame. As of the date of this Prospectus, certain members of the Group are developing or expanding multiple power projects in the Philippines and Iraq. See "*Description of the Group's Energy Business*" for further information.

The success in implementing the investment and acquisition growth strategy of the Group in the energy sector will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies, its ability to manage construction of planned projects within technical, cost and timing specifications, its ability to control costs and maintain sufficient operational, financial and internal controls, the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

Further, acquisitions and investments involve numerous risks, including, without limitation, the following: (a) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (b) the Group may not be able to integrate energy businesses, technologies, products, personnel, and operations effectively or maintain good relations with its joint venture partners; (c) the Group may fail to retain key employees, customers and suppliers of the companies it intends to acquire; (d) the Group may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (e) certain members of the Group may increase their indebtedness to finance their investments or acquisitions. As a result, it is possible that the expected benefits of completed, potential or future acquisitions and investments may not materialize within the time periods or to the extent anticipated or affect the Group's financial condition. The impact on the Group of any potential or future acquisitions or investments in the energy business cannot be fully predicted and any of the risks outlined above, should they materialize, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. See also "*Description of the Group's Energy Business*."

The Group believes that it is able to manage the foregoing risks through the Issuer's senior management team's experience and the support of the Razon Group of Companies' network and experience in mergers and acquisitions and project development. The Issuer's senior management team is composed of members who have years of experience in the relevant industries that the Group engages in and have the track record to support the rapid expansion of the Group. See the following for additional details: "*Description of the Issuer and the Group—Competitive Strengths—Leveraging on the solid track record of the Issuer's senior management team's agile and forward thinking*," "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" "*Description of the Issuer and the Group—Competitive Strengths—The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure*," "*Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience*," and "*Description of the Issuer and the Group—Business Strategies—Leverage on the existing global network of the Razon Group of Companies for international expansion*."

## RISKS RELATING TO THE POTENTIAL ACQUISITION OF THE MALAMPAYA GAS FIELD

***There is no assurance that the SPEX Sale will be completed, or that the transition of SPEX's operations to the Group will be successful.***

Prime Exploration Pte. Ltd. ("**Prime Exploration**"), an indirect subsidiary of the Issuer, entered into a share purchase agreement dated July 28, 2022 ("**MEXP SPA**") with Malampaya Holdings Singapore Pte. Ltd. ("**Malampaya Holdings**"), a wholly-owned subsidiary of Udenna Corporation, and acquired all of the outstanding shares of MEXP Holding Pte. Ltd. ("**MHPL**"). MHPL owns all of the issued and outstanding shares of Malampaya Energy XP Pte. Ltd. ("**MEXP**"). MEXP had previously executed a share purchase agreement where it would acquire 100% of the shares of Shell Philippines Exploration B. V. ("**SPEX**") from Shell Petroleum NV ("**Shell**"), subject to certain conditions precedent (the "**SPEX Sale**"). SPEX is the operator of, and owns a, 45% interest in Service Contract No. 38 ("**SC38**") for the Malampaya project. The SPEX Sale is subject to the consent of PNOC-EC and the DOE, among other conditions precedent. However, there is no assurance when such conditions precedent will be satisfied, or if such conditions precedent shall be satisfied at all. In addition, the Government may attach conditions to such consents, the nature and impact of which is unknown as of the date of this Prospectus. There is also no assurance that the SPEX Sale will not be subject to any other regulatory inquiry.

The Group has also had no experience in operating natural gas fields in the past and there is no assurance that the Group will be able to successfully operate SPEX if the SPEX Sale is completed. MEXP has entered into a transition arrangement with Shell International B.V. during the pre-completion period of the SPEX Sale to prepare for a change of control in SPEX and to ensure the business continuity of SPEX upon completion, which arrangement includes the formation of a transition team to take over operations within 60 to 90 days after the completion of the SPEX Sale. MEXP also intends to retain the support of oil and gas experts, SPEX's existing service providers, and a majority of the talent of SPEX. In addition, the Company has appointed Mr. Sebastian Quiniones, the former general manager and managing director of SPEX, to be the general manager of Prime Exploration. However, there can be no assurance that the Group will not face operational challenges post-completion of the SPEX Sale. See "*Risks Relating to the Issuer and the Group—The Group's ability to grow its revenues in the future will depend, in part, on its ability to acquire additional companies or additional stakes in existing component companies, —The Issuer faces risks associated with inorganic growth through acquisitions and may experience difficulties managing its growth and the impact of acquisitions and investments could be less favorable than anticipated, —Failure to obtain financing on reasonable terms or at all could affect the execution of the Group's growth strategies and increased debt financing may have a material adverse effect on the Group.*"

***The success of SPEX depends on the amount of natural gas reserves that are economically recoverable.***

SPEX owns or has access to a finite amount of gas reserves which will be depleted over time. The expiry date of SC38 is on February 23, 2024, renewable for a period not exceeding 15 years under such terms and conditions as may be granted upon the parties to SC38 at the time of renewal. There is no assurance that any such terms and conditions or new arrangements would be satisfactory to SPEX. The DOE has not granted an extension as of the date of this Prospectus, and the Company believes that discussions are still ongoing in respect of SC38. There is no assurance that SC38 will be extended. Further, even if SC38 is extended, based on news reports relating to SC38, there is a risk that the current operating wells will cease to be commercially viable in or after 2027 if no new investments are made in the form of well rejuvenation and infill drilling within the service area of SC38. Any exploration beyond the SC38 service area will require a new service contract.

The potential extension of the SC38 license may also be subject to certain conditions such as forward drilling plans and capital commitments, additional decommissioning expenses or procedures, different tax and royalty systems than in the past, requirements to post security, and other financial or other conditions. Therefore, until such conditions are satisfied, there can be no assurance that the Malampaya project will be economically viable.

Replacement of oil and gas production and reserves, including proved undeveloped reserves, is subject to successful exploration drilling, development activities, and enhanced recovery programs. Therefore, future oil and gas production is dependent on technical success in finding and developing additional hydrocarbon reserves. Exploration activity involves the interpretation of seismic and other geological and geophysical data, which does not always successfully predict the presence of commercial quantities of hydrocarbons. Drilling risks include unexpected adverse conditions, irregularities in pressure or formations, equipment failure, blowouts and weather interruptions. Future developments may be affected by unforeseen reservoir conditions which negatively affect recovery factors or flow rates. The costs of drilling and development activities have increased in recent years which could negatively affect expected economic returns. Reserve replacement can also be achieved through acquisition. Similar risks, however, may be encountered in the production of oil and gas on properties acquired from others. In addition to the technical risks to reserve replacement, replacing reserves and developing future production is also influenced by the price of crude oil and natural gas. Persistent lower crude oil and natural gas prices may have the effect of reducing capital available for exploration and development activity and may render certain development projects uneconomic or delay their completion and may result in negative revisions to existing reserves.

In addition, there is no assurance that the existing gas sale and purchase agreements of SPEX will be extended in the event of any extension of the license of SC38, or that SPEX will be able to enter into any new gas sale and purchase agreement. SPEX may also be liable for undelivered but paid gas under take-or-pay provisions of certain of its gas sale and purchase agreements.

If SPEX is unable to extend the license of SC38, or extract new resources from infill drillings or well rejuvenation within the SC38 area, or, in the event of the extension of the license of SC38, to extend existing or enter into new gas sale and purchase agreements, SPEX's financial condition, results of operations and prospects will be materially and adversely affected.

***SPEX faces competition from other industries and companies within the same industry in respect of talent retention.***

The nature of SPEX's operations requires the retention of highly skilled employees. SPEX faces competition for talent from other energy companies, including renewable energy companies and other companies in the oil and gas industry. SPEX's competitors may offer increased compensation packages and other benefits. SPEX will have to incur additional expenses in order to match or exceed such offers. Further, the pending renewal of the SC38 license may also raise job security issues for SPEX's employees, and result in certain employees of SPEX to seek other job opportunities. Any inability of SPEX to retain or hire skilled labor due to shortages in the market for skilled labor in the Philippines or elsewhere may have a material adverse effect on its business, financial condition, results of operations and prospects.

***If the SPEX Sale is completed, the presentation of financial information in this Prospectus may be of limited use to investors and may not accurately show the Group's financial position or be indicative of future results.***

The presentation of financial information in this Prospectus comprises historical consolidated financial information of the Group as of and for the years ended December 31, 2021, 2020, 2019 and 2018 and as of June 30, 2022 and for the six months ended June 30, 2022 and 2021. If the SPEX Sale is completed, the historical financial information presented may be of limited used to investors moving forward. The consolidation of SPEX in the Group may result in significant impact on the Group's level of assets and liabilities, profit and loss statements, and future results of operations. No pro forma financial statements giving effect to such potential acquisition has been included in this Prospectus. See also "*The presentation of financial information in this Prospectus may be of limited use to investors and may not be indicative of future results.*"

***SPEX is exposed to macroeconomic risks including fluctuating prices of natural gas and oil products.***

Prices for crude oil and natural gas can fluctuate widely. Among the factors that can or could cause these price fluctuations are: i) the level of consumer demand, ii) domestic and worldwide supplies of crude oil and natural gas, iii) the price and quantity of imported and exported crude oil and natural gas, iv) domestic and international drilling activity, v) the actions of other crude oil exporting nations, including the Organization of Petroleum Exporting Countries, vi) weather conditions and changes in weather patterns, vii) the availability, proximity and capacity of appropriate transportation facilities, gathering, processing and compression facilities and refining facilities, viii) worldwide economic and political conditions, including political instability or armed conflict in oil and gas producing regions, ix) the price and availability of, and demand for, competing energy sources, including alternative energy sources, x) the nature and extent of governmental regulation, including environmental regulation, regulation of derivatives transactions and hedging activities, tax laws and regulations and laws and regulations with respect to the import and export of crude oil, natural gas and related commodities, xi) the level and effect of trading in commodity futures markets, including trading by commodity price speculators and others and xii) the effect of worldwide energy conservation measures. SPEX's cash flows and results of operations depend to a great extent on the prevailing prices for crude oil and natural gas. Prolonged or substantial declines in crude oil and/or natural gas prices may materially and adversely affect SPEX's liquidity, the amount of cash flows SPEX has available for its capital expenditures and other operating expenses, SPEX's ability to access the credit and capital markets and SPEX's results of operations. Lower crude oil and/or natural gas prices may also reduce the amount of natural gas that SPEX can produce economically. Substantial declines in crude oil and/or natural gas prices may render uneconomic a significant portion of SPEX's exploration, development and exploitation projects, which may result in SPEX having to make significant downward adjustments to its estimated proved reserves. As a result, a prolonged or substantial decline in crude oil and/or natural gas prices may materially and adversely affect SPEX's future business, financial condition, results of operations, liquidity and ability to finance capital expenditures. In addition, if SPEX expects or experiences significant sustained decreases in natural gas prices such that the expected future cash flows from its natural gas properties fall below the net book value of SPEX's properties, SPEX may be required to write down the value of its natural gas properties. Any such asset impairments could materially and adversely affect SPEX's results of operations. Further, any adverse impact on SPEX's liquidity or expected cash flows may also materially and adversely affect the ability of the Group to pay any contingent or scheduled payments in the SPEX SPA or MEXP SPA or any debt repayment under the senior or mezzanine facilities entered into in respect of the SPEX Sale.

***The nature of the operations of SPEX exposes it, and the communities in which it operates, to a wide range of health, safety, security and environment risks.***

The health, safety, security and environment ("**HSSE**") risks to which SPEX, and the communities in which SPEX operates, are potentially exposed, cover a wide spectrum given the geographic area, operational diversity and technical complexity of SPEX's operations. If a major risk materializes, such as an explosion or hydrocarbon spill, such event could result in injuries, loss of life, environmental harm, disruption of business activities and loss or suspension of SPEX's license to operate or ability to bid on mineral rights. Such event would have a material adverse effect on SPEX's earnings, cash flows, and financial condition.

In particular, SPEX's operations are subject to hazards and risks inherent in the drilling, production, and transportation of natural gas, including: i) well blowouts, explosions, and cratering, ii) pipeline or other facility ruptures and spills, iii) fires, iv) formations with abnormal pressures, v) equipment malfunctions, vi) typhoons, storms, and/or cyclone, and other natural disasters and weather conditions and vii) surface spillage and surface or ground water contamination, saltwater, or hydraulic fracturing chemical additives. Failure or loss of equipment as the result of equipment malfunctions, cyber-attacks, or natural disasters such as typhoons, could result in property damages, personal injury, environmental pollution and other damages for which SPEX could be liable. Litigation arising from a catastrophic occurrence, such as a well blowout, explosion, or fire at a location where SPEX's equipment and services are used may result in substantial claims for damages. Ineffective containment of a drilling well blowout or pipeline rupture, or surface spillage and surface or ground water contamination could result in extensive environmental pollution and substantial remediation expenses. If a significant amount of SPEX's production is interrupted, SPEX's containment efforts prove to be ineffective or litigation arises as the result of a catastrophic occurrence, SPEX's cash flows, and, in turn, SPEX's results of operations could be materially and adversely affected.

The SC38 consortium, comprising SPEX, UC38 LLC (formerly Chevron Malampaya LLC) and PNOC-EC (the "**SC38 Consortium**"), may also be liable for decommissioning costs and other liabilities or commitments in connection with the Malampaya field under SC38.

***SPEX's operations are subject to extensive regulation.***

SPEX's operations are subject to extensive HSSE regulatory requirements that often change and are likely to become stringent over time. SPEX could incur significant additional costs in the future due to compliance with these requirements or as a result of violations of, or liabilities under, laws and regulations, such as fines, penalties, clean-up costs, third-party claims, or priority in gas allocations, which, in turn, could have a material adverse effect on the earnings, cash flows and financial condition of SPEX.

SPEX's operations require numerous permits and authorizations under various laws and regulations, including environmental and health and safety laws. These authorizations and permits are subject to revocation, renewal or modification and can require operational changes that may involve significant costs, to limit impacts or potential impacts on the environment, health and safety. A violation of these authorization or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions and/or shutdowns. In addition, major modifications of SPEX's operations could require modifications to its existing permits or expensive upgrades to its existing pollution control equipment that could have a material adverse effect on its business, financial condition, results of operations and cash flows.

SPEX may also be required by regulators to prioritize allocation of natural gas to certain facilities. For example, based on news reports, the PNOC-EC has said that SPEX has been required by regulators to resume the supply and maintain the allocation of the natural gas minimum daily contract quantity of banked gas to the Ilijan facility.

***SPEX's operations are subject to cybersecurity risks***

The scope and nature of SPEX's operations present a variety of significant hazards and risks, including cyber-attacks. SPEX's technologies, systems and networks may be subject to cybersecurity breaches. If SPEX's systems for protecting against cybersecurity risks prove to be insufficient, SPEX could be adversely affected by having its business systems compromised, its proprietary information altered, lost or stolen, or its business operations disrupted. As cyber-attacks continue to evolve, SPEX may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information systems and related infrastructure security vulnerabilities.

***SPEX is exposed to credit risk.***

The counterparties of SPEX could fail or could be unable to meet their payment and/or performance obligations under contractual arrangements. SPEX is exposed to risks of loss in the event of non-performance by its customers and by counterparties of gas sale and purchase agreements and by its suppliers. Some of the customers, counterparties and suppliers of SPEX may be highly leveraged and subject to their own operating and regulatory risks. The tightening of credit in the financial markets may make it more difficult for customers and counterparties to obtain financing and, depending on the degree to which it occurs, there may be a material increase in the non-payment and non-performance of SPEX's customers and counterparties. Even if SPEX's credit review and analysis mechanisms work properly, SPEX may experience financial losses in its dealings with other parties. Any increase in the non-payment or non-performance by SPEX's customers and/or counterparties and the non-performance by its suppliers could reduce its ability to make distributions to its immediate holding company. Additionally, SPEX's access to trade credit support could diminish and/or become more expensive. SPEX's ability to continue to receive sufficient trade credit on commercially acceptable terms could be adversely affected by fluctuations in natural gas prices or disruptions in the credit markets or for any other reason. Any of these events could adversely affect SPEX's financial condition, results of operations and ability to make distributions to its parent companies.

SPEX is also exposed to risk of financial loss from trade, joint venture, joint interest billing, and other receivables. SPEX sells its natural gas to a variety of purchasers. As operator, SPEX pays expenses and bills its non-operating partners for their respective shares of costs, which may include decommissioning expenses (should they exceed existing provisions). Some of SPEX's purchasers and non-operating partners may experience liquidity problems and may not be able to meet their financial obligations. Non-performance by a trade creditor or non-operating partner could result in significant financial losses.

***The nature of gas field operations may require substantial capital expenditure.***

SPEX may make substantial capital expenditures for the acquisition, exploration, development, production and transportation of crude oil and natural gas reserves. SPEX may finance such capital expenditures through cash flows from operations, borrowings under other uncommitted credit facilities and bank borrowings, borrowings and public and private equity and debt offerings. Lower crude oil and natural gas prices, however, reduce SPEX's cash flows. Further, if the condition of the credit and capital markets materially declines, SPEX might not be able to obtain financing on terms it considers acceptable, if at all. In addition, weakness and/or volatility in domestic and global financial markets or economic conditions may increase the interest rates that lenders require SPEX to pay and adversely affect its ability to finance its capital expenditures through equity or debt offerings or other borrowings. A reduction in SPEX's cash flows (for example, as a result of lower crude oil and natural gas prices or unanticipated well shut-ins) and the corresponding adverse effect on SPEX's financial condition and results of operations may also increase the interest rates that lenders require SPEX to pay. In addition, a substantial increase in interest rates would decrease SPEX's net cash flows available for reinvestment or for dividends. Any of these factors could have a material and adverse effect on SPEX's business, financial condition and results of operations.

***SPEX faces litigation risks, tax and regulatory disputes in the ordinary course of its business.***

In the ordinary course of business, claims and disputes involving SPEX, its employees, customers, and regulatory authorities may be brought against SPEX, and by SPEX in connection with its business. Claims may be brought against SPEX for breach of contract, law, or regulation, as well as claims relating to taxes, among others. If found to be liable, SPEX would have to incur a charge against earnings to the extent a reserve had not been established for the matter in its accounts, or to the extent the claims were not sufficiently covered by its insurance. SPEX has engaged, and may continue to engage in disputes with regulatory and local government authorities on tax-related matters in connection with its properties, business and operations.

The Government has also claimed through the Commission on Audit, alleged deficiencies of more than PhP140 billion representing the Government's share from 2002 to 2018 from the SC38 Consortium. The case is pending before the Philippine Supreme Court, and any adverse decision may materially and adversely affect the financial condition and results of operations of SPEX.

***Not all risks may be covered by insurance.***

SPEX's operations are subject to various hazards common to the industry, including explosions, fires, toxic emissions, maritime hazards, and natural catastrophes. As protection against these hazards, SPEX maintains insurance coverage against some, but not all, potential losses and liabilities. SPEX may not be able to maintain or obtain insurance of the type and amount SPEX desires at reasonable rates. As a result of market conditions, premiums and deductibles for certain of SPEX's insurance policies could increase substantially. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If SPEX were to incur a significant liability for which it were not fully insured, it could have a material adverse effect on SPEX's financial position, results of operations, and liquidity. There is no assurance that SPEX will be able to obtain the full amount of insurance coverage for insured events.

***SPEX is subject to risks related to exploration and drilling (including costs and productivity)***

Drilling crude oil and natural gas wells, including development wells, involves numerous risks, including the risk that SPEX may not encounter commercially productive crude oil and natural gas reserves (including "dry holes"). As a result, SPEX may not recover all or any portion of its investment in new wells. Specifically, there is uncertainty as to the future cost or timing of drilling, completing and operating wells, and if drilling operations are curtailed, delayed or canceled, the cost of such operations may increase and/or SPEX's results of operations and cash flows from such operations may be impacted, as a result of a variety of factors, including: i) unexpected drilling conditions, ii) title problems, iii) pressure or irregularities in formations, iv) equipment failures or accidents, v) adverse weather conditions, such as storms, flooding and typhoons, and changes in weather patterns, vi) compliance with, or changes in, environmental, health and safety laws and regulations relating to air emissions, hydraulic fracturing, access to and use of water, and disposal of produced water, drilling fluids and other wastes, laws and regulations imposing conditions or restrictions on drilling and completion operations and on the transportation of crude oil and natural gas, and other laws and regulations, such as tax laws and regulations, vii) the availability and timely issuance of required federal, state, tribal and other permits and licenses, which may be affected by (among other things) government shutdowns or other suspensions of, or delays in, government services, viii) the availability of, costs associated with and terms of contractual arrangements for properties, including mineral licenses and leases, pipelines, rail cars, crude oil hauling trucks and qualified drivers and facilities and equipment to gather, process, compress, transport and market crude oil, natural gas and related commodities and ix) the costs of, or shortages or delays in the availability of, drilling rigs, hydraulic fracturing services, pressure pumping equipment and supplies, tubular materials, water, sand, disposal facilities, qualified personnel and other necessary facilities, equipment, materials, supplies and services. SPEX's failure to recover its investment in wells, increases in the costs of drilling operations or those of its third-party operators, and/or curtailments, delays or cancellations of its drilling operations or those of its third-party operators in each case due to any of the above factors or other factors, may materially and adversely affect its business, financial condition and results of operations.

## RISKS RELATING TO THE GROUP'S CONSTRUCTION BUSINESS

***Prime BMD is reliant on the level of public and private investments in infrastructure in the Philippines and other jurisdictions in the South Pacific and South East Asia, and the availability of national construction projects.***

The Group's construction business is affected by the general level of activity and growth of the construction industry in the Philippines and other jurisdictions in the South Pacific and South East Asia. Factors that may influence the performance and growth of the construction industry include general national economic conditions, mortgage and interest rate levels, inflation, unemployment, demographic trends, health and safety protocols, gross domestic product growth and consumer confidence. Similarly, any significant reduction in a government's public budgets relating to infrastructure or the level of private sector spending infrastructure projects could have an adverse effect on the number and availability of public and private infrastructure construction projects. There can be no assurance that ongoing infrastructure projects will complete on schedule or within budget, and future infrastructure projects will be rolled out for bidding as planned. Further, there is also no assurance that the number of public and private sector projects will not decrease in the future. In the event of a decrease or slowdown in the level of public and private investments in large-scale infrastructure, or a decrease in the availability of national construction projects, Prime BMD's business and prospects may be adversely affected.

The Issuer believes that it is able to manage these risks relating to the Group's construction business by not being reliant on singly large infrastructure projects, and by focusing on core segments such as underground structures and those related to marine infrastructure (such as berths, wharfs, dredging work) and water infrastructure (such as weirs, dams, pumping stations, pipelines) that are less exposed to the strong competitive forces and cyclical trends found in other construction segments, such as for buildings and similar types of vertical construction structures. See also "*Description of the Issuer and the Group—Competitive Strengths—A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*," and "*Description of the Issuer and the Group—Competitive Strengths—Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth*."

***Prime BMD faces strong competition in the bidding process for large infrastructure projects from domestic and international players.***

Prime BMD has participated in various large infrastructure projects where the bidding process is very competitive and subject to evolving requirements during the bidding process. Prime BMD's existing and potential competitors include major domestic and foreign players, including leading construction companies from Asia, particularly China, and other parts of the world. Some of these competitors may have better track records, greater financial, human and other resources, larger sales networks and greater name recognition than Prime BMD. For example, in the Philippines, the AAAA license category for contractors issued by the Philippine Contractors Accreditation Board ("**PCAB**"), which, to date, is the highest classification and license category for a construction company, may result in increased competition from foreign players because this license category is open to contractors with more than 40% foreign equity or a 100% foreign-owned domestic corporation subject to certain conditions. The PCAB may also issue special licenses to foreign contractors for Government infrastructure projects subject to certain conditions. Such strong competitors could adversely affect Prime BMD's ability to bid for major projects and prevail in its bids. There is no assurance that Prime BMD will continue to be successful in obtaining future projects or that its competitors will not acquire new resources or implement improved strategies that increase their competitiveness against Prime BMD. In the event any of the foregoing occurs, there may be an adverse effect on Prime BMD's business and prospects.

The Issuer believes that Prime BMD is able to manage this risk through its track record in its markets, niche positioning in the construction industry through its ownership of specialized asset and ability to provide value to specific construction projects such as marine projects, bulk water, and government and general infrastructure, expected focus on and participation in heavy civil specialized projects such as those with an underground component in the scope of work, and proven capabilities in various construction projects across core segments in the Philippines, including via partnerships with major foreign players. For instance, Prime BMD has entered into joint venture partnerships with major foreign players for the construction of marine and dredging, tunneling, water treatment and power projects. See also "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally—Construction.*"

***If Prime BMD is unable to accurately estimate or control its costs or the scope of work it is required to perform, its profitability could be adversely affected.***

Many of Prime BMD's construction contracts require it to complete a project for a pre-agreed fixed price. Prime BMD is typically responsible for all its costs and its ability to make a profit on any project or product is largely dependent on its ability to effectively control these costs. Cost overruns may result in a lower profit or even a loss on a project. The amount of total costs Prime BMD incurs on a project is influenced by a variety of factors, including weather conditions, health and safety protocols, logistics, variations in labor and equipment productivity and costs over the term of a contract, changes in project scope or conditions and fluctuations in the price of raw materials and components, many of which are beyond Prime BMD's control. Increases in costs on any particular project, especially to the extent such increases were unforeseen and not factored into Prime BMD's price, may lead to lower than expected profits, or even losses, which could adversely affect its business, prospects, financial condition and results of operations.

The scope of work Prime BMD is required to perform in relation to a construction contract is also subject to change. Prime BMD's customers may require it to perform additional work or other variations pursuant to change orders, even if the customer has not agreed in advance on the scope or price of the work to be performed. While such change orders can be profitable, they can also result in disputes over whether the work performed is beyond the original scope of work, or over the price to be paid for such extra work. Even when a customer agrees to pay for the extra work, Prime BMD may be required to fund the cost of such work for a lengthy period of time until the change order is approved and funded by the customer in order to complete the project within the agreed timetable or to improve the quality of the works that Prime BMD has undertaken to perform and to avoid any damages that may occur due to unfavorable site or weather conditions. There is no assurance that Prime BMD will be able to recover its costs in full for additional work Prime BMD undertakes in its contracts, which may lead to business disputes or may otherwise adversely affect Prime BMD's business, financial condition, results of operations and prospects.

To manage this risk, Prime BMD's team of construction professionals closely monitors quality and cost control and construction progress, and reports regularly to Prime BMD's senior management team, which comprises highly skilled and dedicated professionals with an average of over 33 years of experience in the construction and real estate industry. Prime BMD has also adopted a prudent approach to financial management and cost control, and closely monitors its capital and cash positions. This approach includes the formation of a project control group to monitor cost control measures and the systematic implementation of 'look-back' evaluations of completed projects to measure and improve the accuracy of pre-contractual cost estimates. There can be no assurance, however, that cost control initiatives will be completely effective and that Prime BMD will not encounter any cost-related issues in the future.

***Prime BMD may encounter substantial cost increases, cost overruns or delays in connection with the future development of its infrastructure projects.***

Prime BMD will continue to incur design and construction costs, financing fees and other costs in connection with the continuous development of its infrastructure projects. There can be no assurance that Prime BMD's actual costs will not exceed the budgeted and projected costs, since such amounts may change for various reasons, such as substantial cost increases, cost overruns or delays caused by a number of factors, including shortages of, or price increases in, energy, raw materials or skilled labor, unforeseen environmental problems, contractor default or insolvency as well as difficulties in obtaining or inability to obtain any requisite licenses, approvals or permits from regulatory authorities. In particular, given the labor-intensive nature of the construction industry, particularly during certain stages of a project, Prime BMD regularly needs a large amount of manpower and engages external labor service companies to meet the labor demands of its projects. Any inability of Prime BMD to hire skilled labor due to shortages in the market for skilled labor in the Philippines or elsewhere may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

To manage this risk, Prime BMD's team of construction professionals closely monitors quality and cost control and construction progress, and reports regularly to Prime BMD's senior management team, which comprises highly skilled and dedicated professionals with an average of over 33 years of experience in the construction and real estate industry. Prime BMD has also adopted a prudent approach to financial management and cost control, and closely monitors its capital and cash positions. This approach includes the formation of a project control group to monitor cost control measures and the systematic implementation of 'look-back' evaluations of completed projects to measure and improve the accuracy of pre-contractual cost estimates. In addition, Prime BMD only engages high quality labor service companies which meet its specific standards and with whom it has established sound working relationships. Prime BMD requires its service providers to comply with all relevant labor laws and regulations. There can be no assurance, however, that cost control initiatives will be completely effective and that Prime BMD will not encounter any cost-related issues in the future.

***Prime BMD's operations depend on its ability to obtain an adequate supply of raw materials at acceptable prices and quality and in a timely manner.***

Prime BMD depends on its suppliers for raw materials, such as steel, cement, sand, ballast and timber, to be delivered in sufficient quantities, at acceptable prices and in a timely manner. For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, total cost of construction, including raw materials, accounted for 100.0%, 94.8%, 28.5%, 60.6% and 19.9% of the Group's cost of services, respectively. Raw materials, such as steel, have been subject to substantial price volatility and, from time to time, shortages of supply in the Philippines. Consistent with Prime BMD's established procurement practices, Prime BMD's project-specific supply contracts usually last only as long as the life of the individual project, and hence the terms of these contracts can range from one to five years. As such, during times of short supply or price hikes, Prime BMD may have to pay significantly higher prices to obtain sufficient raw materials or locate alternative suppliers. Prime BMD has not entered into any raw materials hedging contracts. Prime BMD also needs raw materials of acceptable quality to maintain the quality of its work.

Although Prime BMD generally does not maintain long-term contracts with its suppliers and typically engages them on a per project basis, Prime BMD has maintained long-standing relationships with a majority of its suppliers and vendors. The Issuer believes that Prime BMD further manages this risk by selecting its suppliers based on the quality of their products and services, the competitiveness of their prices and industry reputation. Prime BMD sources raw materials through a centralized purchasing function and place mass orders of raw materials, which helps lower costs and standardize the materials used for the construction of each project. Despite these factors, any failure to obtain adequate raw materials, or failure to do so on commercially acceptable terms and in a timely manner, could interfere with Prime BMD's operations and adversely affect its business, prospects, financial condition and results of operations.

***Prime BMD's business, financial condition and results of operations may be affected by adverse weather conditions and natural disasters.***

Adverse weather conditions, such as typhoons, flooding and heavy or sustained rainfall and natural disasters such as earthquakes, landslides or mudslides, may prevent Prime BMD from conducting its construction activities or otherwise affect its productivity, preventing Prime BMD from completing its construction projects on schedule, delaying payments, and possibly causing Prime BMD to incur increased operating expenses. Unusually severe, intense or non-seasonal weather conditions could therefore have an adverse effect on Prime BMD's business, prospects, financial condition and results of operations.

To manage this risk, Prime BMD's construction contracts typically permit it to claim for extensions of time for delays suffered as a result of force majeure events. Prime BMD also purchases insurance in line with industry practice that covers damage to property arising from weather conditions and other customarily insured risks. However, Prime BMD typically will take the risk of site conditions and will not normally receive full compensation and will bear some portion of the losses. In addition, Prime BMD implements construction schedules in the Philippines with a greater number of shifts during the dry season to avoid interruptions due to adverse weather conditions.

***Injury or damages to third parties may arise from construction accidents.***

Risk related to injuries or damages to third parties arising from construction accidents is inherent in the construction business. Third parties may claim for damages from Prime BMD in the event of accidents during construction, resulting in higher costs of construction and an adverse effect on Prime BMD's reputation. Although Prime BMD requires its sub-contractors to comply with safety and health policies in its contracts, there can be no assurance that Prime BMD's sub-contractors will adhere to these safety provisions at all times. Prime BMD may also be subject to claims from customers or other third parties, resulting from the subsequent use of facilities and products Prime BMD has constructed. If Prime BMD fails to adequately protect itself or third parties against these potential liabilities, Prime BMD could incur substantial costs, which could have an adverse effect on its business, prospects, financial condition and results of operations. Furthermore, any harm caused to third parties due to its operations could damage our reputation and relationship with regulators and other customers, which may hinder our chances to win tenders for new projects.

As a policy to manage this risk, Prime BMD requires and upholds high construction safety standards within its project construction teams, in line with those set by reputable industry organizations, and Prime BMD purchases construction all-risk and third-party liability insurance for the projects it undertakes. Prime BMD also holds itself to the highest applicable safety standards and ensures all of its personnel, and requires all of its sub-contractors' personnel, to comply with such safety standards through consistent training, supervision and monitoring. Nonetheless, due to the nature of the construction business, there can be no assurance that work-related accidents, injuries or damages to third parties and subsequent claims for damages would not occur.

***Prime BMD is required to obtain various licenses for its construction business, which might not be approved or renewed on time, if at all, by the appropriate authorities.***

Prime BMD is required to obtain and maintain various licenses in relation to its construction activities, which include among others, a contractor's license from the PCAB, environmental permits, and building permits and licenses. Prime BMD cannot be certain, however, that any given license, permit or authorization would be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such license, permit or authorization. There can also be no assurance that Prime BMD will continue to be able to renew such necessary licenses, permits and other authorizations for its business. If Prime BMD fails to comply with any of the regulations required for the maintenance of its permits and licenses, its permits and licenses could be temporarily suspended or even revoked, or the renewal of its licenses upon expiry may be delayed, which would directly impact its business and operations.

Prime BMD's management team, however, has a deep understanding of the relevant regulations and is experienced in the approval processes associated with its projects. Prime BMD has also instituted a dedicated internal group whose function is to oversee and administer applications for, and maintenance of, its permits and licenses.

***Construction defects and other building-related claims may be asserted against Prime BMD.***

As contractors of construction works, Prime BMD is subject to potential liability under Philippine and other laws. Generally, Philippine laws provide that engineers and architects must warrant the structural integrity of buildings that were designed or built by them for a period of 15 years from the date of completion, and that they shall be liable for damages should the buildings collapse by reason of a defect in the plans and specifications, or due to the defects in the ground. Furthermore, a contractor is likewise responsible for damages if the edifice falls, within the same period, on account of construction defects or the use of materials of inferior quality, or due to any violation of the terms of the relevant construction contract. In addition, Prime BMD is bound by Republic Act No. 6541, as amended, or the National Building Code of the Philippines (the "**Building Code**") as well as the rules and regulations of the Construction Industry Authority of the Philippines ("**CIAP**"). Any violation of the Building Code or the issuances of the CIAP may subject us to administrative fines or criminal penalties.

There can be no assurance that Prime BMD will not be held liable for damages, the cost of repairs, and/or the expense of litigation arising from or in connection with possible claims, or that claims will not arise from uninsurable events, such as landslides or earthquakes, or circumstances not covered by Prime BMD's insurance policies and not subject to effective indemnification agreements with Prime BMD's sub-contractors. In addition, there can be no assurance that the sub-contractors hired by Prime BMD will be able to discover and correct any hidden defects in project sites.

In order to manage the foregoing risk, Prime BMD enters into strategic partnerships with engineering design firms that have comprehensive professional liability insurance coverage and with strong reputations in their respective fields; and, Prime BMD has implemented and maintains a comprehensive management and supervision system to assist its management to exercise appropriate oversight and control over every stage of a project's lifecycle, including project implementation, labor management, raw materials monitoring, quality control and compliance/certification. Historically, Prime BMD has not had significant construction defects claims asserted against it. However, any construction or building-related litigation asserted against Prime BMD may have an adverse effect on its reputation, business, prospects, financial condition and results of operations.

***Prime BMD relies on sub-contractors to provide certain construction services that may not meet its requirements for quality, and the failure of these service providers to adhere to and perform contractual obligations may adversely affect Prime BMD's business.***

Prime BMD relies on sub-contractors to provide operational support in its construction endeavors. Prime BMD generally selects its third-party vendors and suppliers by conducting tenders and entering into contractual agreements with these third parties. However, Prime BMD's ability to control such third-party's performance is limited. Although there can be no assurance that the services rendered by any of Prime BMD's sub-contractors will always be satisfactory or match Prime BMD's requirements for quality, the Issuer believes that Prime BMD is able to manage this risk by taking into consideration factors such as the relevant experience and track record of sub-contractors (including such sub-contractors' financial condition and solvency) in the tendering process. Prime BMD also continues to actively supervise the construction of its projects, which includes monitoring the activities and key milestones that need to be achieved by its third-party suppliers or vendors. Failure by a sub-contractor to perform in accordance with the terms of Prime BMD's contracts with project companies or sponsors could disrupt or delay the completion or operations of the relevant project, result in liquidated damages against Prime BMD, and materially and adversely affect Prime BMD's business, prospects, financial condition and results of operations.

***A substantial percentage of Prime BMD's revenue is sourced from projects developed by related parties.***

For the year ended December 31, 2021 and for the six months ended June 30, 2022, 72.0% and 80.9% of Prime BMD's revenue was generated through construction contracts for projects owned by related parties, respectively, and in particular members of the Razon Group of Companies. These projects include the construction of Solaire North's base build, the expansion of Manila International Container Terminal ("**MICT**") Berth 7, the development of the Cabading Reservoir, and the construction of the Tayabasan Weir and Upper Wawa Dam pumping station and conveyance system, each owned or developed by Sureste Properties Inc., International Container Terminal Services, Inc. ("**ICTSI**"), Manila Water and WawaJVCo, respectively. The interests of the Razon Group of Companies in these project or sponsor companies may not be aligned with the interest of the other shareholders of the Issuer. Further, in the event that any of these project or sponsor companies reduce expansion, infrastructure or construction activities or if Prime BMD is not able to quickly expand its client base, Prime BMD's financial condition, business, prospects and results of operations may be adversely affected.

To manage these risks, the Issuer and Prime BMD follow related party transaction principles and ensure that any construction contract Prime BMD enters into with members of the Razon Group of Companies is on an arm's length basis and awarded only after undergoing a competitive selection process where Prime BMD is one of several bidders. With respect to Prime BMD, its contracts with related parties have to be approved by a nominee director of Prime BMD that sits on the Prime BMD board.

Further, Prime BMD plans to manage the foregoing concentration risk by diversifying its customer base and increasing the number of construction contracts entered into with third parties.

## RISKS RELATING TO THE GROUP'S WASTE AND SUSTAINABLE FUELS BUSINESS

***Prime Integrated Waste Solutions and WasteFuel Philippines have no prior operating history which makes it difficult to evaluate their current business and future prospects.***

The Issuer and WasteFuel Global LLC ("**WasteFuel Global**") have established WasteFuel Philippines to develop and implement waste-to-fuel solutions, including the conversion of municipal waste into biofuels, in the Philippines. WasteFuel Philippines was incorporated on May 10, 2021 and, as of the date of this Prospectus, has no prior operating history. In addition, WasteFuel Philippines' business strategy relies on the development of a facility to convert municipal waste into sustainable fuel and, as of the date of this Prospectus, such a facility would be the first of its kind that WasteFuel Global has been involved in. The Issuer, through Prime Infrastructure, has established Prime Integrated Waste Solutions to implement waste and sustainable fuels and landfill solutions for municipal waste and to supply waste to WasteFuel Philippines. Prime Integrated Waste Solutions was incorporated on May 12, 2022 and, as of the date of this Prospectus, has no prior operating history. The foregoing absence of operational track records makes it difficult to accurately assess WasteFuel Philippines and Prime Integrated Waste Solutions' future prospects. Investors should consider the future prospects of both entities in light of the challenges and uncertainties that they face, including the fact that it may not be possible to discern fully the trends that they are subject to, and that elements of their business strategy are new to the Philippines and subject to ongoing development. WasteFuel Philippines and Prime Integrated Waste Solutions will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increasing and unforeseen expenses as they grow their business. If they do not manage these risks successfully, the Group's business, financial condition, results of operations, cash flows and prospects will be harmed.

The Group believes that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to manage the foregoing risks through the support of WasteFuel Global which has prior experience in designing and implementing waste-to-fuel projects. WasteFuel Philippines' future success will depend in part upon its ability to integrate and adopt technology used by WasteFuel Global to establish, develop and maintain operations, and to promote its brand.

***Prime Integrated Waste Solutions and WasteFuel Philippines' operations will be subject to numerous national and local laws and regulations, including safety, health and environmental laws and regulations. WasteFuel Philippines may fail to fulfill the terms and conditions of licenses, permits and other authorizations, or may fail to renew them on expiration.***

Prime Integrated Waste Solutions' and WasteFuel Philippines' operations will be subject to a number of national and local laws and regulations, including safety, health and environmental laws and regulations, such as the Philippine Clean Air Act of 1999, the Philippine Clean Water Act, the Ecological Solid Waste Management Act of 2000, the Wildlife Resources Conservation and Protection Act, among others, as well as various local zoning ordinances. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of facilities, employee exposure to hazardous substances, site clean-up, groundwater quality and availability, plant and wildlife protection, and other anticipated aspects of the operations of the business of Prime Integrated Waste Solutions and WasteFuel Philippines. In addition, Prime Integrated Waste Solutions and WasteFuel Philippines will be required to maintain business licenses, permits and other authorizations, and will also be required to obtain and renew various permits, including business permits and permits concerning, for example, health and safety, environmental standards. Such licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. Failure to comply with relevant laws and regulations, or to meet the terms and conditions of any of the respective licenses, permits or other authorizations necessary for Prime Integrated Waste Solutions' and WasteFuel Philippines' operations may result in monetary penalties or administrative or legal proceedings against Prime Integrated Waste Solutions or WasteFuel Philippines, which may cause or result in the termination or suspension of the licenses or operation of their project sites or facilities, or other adverse consequences. In addition, there is no certainty that any given license, permit or authorization will be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such license, permit or authorization.

There can be no assurance that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to obtain or renew the necessary licenses, permits and other authorizations for their operations as necessary or that such licenses, permits and other authorizations will not be revoked. Prime Integrated Waste Solutions or WasteFuel Philippines' failure to obtain, maintain, or renew, material licenses, permits and certifications could have an adverse effect on the Group's business, prospects, financial condition and results of operations, or otherwise subject the Group to the payment of fines or charges imposed by the relevant government authorities.

To manage these risks, the Group believes that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to rely on the support and prior experience of the Issuer's senior management in operating businesses in heavily regulated industries in the Philippines and in other emerging markets. In particular, the Group believes that its investments in the waste and sustainable fuels and waste-to-fuel sector align with its strength in investing in and operating businesses in industrial sectors which are heavily regulated by government entities. See also "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally—Waste and Sustainable Fuels*."

***Waste management contracts with local government units in the Philippines are renewed annually.***

Prime Integrated Waste Solutions' business strategy depends on entering into contracts with local government units in the Philippines ("**LGUs**") for the provision of waste management services, which include the collection, segregation, storage, transportation, marketing and disposal of municipal waste and recyclable materials. LGUs typically enter into contracts with fixed terms of one year with waste management businesses for the provision of such services. WasteFuel Philippines intends to enter into offtake agreements with customers for its sale of sustainable fuel, and expects to rely on a steady and continuous supply of waste materials from Prime Integrated Waste Solutions. There can be no assurance that Prime Integrated Waste Solutions will be able to obtain or renew annual contracts with LGUs on a timely basis or that LGUs will not enter into such contracts with competitors instead of Prime Integrated Waste Solutions. As such, any such occurrences could disrupt the business of Prime Integrated Waste Solutions, interrupt the supply of waste from Prime Integrated Waste Solutions to WasteFuel Philippines, produce a durational mismatch between the terms of Prime Integrated Waste Solutions' waste management contracts and WasteFuel Philippines' offtake agreements, reduce the Group's profitability and adversely affect the Group's results of operations and financial condition.

To manage these risks, the Group believes that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to rely on the support and prior experience of the Issuer's senior management in operating businesses in heavily regulated industries in the Philippines and in other emerging markets. In particular, the Group believes that its investments in the waste and sustainable fuels and waste-to-fuel sector align with its strength in investing in and operating businesses in industrial sectors which are heavily regulated by government entities. In addition, WasteFuel Philippines intends to negotiate offtake agreements which minimize the duration gap between its obligations for the sale of low-carbon fuel and its supply agreements with Prime Integrated Waste Solutions for the provision of waste materials. Further, WasteFuel Philippines plans to mine and source waste materials from suppliers other than just Prime Integrated Waste Solutions, including from old landfill sites. See also "*Description of the Group's Waste and Sustainable Fuels Business—Projects*."

***Prime Integrated Waste Solutions and WasteFuel Philippines' vendor relationships subject them to a variety of risks, including the failure of third parties to comply with legal or regulatory requirements or provide services that are important to the Group's operations.***

The Group anticipates that Prime Integrated Waste Solutions and WasteFuel Philippines will rely on significant third-party vendors to provide equipment, technology, technical expertise and other services to support the Group's waste and sustainable fuels businesses, including, for example, the provision to Prime Integrated Waste Solutions of appropriate equipment and technology for the segregation of municipal waste and the provision of technology solutions to WasteFuel Philippines for the waste-to-fuel conversion process. Accordingly, the Group could be adversely impacted to the extent such vendors fail to comply with the legal requirements applicable to the particular products or services being offered. In addition, if any vendor fails to provide the products, services or technology solutions that the Group requires, fails to meet contractual requirements (including compliance with applicable laws and regulations), fails to maintain adequate data privacy controls and electronic security systems, or suffers a cyber-attack or other security breach, the Group could be subject to regulatory enforcement actions, claims from third parties, including the Group's customers, and suffer economic and reputational harm that could have an adverse effect on the Group's business. Furthermore, the Group may incur significant costs to resolve any such disruptions in service, which could adversely affect the Group's business.

To manage these risks, the Group believes that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to rely on the prior experience of the Group developing infrastructure projects with, and relying on the technical expertise of, third-party vendors for its businesses in other industrial sectors. In addition, WasteFuel

Philippines intends to enter into perpetual or long-duration license agreements with third-party vendors who provide their technology solutions for use in WasteFuel Philippines' waste-to-fuel conversion facility. See also "*Description of the Issuer and the Group—Competitive Strengths—Waste and Sustainable Fuel*."

***Prime Integrated Waste Solutions and WasteFuel Philippines may face challenges in successfully implementing their growth strategy and the impact of acquisitions and investments could be less favorable than anticipated.***

Implementing the growth strategy of Prime Integrated Waste Solutions involves: (i) substantial investments in new waste and sustainable fuels equipment and facilities and landfill sites; (ii) entering into service agreements with LGUs; (iii) acquiring existing businesses in the waste management industry; (iv) developing scalable solutions to segregate waste and to produce appropriate waste materials for conversion into biofuels; and (v) targeting new customers.

Implementing the growth strategy of WasteFuel Philippines involves: (i) substantial investments in new biofuel generation facilities; (ii) entering into alliances with strategic partners; (iii) developing scalable technologies to produce sustainable fuels using municipal waste; and (iv) targeting new customers.

The success in implementing the strategy of Prime Integrated Waste Solutions and WasteFuel Philippines will depend on, among other things, their ability to identify and assess investment and acquisition opportunities as well as potential partners, their ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of biofuels, their ability to manage construction of planned greenfield projects within technical, cost and timing specifications, their ability to control costs and maintain sufficient operational, financial and internal controls, the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

Further, acquisitions and investments involve numerous risks, including, without limitation, the following: (a) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (b) Prime Integrated Waste Solutions and WasteFuel Philippines may not be able to integrate acquired waste management businesses, technologies, products, personnel, and operations effectively; (c) Prime Integrated Waste Solutions may fail to retain key employees, customers and suppliers of the companies it intends to acquire; (d) Prime Integrated Waste Solutions may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (e) Prime Integrated Waste Solutions and WasteFuel Philippines may increase their indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions and investments may not materialize within the time periods or to the extent anticipated or affect the Group's financial condition. The impact on the Group of any future acquisitions or investments in the waste and sustainable fuels business cannot be fully predicted and any of the risks outlined above, should they materialize, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

If general economic and regulatory conditions or market and competitive conditions change, if their feasibility studies do not yield appropriate conclusions, if operations do not generate sufficient funds or if other unexpected events occur, Prime Integrated Waste Solutions, and WasteFuel Philippines may decide to delay, modify or forego some of their planned or contemplated projects or alter aspects of their growth strategy, and their future growth prospects could be materially and adversely affected. For example, evolution or changes in technology relating to biofuel production or the understanding of the environmental impact of biofuel production processes involving the conversion of waste may lead to changes in Prime Integrated Waste Solutions' and WasteFuel Philippines' respective growth strategy.

The growth strategies of Prime Integrated Waste Solutions and WasteFuel Philippines may also place significant demands on their management, and financial and other resources. In particular, commencement of operations will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving their internal administrative infrastructure. Any inability to meet these challenges could disrupt the business of Prime Integrated Waste Solutions and WasteFuel Philippines, reduce their profitability and adversely affect the Group's results of operations and financial condition.

To manage these risks, the Group believes that Prime Integrated Waste Solutions and WasteFuel Philippines will be able to rely on the support and prior experience of the Issuer's senior management in operating businesses in heavily regulated industries in the Philippines and in other emerging markets. In addition, WasteFuel Philippines will rely on the support of WasteFuel Global's strategic partners for its development of strong and stable relationships with potential aviation fuel customers. See "*Description of the Issuer and the Group—Competitive Strengths—Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally,*" *"Description of the Issuer and the Group—Competitive Strengths—Led by a reputable and experienced board and management team with decades of industry experience*,*"* "*Description of the Issuer and the Group—Business Strategies—Focus on regulated markets*" and "*Description of the Group's Waste and Sustainable Fuels Business – Overview and Structure*."

## RISKS RELATING TO THE PHILIPPINES

Risks relating to the Philippines are systemic in nature and outside the Group's control. However, the Group intends to continue to maintain appropriate financial and operational controls and policies within the context of the prevailing business, economic and political environment taking into consideration the interests of its shareholders, customers, and other stakeholders.

***A substantial part of the Group's business activities are conducted in the Philippines and a substantial portion of its assets are located in the Philippines, which exposes the Group to risks associated with the Philippines, including the performance of the Philippine economy.***

A substantial portion of the Group's assets are located in the Philippines, and the Group derives most of its consolidated revenues and operating profits from the Philippines and its business is dependent on the state of the Philippine economy. Demand for the Group's services are directly related to the strength of the Philippine economy (including overall growth and income levels) and the overall levels of business activity in the Philippines.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls.

Other factors that may adversely affect the Philippine economy include:

- reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
- scarcity of credit or other financing available to the Government, corporations or individuals in the Philippines;
- fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
- levels of employment, consumer confidence and income;
- delays in obtaining government approvals and permits;
- Government budget deficits;
- public health epidemics or outbreaks of diseases, such as outbreak of COVID-19 in the Philippines or in other countries in Southeast Asia;
- significant changes to the Government's economic, social or tax policies; natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally, including the Russia – Ukraine conflict which has contributed to increasing oil prices and supply chain disruptions globally;
- geopolitical tensions between the Philippines and other claimant countries concerning disputed territories in the West Philippine Sea;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings; and
- other regulatory, political or economic developments in or affecting the Philippines.

Any deterioration in economic or political conditions in the Philippines as a result of these or other factors could materially and adversely affect the Group or its suppliers, customers and contractual counterparties. This, in turn, could materially and adversely affect the Group's business, prospects, financial condition and results of operations and its ability to implement its business strategy.

The Group intends to manage this risk through the diversification of its business segments and geographical locations, but it cannot assure that such systemic risks which affect all businesses can effectively be managed or contained.

***Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Group's business.***

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso depreciated from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. This may negatively affect the general economic conditions and business environment in the Philippines, which, in turn, could have a material and adverse impact on the Group's business, financial position and financial performance. In addition, while a portion of the Group's EPC costs are denominated in Philippine Pesos, the exposure to and management of foreign currency fluctuation risk under such EPC contracts are borne by the EPC contractors, which the Group believes it is able to leverage to negotiate competitive EPC contracts. As of September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89.

***Political and military instability in the Philippines could adversely affect the Group's business.***

The Philippine general elections for national, provincial, and local officials took place on May 9, 2022. Ferdinand "Bongbong" Marcos, Jr., and his vice presidential running mate, Sara Duterte, won convincingly. A number of his senatorial slate also took the available senate seats. The top losing presidential candidates have conceded. While this bodes well for political stability, there is no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not materially and adversely impact the current regulatory environment for power generation companies. An unstable political or social environment in the Philippines could negatively affect the general economic conditions and business environment in the Philippines which, in turn, could have a material and adverse impact on the Group's business, prospects, financial position and financial performance.

Historically, the Philippine Stock Exchange Index has provided gains to its investors in the six months following a presidential election. However, in the lead up to the 2022 elections, investors still see uncertainty given the highly polarized political environment. Due to political uncertainty many investors are deferring their investment decisions. Any disruptions of the credit and equity markets may impede or prevent access to the capital markets for additional funding to expand the Group's businesses and may affect the availability or cost of borrowing. If the Group is unable to obtain the required funding, the Group may be required to adjust its business plans and strategies, which may adversely affect the Group's future prospects, market value and results of operations.

***Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on the Group's business, financial position and results of operations.***

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in January 2019, bombs were detonated in the Jolo Cathedral in the Municipality of Jolo, Sulu and a Mosque in Zamboanga City, Zamboanga del Sur. In May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists who were inspired by pledged allegiance to the Islamic State of Iraq and Syria ("**ISIS**"). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. Martial law in Mindanao was lifted on January 1, 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats.

The Group's Wawa Bulk Water Supply Project is located in an area generally known for the presence of members of the rebel group, the New People's Army ("**NPA**"), the armed wing of the Communist Party of the Philippines. Clashes between the NPA and the Armed Forces of the Philippines have taken place in the area near the Wawa Bulk Water Supply Project.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to the Group's business and materially and adversely affect the Group's financial conditions, results of operations and prospects.

Continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the Armed Forces of the Philippines, which could destabilize parts of the Philippines and adversely affect the Philippine economy. While the passing of the Anti-Terrorism Act of 2020 gave the Government wider power to prevent terrorist acts, there can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, any of which could have a material adverse effect on the Group's business, prospects, financial condition, and results of operations.

***Natural or other catastrophes, including severe weather conditions, may adversely affect the Group's business and result in losses not covered by the Group's insurance.***

The Philippines, which is located along the Pacific Ring of Fire and a typhoon belt, has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. In January 2020, the Taal Volcano entered into a period of intense unrest beginning with phreatic or steam-driven activity in several points inside the Main Crater that progressed into magmatic eruption. The Philippine Institute of Volcanology and Seismology ("**PHIVOLCS**") raised the alert level to Alert Level 4 on January 12, 2020. Pursuant to such events, PHIVOLCS ordered the total evacuation of the Volcano Island and high-risk areas within a 14-kilometre radius from the Taal Main Crater. Although PHIVOLCS has since lowered the Alert Level covering Taal to Level 1, there can be no assurance that the Taal Volcano will not increase seismic activity or erupt in the future. In November 2020, two typhoons, Super Typhoon Rolly/Goni and Typhoon Ulysses/Vamco, brought strong winds and rain to the country. These back-to-back weather disturbances caused major destruction to property and massive flooding in various parts of the Philippines. Natural catastrophes, such as any renewed eruption of the Taal Volcano or strong typhoons, may cause damage to the terminals and materially disrupt and adversely affect the business, prospects, operations, and financial condition of the Group. There is no assurance that the insurance coverage the Group maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes. Any material uninsured loss could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

***Public health epidemics, outbreaks of diseases and the ongoing COVID-19 pandemic, and measures intended to prevent its spread could have a material adverse effect on the Group's business, prospects, results of operations, cash flows and financial condition.***

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organization ("**WHO**") declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of Ebola virus infection but was later released after testing negative for the disease. While still Ebola-free, the Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: (a) the considerable number of overseas Filipino workers in the Ebola-hit West African countries;(b) the impact of international travel which raises the probability of transmission; and (c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of WHO terminated the *Public Health Emergency of International Concern on the Ebola Virus Disease* outbreak.

In February 2015, a Filipina nurse who arrived from the KSA tested positive for the MERS-CoV (i.e., the Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment, and later discharged and cleared of the disease by the *Department of Health*. All known contacts of the said nurse, including some passengers in the same flight that arrived from the KSA, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the *Aedes aegypti* mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans. In response to the outbreak, restrictions on the transport and sale of birds and poultry products outside a seven-kilometer radius control area surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

In September 2019, the Department of Health confirmed that Polio re-emerged in the Philippines, nineteen years after the country was declared polio-free by the WHO in 2000. As of November 25, 2019, the total number of confirmed polio cases is eight.

In late 2019, COVID-19, an infectious disease that was first reported to have been transmitted to humans in 2019 has spread globally over the course of 2020, and in March 2020, it was declared as a pandemic by the World Health Organization. Please also refer to the discussion under the risk factor entitled "*The business and operations of the Group have been and will continue to be adversely affected by the global outbreak of COVID-19.*"

The extent of the impact of COVID-19 on the Philippine economy and the speed and certainty of any economic recovery cannot be predicted for certain, and any new surge in infections may result in stricter quarantine or lockdown measures across provinces, cities and municipalities and may lead to further contraction of the Philippine economy, closure of businesses, and rise in unemployment rates.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus, bird flu, polio, COVID-19, or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Group's business, prospects, financial condition and results of operations.

***Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.***

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes arising from competing and overlapping claims over certain islands and features in the West Philippine Sea. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tension in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the internal arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea. In July 2016, the Permanent Court of Arbitration rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine Government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China. On June 9, 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater reef formation being claimed by both the Philippines and China in the portion of the South China Sea portion that Manila calls the West Philippine Sea. The Filipino fishermen were abandoned in open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines. The owners of the Chinese vessel have since apologized to the Filipino fishermen and remuneration is being arranged for the fishermen.

In March 2021, more than 180 Chinese military vessels were spotted on Julian Felipe Reef in the West Philippine Sea. The presence of the vessels defied a diplomatic protest and a demand for the vessels to leave the area issued by Philippine Defense Secretary Delfin Lorenzana.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the Group's operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Group's business, financial position and financial performance.

***Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.***

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Issuer may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Issuer complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions.

***Investors may face difficulties enforcing judgments against the Issuer.***

Considering that the Issuer and many of its subsidiaries are organized under the laws of the Republic of the Philippines and a significant portion of the Group's operating assets are located in the Philippines, it may be difficult for investors to enforce judgments against the Issuer obtained outside of the Philippines. In addition, all of the directors and officers of the Issuer are residents of the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Award. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction in accordance with its jurisdictional rules; (ii) the party against whom enforcement is sought did not receive notice of the proceedings; (iii) judgment was obtained by collusion, fraud, or on the basis of a clear mistake of law or fact; or (iv) the judgment is contrary to the laws, public policy, customs or public order of the Philippines.

***The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Issuer.***

Historically, the Philippines' sovereign debt has been rated non-investment grade by international credit rating agencies. In 2019, the Philippines' long-term foreign currency-denominated debt was upgraded by S&P Global ("**S&P**"), to BBB+ with stable outlook, while Fitch Ratings ("**Fitch**"), and Moody's Investors Service ("**Moody's**"), affirmed the Philippines' long-term foreign currency-denominated debt to the investment-grade rating of BBB and Baa2, respectively, with a stable outlook. On February 28, 2020, Fitch revised its rating of Philippines long-term foreign currency-denominated debt to BBB, with a positive outlook, following its expectation that sound macroeconomic management will continue to support high growth rates with stable inflation while ongoing tax reforms were expected to improve fiscal finances. On May 7, 2020, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, but revised the outlook to stable, to reflect the deterioration in the Philippines' near-term macroeconomic and fiscal outlook as a result of the impact of the COVID-19 pandemic and domestic lockdown to contain the spread of the virus. In May 2020, S&P and Moody's affirmed their ratings of BBB+ and Baa2, with stable outlook, respectively, for the Philippines' long-term foreign currency-denominated debt. In May 2021, S&P's affirmed its rating of BBB+, with stable outlook, for the Philippines' long-term foreign currency-denominated debt. In February 2022, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, with a negative outlook. In March 2022, Moody's affirmed its rating of Baa2, with stable outlook.

The Philippine Government's credit ratings directly affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, S&P, or any other international credit rating agency will not downgrade the credit ratings of the Philippine Government in the future and, therefore, Philippine companies. Any such downgrade could have a material adverse impact on the liquidity in the Philippine financial markets, the ability of the Philippine

Government and Philippine companies, including the Issuer, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

***The Philippine energy, water and construction industries are subject to extensive regulation from the Government, including local governmental authorities, and the Philippine Competition Commission.***

The Philippine energy, water and construction industries are subject to extensive government regulation. See the section entitled "*Regulatory and Environmental Matters*" in this Prospectus.

The Group must comply with the various requirements of the Government, including local governmental authorities in the areas in which the Group's facilities and properties are located, regulations of the ERC, the DOE, the PCC, the NCIP, the NWRB, the DOH, the DENR, regulations relating to ancestral domains (if applicable), and the CIAP.

The Government influences the construction sector by imposing industry policies and economic measures, including those that affect accreditation and licensing, pricing and claims settlement, acquisition and development, and foreign investment. Construction laws and regulations, including relevant judicial decisions, are at times ambiguous and may be subject to inconsistent and contradictory interpretations. The Government influences the water sector by imposing industry policies and economic measures, including those that affect utilization and exploitation, conservation and protection, acquisition and development, and foreign investment. Water laws and regulations, including relevant judicial decisions, are at times ambiguous and may be subject to inconsistent and contradictory interpretations. The Government also influences the energy sector by imposing industry policies and economic measures, including those that affect FIT rates, tax incentives, the classification of land available for power plant development, foreign exchange restrictions, financing of projects, acquisition and development, and foreign investment. Energy laws and regulations, including relevant judicial decisions, are at times ambiguous and may be subject to inconsistent and contradictory interpretations. Further, such laws and regulations are constantly evolving and therefore consistent interpretations of such regulations are difficult to anticipate. New laws and regulations or modifications may also be passed, which would impose more stringent and complex requirements on the Group, thereby adversely affecting the Group's business, prospects, financial condition, and results of operations.

On August 8, 2015, Republic Act No. 10667, otherwise known as the Philippine Competition Act (the "**PCA**") became effective. The PCA prohibits and penalizes anti-competitive agreements and abuse of dominance. It likewise provides for mandatory notification for mergers and acquisitions meeting the set thresholds under the PCA and its Implementing Rules and Regulations. Given the volume of the Group's transactions, mergers or acquisitions undertaken by members of the Group may meet the notification threshold under the PCA and its Implementing Rules and Regulations. The mandatory process of notification may delay the consummation of the such transactions. Notably, the Bayanihan 2 Act exempts mergers or acquisitions with transaction values below ₱50,000,000,000 from mandatory review for a period of two years from the effectivity of the Bayanihan 2 Act. Such transactions are likewise exempt from the PCC's motu proprio review for a period of one year from the effectivity of the Bayanihan 2 Act (see the section entitled "*Regulatory and Environmental Matters*" in this Prospectus).

In addition, government regulations strictly mandate compliance with environmental laws. The Group incurs expenses for the purpose of complying with environmental laws and regulations, which costs consist primarily of payments for Government regulatory fees.

## RISKS RELATING TO THE OFFER SHARES AND AN INVESTMENT IN THE ISSUER

***There has been no prior market for the Common Shares, so there may be no liquidity in the market for the Offer Shares and the price of the Offer Shares may fall.***

There has been no prior trading in the Common Shares and there can be no assurance that an active market for the Offer Shares will develop following the Offer or, if developed, that such market will be sustained.

The Offer Price has been determined after taking into consideration a number of factors including, but not limited to, the Group's prospects, the market prices for shares of companies engaged in related businesses similar to that of the Group's business and prevailing market conditions. The price at which the Common Shares will trade on the PSE at any point in time after the Offer may vary significantly from the Offer Price.

***There can be no guarantee that the Offer Shares will be listed on the PSE, or that there will be no regulatory action that could delay or affect the Offer.***

Purchasers of the Trading Participants and Retail Offer Shares will be required to pay for such Offer Shares on the Trading Participants and Retail Offer Settlement Date, which is expected to be on or about [November 3], 2022 and purchasers of the Institutional Offer Shares will be required to pay on the Settlement Date, which is expected to be on or about [November 11], 2022, or such other date that may be agreed between the Issuer and the Joint Bookrunners. There can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares onto the PSE, the market for the Offer Shares will be illiquid and shareholders may not be able to trade the Offer Shares. This may materially and adversely affect the value of the Offer Shares.

***The market price of the Common Shares may be volatile, which could cause the value of investors' investments in the Common Shares to decline.***

The market price of the Common Shares may be affected by multiple factors, including:

- volatility in stock market prices and volume;
- fluctuations in the Issuer's consolidated revenue, cash flow and earnings;
- general market, political, and economic conditions;
- differences between the Group's actual financial and operating results and those expected by investors and financial analysts;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks in general and other stocks in similar industries;
- the market value of the Group's assets;
- market news and rumors;
- changes in relationships with its controlling shareholder and regulators;
- changes to government policies, legislation, or regulations;
- general operational and business risks;
- the Issuer's dividend policy; and
- future sales of the Issuer's equity or equity-linked securities.

In addition, many of the risks described elsewhere in this Prospectus could adversely affect the market price of the Common Shares.

In part as a result of recent global economic downturns, the global equity markets have historically experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these could adversely affect the market price of the Common Shares.

***Future sales of Common Shares in the public market may adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings.***

In order to finance the expansion of the Group's business and operations, the Board will consider the funding options available to them at the time, which may include the issuance of new Common Shares. Under the Issuer's Articles of Incorporation, stockholders shall have no pre-emptive right to subscribe to any issue or disposition of shares of any class. While the Republic Act No. 11232 or the Philippine Revised Corporation Code of the Philippines ("**Philippine Revised Corporation Code**" or the "**Revised Corporation Code of the Philippines**") and the listing rules of the PSE provide for some degree of minority shareholders' protection, if additional funds are raised through the issuance of new equity or equity-linked securities other than on a *pro rata* basis to existing Shareholders, the percentage ownership of existing Shareholders may be reduced, Shareholders may experience subsequent dilution or such new securities may have rights, preferences and privileges senior to those of the Offer Shares. Furthermore, the market price of the Common Shares may decline as a result of future sales of substantial amounts of the Common Shares in the public market or the issuance of new Common Shares, or the perception that such sales, transfers or issuances may occur. Such development could also adversely affect the prevailing market price of the Common Shares or the Issuer's ability to raise capital in the future on favorable terms.

Except for such restrictions, there is no restriction on the Issuer's ability to issue shares or the ability of any of its shareholders to dispose of, encumber or pledge, their shares, and there can be no assurance that the Issuer will not issue shares or that such shareholders will not dispose of, encumber or pledge, their shares.

***Investors may incur immediate and substantial dilution as a result of purchasing Common Shares in the Offer.***

The Offer Price of the Offer Shares may be substantially higher than the net asset value per Common Share of the outstanding Common Shares. Therefore, purchasers of Offer Shares may experience immediate and substantial dilution and the Issuer's existing shareholders may experience a material increase in the net asset value per share of the Common Shares they own. See "*Dilution*" in this Prospectus.

***There can be no assurance that the Issuer will be able to pay dividends or maintain any given level of dividends.***

The Issuer is a holding company and conducts no significant business operations. The operating assets of the Group are held by the Issuer through its direct and indirect shareholdings in the Intermediate Holding Companies and, as such, the Issuer expects to depend upon the dividends and distributions from its subsidiaries for almost all of its cash flow. As a holding company, the Issuer's income, on a standalone basis, is derived primarily from dividends and distributions from the Intermediate Holding Companies. The Issuer's liquidity, ability to pay expenses, and meet obligations, are dependent upon the flow of funds from the Operating Subsidiaries and Portfolio Companies through the Intermediate Holding Companies. If the Issuer does not generate sufficient net operating profit, its income and resulting ability to pay dividends will be adversely affected. Dividends shall be declared and paid out of the Issuer's unrestricted retained earnings representing the net accumulated earnings of the Company with its unimpaired capital, which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends, and shall be payable in cash, property or shares to all shareholders on the basis of outstanding stock held by them. The declaration of dividends is subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends. See "*Dividends and Dividend Policy—Dividend Policy*" in this Prospectus.

The Board will periodically review the amount of dividends to be paid and the frequency of dividend payment and may, at any time, adopt or modify any dividend policy taking into consideration various factors including: the level of cash earnings, return on equity and retained earnings; results of operations and financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance; the projected levels of capital expenditure and other investment plans; restrictions of payment of dividends that may be imposed on by any of the Group's financing arrangements and current and prospective debt service requirements; and such other factors as the Board deems appropriate.

No assurance can be given as to the ability to make or maintain dividends. Nor is there any assurance that the level of dividends will increase over time, or that the Group will generate adequate income available for dividends to shareholders.

To manage the risk to investors of the potential inability of the Issuer to pay dividends in a given financial period, it intends to comply with applicable financial reporting and disclosure requirements in order to apprise investors of the financial performance and position of the Issuer on a regular basis.

***The Common Shares are subject to Philippine foreign ownership limitations and the holders of the Common Shares are subject to limitations on ownership.***

The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities. In connection with the ownership of private land, Article XII, Section 7 of the Constitution, in relation to Chapter 5 of the Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Issuer does not own any land, it has the ability to own land under its Articles of Incorporation and may acquire land in the Philippines in the future.

The Issuer, by virtue of its ownership of Manila Water, is subject to foreign ownership limitations under the Concession Agreement. Under the Concession Agreement, MWSS granted Manila Water the right to operate the system of waterworks and sewerage services referred to under Republic Act No. 6234 ("RA 6234"). In compliance with RA 6234 and the determination of MWSS, Manila Water, in the Concession Agreement, represented and warranted that its outstanding voting capital stock shall remain at least 60% owned by Philippine Nationals pursuant to the requirements under the Foreign Investments Act of 1991. Please see the section entitled, "*Regulatory and Environmental Matters – Other Laws – Nationality Restrictions*" and "*Regulatory and Environmental Matters – Other Laws – Foreign Investments Act*" elsewhere in this Prospectus.

As of April 30, 2022, Manila Water has approximately 6.34% foreign ownership. However, if Manila Water issues additional shares or transfers existing shares in the future, it must ensure that at least 60% of its outstanding capital stock is owned by Philippine Nationals in order for it to comply with its representation and warranty under the Concession Agreement. This effectively subjects Manila Water to foreign ownership limitations in its issued and outstanding capital stock. As such, it may be unable to allow the issuance or transfer its shares to persons other than Philippine Nationals, and cannot record transfers in its books, if such issuance or transfer would result in Manila Water ceasing to be a Philippine National for purposes of complying with the applicable nationality requirements. For this reason, the Issuer monitors both Manila Water's and its own foreign ownership to ensure that Manila Water's outstanding voting capital is at least 60% owned by citizens of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Philippines.

Moreover, the Issuer directly owns at least 60% of Prime Metro Power, Prime Metroline, and Prime Infrastructure. As such, it indirectly owns at least 60% of Prime Infrastructure's wholly-owned subsidiaries, such as Trident Water, which are subject to foreign ownership restrictions. In addition, the operating subsidiary from which the Issuer invokes its operational track record, Prime BMD, is a corporation engaged in the business of general construction for projects located in the Philippines. It is likewise subject to the nationality requirements under the Foreign Investments Act of 1991 in that at least 60% of its ownership must be held by Philippine nationals.

The Issuer's other subsidiaries are engaging in nationalized or partly nationalized activities in the Philippines, and are, therefore, subject to the foreign equity requirements under the law. These subsidiaries include WasteFuel Philippines, Manila Water, WawaJVCo, Ahunan Power, Terra Solar and SP Tanauan.

Given the foregoing, the Issuer itself must maintain its status as a Philippine National to be able to continue holding a controlling interest in these subsidiaries which are the subject of nationality restrictions. Hence, the Issuer's foreign shareholdings may not exceed 40% of its total issued and outstanding capital stock.

As such, the Issuer will be unable to allow the issuance or transfer the Issuer's Common Shares to persons other than Philippine nationals, and will be unable to record transfers in the Issuer's books, if such issuance or transfer would result in the Issuer ceasing to be a Philippine national for purposes of complying with the applicable nationality requirements. In addition, if the Issuer's foreign ownership exceeds 40% of the Issuer's outstanding capital stock, foreign shareholders may be required to divest ownership or may be diluted to comply with the foreign ownership restrictions.

The Issuer has secured an opinion from the Philippine SEC Office of the General Counsel regarding the nationality of its President and Chief Executive Officer, Guillaume Lucci, who is an American, in relation to the provisions of the Anti-Dummy Law. The Philippine SEC stated that since Mr. Lucci is only the president of a holding company, which is not subject to nationality requirements, there is no violation of the Anti-Dummy Law.

For more information relating to restrictions on the ownership of the Common Shares, please see the sections entitled *"Risk Factors," "Description of the Issuer and the Group," "and "Regulatory and Environmental Matters"* in this Prospectus.

***Future changes in the value of the Peso against the U.S. dollar and other currencies will affect the foreign currency equivalent of the value of the Common Shares and any dividends.***

Fluctuations in the exchange rate between the Peso and other currencies will affect the foreign currency equivalent of the Peso price of the Common Shares on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Pesos by the Issuer on, and the Peso proceeds received from any sales of, the Common Shares.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004. As of December 31, 2017, according to BSP data, the Peso remained steady at ₱49.93 per U.S.$1.00 from ₱49.81 per U.S.$1.00 at the end of 2016. The Peso depreciated to ₱51.80 against the U.S. dollar as of December 31, 2019, but has since appreciated and remained stable. As of September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89. See "*Exchange Rates*."

***Overseas shareholders may not be able to participate in the Issuer's future rights offerings or certain other equity issues.***

If the Issuer offers or causes to be offered to holders of the Offer Shares rights to subscribe for Common Shares or any right of any other nature, the Issuer will have discretion as to the procedure to follow in making such rights available to holders of the Offer Shares or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders. For example, such rights may not be offered to holders of the Common Shares who are U.S. persons (as defined in Regulation S) or have a registered address in the U.S. unless: (i) a registration statement is in effect, if a registration statement under the U.S. Securities Act is required in order for the Issuer to offer such rights to holders and sell the securities represented by such rights; or (ii) the offer and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the U.S. Securities Act.

The Issuer has no obligation to prepare or file any registration statement outside of the Philippines if the offer and sale of rights to subscribe for securities or the underlying securities are exempted from the applicable registration requirements. Accordingly, shareholders who are subject to similar restrictions may be unable to participate in rights offerings and may experience a dilution in their holdings.

***The Offer Shares may not be a suitable investment for all investors.***

Each potential investor in the Offer Shares must determine the suitability of that investment in light of his or her own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Group and its business, the merits and risks of investing in the Offer Shares, and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on his or her overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency;
- understand and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate, and other factors that may affect its investment and its ability to bear the applicable risks.

***Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.***

The Issuer's corporate affairs are governed by its Articles of Incorporation and By-Laws and the Philippine Revised Corporation Code. The laws of the Philippines relating to the protection of interests of minority shareholders differ in some respects from those established under the laws of more developed countries. Such differences may mean that the Issuer's minority shareholders may have less protection than they would have under the laws of more developed countries. The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries. However, to promote corporate governance and protect the interests of minority shareholders, the Philippine SEC recently issued a regulation which allows for minority shareholders holding 10% or more of the outstanding shares of a corporation to call for a special stockholders' meeting.

Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders. Please see "*Regulatory and Environmental Matters–Other Laws–Philippine Revised Corporation Code.*"

***The Issuer's management has broad discretion to determine how to use the proceeds received from the Offer, and may use them in ways that may not enhance the Group's operating results or the price of the Issuer's Common Shares.***

The Issuer plans to use the net proceeds of the Offer as described under "*Use of Proceeds*." The Issuer's management will have broad discretion over the use and investment of the net proceeds of the Offer, and accordingly investors in the Offer will need to rely upon the judgment of the Issuer's management with respect to the use of proceeds with only limited information concerning management's specific intentions.

## RISKS RELATING TO THE PRESENTATION OF INFORMATION IN THIS PROSPECTUS

***Certain information contained herein is derived from unofficial publications.***

Certain information in this Prospectus relating to the Philippines, the industries in which the Group competes, and the markets in which the Group operates, including statistics relating to market size, is derived from various Government and private publications. This Prospectus also contains industry information prepared from available public sources and independent market research conducted by GlobalData and LMC International to provide an overview of the industries and markets in which the Group operates. The information contained in those sections might not be consistent with other information regarding the Philippine energy, water or construction industries. Similarly, industry forecasts and other market research data, including those contained or extracted herein, have not been independently verified by the Issuer, the Joint Bookrunners or any of their respective Affiliates or advisers, and might not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines. In particular, the section entitled "*Industry Overview*" in this Prospectus does not present the opinions of the Issuer, the Joint Bookrunners or any of their respective Affiliates. Prospective investors are cautioned accordingly.

***The presentation of financial information in this Prospectus may be of limited use to investors and may not be indicative of future results.***

The presentation of financial information in this Prospectus includes the historical consolidated financial information for the Group as of and for the years ended December 31, 2018, 2019, 2020 and 2021 and as of June 30, 2022 and for the six months ended June 30, 2021 and 2022. As the Issuer was incorporated on August 20, 2020, the consolidated historical financial information of the Group presented may be of limited used to investors moving forward. In addition, the historical consolidated financial information for the Group is necessarily based on certain accounting policies, including those identified in Note 2 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus relating to business combinations. While the presentation of historical financial results of the Group on a consolidated basis included in this Prospectus may provide a reference to investors in relation to the Group's financial performance and financial position in prior periods, there is no assurance that such presentation will be indicative of future results of operations or financial position, and should not be relied upon as being so indicative.

In addition, the Issuer, through Trident Water, acquired the Manila Water Group in June 2021 and the Group's operations relating to the Umm Qasr Power Plant only commenced in 2020, with 2021 being the Umm Qasr Power Plant's first full financial year of operations. As such, the Group's audited consolidated historical financial information as of and for the years ended December 31, 2018 and 2019 do not reflect the operations of the Manila Water Group and the Umm Qasr Power Plant and the Group's audited consolidated historical financial information as of and for the year ended December 31, 2020 does not reflect the operations of the Manila Water Group and only reflects the contribution of the Umm Qasr Power Plant to the Group's operations from February 18, 2020. Further, the Group's audited consolidated historical financial information for the year ended December 31, 2021 only reflects approximately six months of results of the Manila Water Group. As such, the Group's historical consolidated financial information for such periods do not indicate the financial position or operating results of the portfolio of assets that it controls as of the date of this Prospectus and such information is not indicative of the Group's future results of operations or financial information.

For further details, see "*Selected Financial Information and Operating Information*" on page [125] and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on page [130].

## USE OF PROCEEDS

The gross proceeds that the Issuer will receive from the Firm Shares will be up to ₱[26,188.8] million (U.S.$[476.4] million) and the Issuer estimates that the net proceeds from the Firm Shares will be up to approximately ₱[25,390.0] million (U.S.$[461.9] million) after deducting the applicable underwriting and selling fees, costs and expenses for the Offer payable by the Issuer. The gross proceeds that the Issuer will receive from the Option Shares will be up to approximately ₱[2,618.8] million (U.S.$[47.6] million) and the Issuer estimates that the net proceeds from the Option Shares will be up to approximately ₱[2,618.7] million (U.S.$[47.6] million) after deducting the applicable underwriting and selling fees, costs and expenses for the Offer payable by the Issuer.

The net proceeds to be raised by the Issuer from the sale of the Option Shares will be the same whether or not the Over-allotment Option is exercised by the Stabilizing Agent because Prime Strategic Holdings has undertaken to (i) purchase at the Offer Price any Common Shares that the Stabilization Agent may purchase in the open market in the conduct of stabilization activities, and (ii) deliver the purchase price of such Common Shares to the Issuer. For a more detailed discussion of the Over-allotment Option, see the section entitled "*Plan of Distribution—The Over-allotment Option and Undertaking to Purchase*" in this Prospectus.

### Expenses

Based on an Offer Price of ₱[14.60] per Offer Share, the Issuer estimates that the total proceeds from the offer of Firm Shares, total expenses for the offer of Firm Shares and the net proceeds from the offer of Firm Shares will be:

| | Estimated Amounts (₱ in millions) | |
|---|---|---|
| | **Firm Shares** | **Offer Shares (assuming full exercise of Over-allotment Option)** |
| **Estimated total proceeds from the offer** | [26,188.8] | [28,807.7] |
| **Estimated Expenses:** | | |
| Underwriting and selling fees for the offer | | |
| Joint Bookrunners | [458.7] | [458.7] |
| Co-Lead Underwriters | [45.4] | [45.4] |
| Fees to be paid to the PSE Trading Participants | [57.6] | [57.6] |
| Documentary Stamp Tax | [1.8] | [2.0] |
| Philippine SEC registration, filing and legal research fees | [7.8] | [7.8] |
| PSE Listing Fee (including value-added tax) | [81.7] | [81.7] |
| Estimated professional fees for Legal Advisers, Industry Consultants, and Auditors** | [135.0] | [135.0] |
| Estimated fees to be paid to the Stock Transfer Agent. | [0.7] | [0.7] |
| Estimated other expenses*** | [10.0] | [10.0] |
| **Total estimated expenses from the offer** | [798.8] | [799.0] |
| **Estimated net proceeds from the offer** | [25,390.0] | [28,008.7] |

**Assuming aggregate underwriting and selling fees equivalent to up to [1.75]% of the gross proceeds. The 1.00% selling commission of the PSE Trading Participants on the final take-up of the Firm Shares shall be paid directly by the Issuer, through the Receiving and Paying Agent, and will not form part of the underwriting and selling fees. The selling commission of PSE Trading Participants shall be inclusive of VAT. Estimated selling agent fees are based on the assumption that the PSE Trading Participants take up the 20% tranche allocated to them in the Offer. Apart from said selling commission, there are no other discounts and commissions, either in cash, securities, contracts or other considerations, which will be paid to or received by any broker or dealer in connection with the Offer. Apart from said selling commission, there are no other discounts and commissions, either in cash, securities, contracts or other considerations, which will be paid to or received by any broker dealer in connection with the Offer. These amounts are likewise based on a fixed percentage of the total offer size. ** The "Estimated professional fees for Legal Advisers, Industry Consultants and Auditors" includes the fees for Legal Advisers engaged in relation to the Offer, including the Issuer's Philippine and foreign counsel, Picazo Buyco Tan Fider and Santos and Milbank LLP, respectively. It also includes the fees for the legal opinion delivered by Adarlo Caoile and Associates Law Firm in respect of the Group's material permits and* *licenses. Industry Consultants refers to GlobalData and LMC International. Auditors refers to SyCip Gorres Velayo & Co. *** The "Estimated Other Expenses" include marketing, roadshow, printing costs, virtual data rooms, publication costs, and other miscellaneous expenses.*

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts. The estimated expenses set forth in the table above reflect the estimated expenses relating to the Firm Offer and are presented in this Prospectus for convenience only.

Estimated other expenses include fees for roadshow expenses, publication, and other third-party services (e.g. stock transfer, receiving agency, LSI application processing fees, and printing, publication, and out-of-pocket expenses) that the Issuer expects to incur in relation to the Offer.

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts indicated above.

The trading participants commission shall be computed based on the shares taken up and purchased by the relevant trading participant. Unallocated orders will not be subject to trading participants commission.

**Use of Proceeds**

Details on the proposed use of net proceeds, based on the Offer Price of ₱[14.60] per Offer Share, after deducting the applicable underwriting fees, costs and expenses for the Offer payable by the Issuer, are as follows:

| **Use of Proceeds (Firm Shares)** | **Estimated Amounts (₱ billion)** | **Estimated Timing of Disbursement** | |
|---|---|---|---|
| Disbursement for the Group's energy business.... | [20.8] | 2022 | ₱[10.5] billion |
| | | 2023 | ₱[10.3] billion |
| Disbursement for the Group's water business...... | [3.5] | Fourth quarter of 2022 | ₱[1,700] million |
| | | First quarter of 2023 | ₱[104] million |
| | | Second quarter of 2023 | ₱[335] million |
| | | Third quarter of 2023 | ₱[335] million |
| | | Fourth quarter of 2023 | ₱[1,027] million |
| Disbursements for the Group's waste and sustainable fuels business................................. | [1.1] | 2022 | ₱[1.1] billion |
| **Estimated Net Proceeds** .................................... | [25.4] | 2022 | ₱[13.3] billion |
| | | 2023 | ₱[12.1] billion |

| Use of Proceeds (Firm Shares and Option Shares) | Estimated Amounts (₱ billion) | Estimated Timing of Disbursement | |
|---|---|---|---|
| Disbursement for the Group's energy business.... | [23.4] | 2022 | ₱[10.5] billion |
| | | 2023 | ₱[10.0] billion |
| | | 2024 | ₱[2.9] billion |
| Disbursement for the Group's water business...... | [3.5] | 2022 | ₱[1.7] billion |
| | | 2023 | ₱[1.8] billion |
| Disbursements for the Group's waste and sustainable fuels business................................. | [1.1] | 2022 | ₱[1.1] billion |
| **Estimated Net Proceeds** .................................... | [28.0] | 2022 | ₱[13.3] billion |
| | | 2023 | ₱[11.8] billion |
| | | 2024 | ₱[2.9] billion |

In the event that the net proceeds from the Offer is less than the expected amount, the Issuer intends to allocate the proceeds in order of priority as follows:

1. Disbursements for the Group's energy business;

2. Disbursements for the Group's water business; and

3. Disbursements for the Group's waste and sustainable fuels business.

Disbursements for the Group's energy business will mainly be used to partially finance the development of its large scale energy projects such as Terra Solar Power Plant and Ahunan Laguna Power Plant. Disbursements for the Group's water business will be mainly for the development of Upper Wawa Dam. Disbursements for the Group's waste and sustainable fuels business will be mainly for the potential acquisition of waste-related companies. Proceeds from the Offer will be disbursed for the relevant projects of the Group primarily through equity infusion from the Issuer to Prime Infrastructure, Inc., and then to the relevant operating company for the relevant project.

In terms of specific application, the Issuer expects to use the net proceeds as follows:

| Project | Operating Subsidiary / Portfolio Company | Description | Estimated Amount (in ₱ billion) | Estimated Completion Date | Status |
|---|---|---|---|---|---|
| **Terra Solar Power Plant** | Terra Solar Philippines, Inc. | Expected to be developed on approximately 3,500 hectares of land in Bulacan and Nueva Ecija. It comprises a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system which is expected to provide 850MW of mid-merit energy for 13 hours per day once completed. | 18.2 | February 2027 | The first phase, comprising 600MW, is expected to commence commercial operation in February 2026.<br><br>The second phase, comprising 250MW, is expected to be completed in February 2027. |
| **Ahunan Laguna Power Plant** | Ahunan Power, Inc. | A 1,400 (gross) (1,200MW (net)) pumped storage hydropower plant, which is expected to provide 500MW of mid-merit energy to shift underutilized baseload to MERALCO and 700MW to address ancillary requirements of the national grid during peak times or as an additional energy storage solution. | 5.2 | 2027 | Commercial operation for 500MW of the Ahunan Laguna Power Plant is expected to commence in the first half of 2027 and for the 700MW of the power plant in the second half of 2027. |
| **Upper Wawa Dam** | WawaJVCo, Inc. | A dam designed to divert water from the Wawa river, thus increasing the capacity of the | 3.5 | December 2025 | The Upper Wawa Dam is expected to begin supplying at least an additional 438 MLD for the |

| Project | Operating Subsidiary / Portfolio Company | Description | Estimated Amount (in ₱ billion) | Estimated Completion Date | Status |
|---|---|---|---|---|---|
| | | Wawa Bulk Water Supply Project to 518 MLD. | | | East Zone by the end of 2025. |
| **Acquisition of interest in ACI** | Prime Integrated Waste Solutions, Inc. | On July 20, 2022, Prime Integrated Waste Solutions entered into a share purchase agreement wherein it acquired 20% of the shares and 100% of the voting interest in ACI. After satisfaction of certain conditions, Prime Integrated Waste Solutions expects to acquire the remaining 80% of the ACI shares. ACI is the owner and operator of one of the largest operating engineered sanitary private landfills in Cebu City that currently receives approximately 1,000 tons of municipal waste per day, with an expected maximum capacity of 2,000 tons per day. | 1.1 | January 2023 to March 2023 | The selling shareholders are in the process of completing the conditions required for payment of the full amount for their shares. |

The foregoing projects require additional funding apart from the net proceeds of the Offer. The Terra Solar Power Plant requires an additional ₱181.9 billion, to be funded by a combination of sponsor equity and project financing. Ahunan Laguna Power Plant requires an additional ₱69.9 billion, by a combination of sponsor equity and project financing. The Upper Wawa Dam requires an additional ₱16.2 billion, expected to be funded through drawdowns of existing project financing facilities and equity.

The management of the Issuer may adjust the application of the net proceeds and prioritize or increase the allocation of one project over other projects taking into consideration the funding requirements and milestones of the projects and such other factors that may warrant such adjustment.

No amount of the proceeds will be used to repay the outstanding indebtedness of the Group.

The proposed use of proceeds described above represents a best estimate of the use of the net proceeds of the Offer based on the Issuer's current plans and expenditures. The actual amount and timing of disbursement of the net proceeds from the Offer for the uses stated above will depend on various factors which include, among other things, changing market conditions or new information regarding the cost or feasibility of the Issuer's plans. The Issuer's cost estimates may change as it develops its plans, and actual costs may be different from its budgeted costs.

If the expected gross proceeds are not realized, the Issuer will use its internally generated funds from operations and existing cash, existing credit lines, and other potential borrowings to finance the expected uses.

To the extent that the net proceeds from the Offer are not immediately applied to the above purposes, the Issuer may place the net proceeds from the sale of the Offer Shares in deposits with banks and institutions, or use such net proceeds for investment in short-term money market instruments or debt instruments.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

The Issuer will make periodic announcements on the utilization of the net proceeds from the Offer as and when such funds are materially utilized. The Issuer will disclose the actual use of such proceeds in the Issuer's annual report.

In the event of any deviation, adjustment, or reallocation in the planned use of proceeds, the Issuer shall inform its Shareholders, the Philippine SEC, and the PSE in writing at least 30 calendar days before such deviation, adjustment, or reallocation is implemented. Any material or substantial adjustments to the use of proceeds from the Offer, as indicated above, should be approved by the Board and disclosed to the PSE. In addition, the Issuer shall submit via the PSE's Electronic Disclosure Generation Technology ("**EDGE**") the following disclosure to ensure transparency in the use of proceeds:

(i) any disbursements made in connection with the planned use of proceeds from the Offer;

(ii) quarterly progress reports on the application of the proceeds from the Offer on or before the first 15 calendar days of the following quarter; the quarterly progress reports should be certified by the Issuer's Chief Finance Officer or Treasurer and external auditor;

(iii) an annual summary of the application of the proceeds from the Offer on or before January 31 of the following year; the annual summary report should be certified by the Issuer's Chief Finance Officer or Treasurer and external auditor; and

(iv) approval by the Board of any reallocation on the planned use of proceeds from the Offer. The actual disbursement or implementation of such reallocation must be disclosed by the Issuer at least 30 days prior to the said actual disbursement or implementation.

The quarterly and annual reports required in items (ii) and (iii) above must include a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds from the Offer in the Prospectus, if any. The detailed explanation must state the approval of the Board as required in item (iv) above. The Issuer will submit an external auditor's certification of the accuracy of the information reported by the Issuer to the PSE in its quarterly and annual reports.

# DIVIDENDS AND DIVIDEND POLICY

## Limitations and Requirements

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC. The Issuer is permitted under Philippine law to declare cash, property and stock dividends, subject to certain requirements. See "*Description of the Shares—Rights Relating to Shares—Dividends and Dividend Rights*" on page [310] of this Prospectus.

A corporation may pay dividends in cash, by distribution of property, or by issuance of shares. Stock dividends may only be declared by the Board and paid with the approval of shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose.

Dividends, whether cash, property or stocks, declared by those Operating Subsidiaries and Portfolio Companies domiciled in the Philippines and received by the Intermediate Holding Companies, and ultimately, by the Issuer are not subject to Philippine income tax. Under the Tax Code, as amended, dividends received by a domestic corporation from another domestic corporation are not subject to tax as these are excluded from the taxable income of the recipient domestic corporation.

The Revised Corporation Code of the Philippines generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probably contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP.

## Record Date

Pursuant to existing Philippine SEC regulations, all cash dividends declared by listed companies must have a record date which shall not be less than 10 calendar days and not more than 30 calendar days from the date the cash dividends are declared. Under such rules, if no record date is specified, the record date will be deemed fixed at 15 calendar days from such declaration.

With respect to stock dividends, the record date shall be not less than 10 calendar days nor more than 30 calendar days from the date of shareholder approval. In either case, the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration. If no record date is set, under Philippine SEC rules, the record date will be deemed fixed at 15 calendar days from the date of the stock dividend declaration. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC.

Under the Revised Disclosure Rules of the PSE, the disclosure by a listed company of the record date for dividend declarations must not be less than 10 trading days from said date. The rules of the PSE also provide that the payment date shall not be more than 18 trading days from the record date.

## Dividend Policy

The Board will periodically review the amount of dividends to be paid and the frequency of dividend payments in light of the Group's earnings, financial condition, cash flows, capital requirements and other considerations. Dividends shall be declared and paid out of the Issuer's unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them. Unless otherwise required by law, the Board, at its sole discretion, shall determine the amount, type and date of payment of dividends to the shareholders taking into account various factors, including:

- the level of the Group's earnings, cash flow, return on equity and retained earnings;
- its results for and its financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends that may be imposed on it by any of its financing arrangements and current or prospective debt service requirements;
- dividend payment obligations under relevant shareholder agreements;
- the classes of shares held by the shareholders; and/or
- other factors that the Board deems appropriate.

**History of Dividend Payments**

As of the date of this Prospectus, the Issuer has not declared or paid dividends since its date of incorporation.

Historically, of the Group entities, only Trident Water, Prime BMD and Manila Water have declared and paid dividends to their respective shareholders. The tables below set out the dividend history of each. Manila Water has declared dividends of approximately 35.0% of prior year net income as dividends, since 2007. For Trident Water, Menatech, and Prime BMD, such entity considers the amount available after considering loan covenants and minimum cash requirements (e.g., working capital) for purposes of dividends.

As of the date of this Prospectus, none of the Group entities has a dividend policy. The Board will periodically review the dividend policy of its operating companies and intermediate holding companies, taking into consideration, among others, such company's earnings, financial condition, cash flows, and capital requirements.

**Intermediate Holding Companies**

**Trident Water**

| Date of Declaration | Dividend | | Payment Date |
|---|---|---|---|
| | Amount (₱) | Type | |
| February 23, 2022 | 200,000,000.00 | Cash | February 28, 2022 |

**Operating Subsidiaries and Portfolio Companies***

**Prime BMD**

| Date of Declaration | Dividend | | Payment Date |
|---|---|---|---|
| | Amount (₱) | Type | |
| July 22, 2020 | 60,000,000.00 | Cash | August 12, 2020 |

**Manila Water (Common Shares)**

| Date of Declaration | Dividend | | Payment Date |
|---|---|---|---|
| | Amount (₱) | Type | |
| November 18, 2021 | 0.531 per common share | Cash | December 16, 2021 |
| September 27, 2019 | 0.4551 per common share | Cash | October 25, 2019 |

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*Notes:*

** Starting from the year ended December 31, 2019.*

** Manila Water also declares dividends to preferred shareholders.*

**Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There were no securities sold by the Company within the past three years which were not registered under the SRC, except for the following:

| Type of Security Sold | Underwriters | Date of Sale | Amount of Securities | Basis for Exemption |
|---|---|---|---|---|
| Common shares | N.A. | August 20, 2020 | 2,500,000 | Section 10.1 (k) of the SRC |
| Common shares | N.A. | December 4, 2020 | 20,000,000 | Section 10.1 (k) of the SRC |
| Common shares | N.A. | December 29, 2020 | 27,500,000 | Section 10.1 (k) of the SRC |
| Common shares | N.A. | February 8, 2021 | 3 | Section 10.1 (k) of the SRC |
| Common shares | N.A. | June 8, 2022 | 6,347,541,980 | Section 10.1 (k) of the SRC |
| Common shares | N.A. | June 10, 2022 | 4 | Section 10.1 (k) of the SRC |

## EXCHANGE RATES

Fluctuations in the exchange rates between the peso and the U.S. dollar and other foreign currencies will affect the equivalent in U.S. dollars or other foreign currencies of the Peso price of the Offer Shares on the PSE, of dividends distributed in Pesos by the Issuer, if any, and of the Peso proceeds received by investors on a sale of the Offer Shares on the PSE, if any. Fluctuations in such exchange rates will also affect the peso value of the Issuer's assets and liabilities which are denominated in currencies other than Pesos.

The following table sets forth certain information concerning the exchange rate (based on BSP's Reference Exchange Rate Bulletin) between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per U.S.$1.00:

| | Philippine Peso/U.S. dollar exchange rate | | | |
|---|---|---|---|---|
| **Year** | **Period end** | **Average(1)** | **High(2)** | **Low(3)** |
| 2017 | 49.92 | 50.40 | 51.80 | 49.40 |
| 2018 | 52.72 | 52.66 | 54.35 | 49.77 |
| 2019 | 50.74 | 51.80 | 52.89 | 50.49 |
| 2020 | 48.04 | 49.62 | 51.32 | 48.03 |
| 2021 | 50.77 | 49.25 | 50.96 | 47.67 |
| 2022 | | | | |
| January | 51.27 | 51.24 | 51.46 | 50.97 |
| February | 51.29 | 51.28 | 51.45 | 51.03 |
| March | 51.96 | 52.07 | 52.43 | 51.25 |
| April | 52.16 | 51.98 | 52.45 | 51.26 |
| May | 52.24 | 52.36 | 52.49 | 52.24 |
| June | 55.02 | 53.57 | 55.02 | 52.41 |
| July | 55.72 | 55.89 | 56.37 | 54.97 |
| August | 56.24 | 55.75 | 56.24 | 55.29 |

*Notes:*

(1) *Average exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period*

(2) *Highest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period*

(3) *Lowest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period*

On September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89.

## DETERMINATION OF THE OFFER PRICE

The Offer Price has been set at up to ₱[14.60] per Offer Share. The Offer Price will be determined through a bookbuilding process and discussions among the Issuer and the Joint Bookrunners. The factors considered in determining the Offer Price included, among others, the Group's ability to generate earnings and cash flow, the Group's short-and long-term business prospects, the market value of the Group's assets, the present value of the Group's projected cash flows, the price earnings multiple of the Company in relation to comparable companies, the level of demand from institutional investors, overall market conditions at the time of launch of the Offer, and the market price of comparable listed companies. Arrangements in relation to the SPEX Sale and the potential impact of the completion of the SPEX Sale were not included in the determination of the Offer Price. The Offer Price does not have any correlation to the book value of the Offer Shares.

Since the Common Shares have not been listed on any stock exchange, there has been no market price for Common Shares derived from day-to-day trading.

## CAPITALIZATION

The Issuer was incorporated on August 20, 2020. On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 Common Shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine SEC approved such other amendments on June 8, 2022.

As of the date of this Prospectus, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share, of which 6,995,625,301 Common Shares are issued and outstanding. As of the date of this Prospectus, Prime Strategic Holdings owns 99.3% of the Issuer's issued and outstanding Common Shares. The Offer Shares will be issued out of the Issuer's unissued Common Shares.

The following table sets out the Issuer's capitalization and indebtedness as of June 30, 2022 on an actual basis, as adjusted to give effect to the September Subscriptions, as further adjusted to give effect to the Offer (assuming the Over-allotment Option is fully exercised). The table should be read in conjunction with the Audited Consolidated Financial Statements, and the notes thereto, included in this Prospectus. Other than the September Subscriptions, there has been no material change in the Issuer's capitalization since June 30, 2022.

| | As of June 30, 2022 | | As of June 30, 2022 as Adjusted After Giving Effect to the September Subscriptions | | As of June 30, 2022 as Further Adjusted After Giving Effect to the Offer | |
|---|---|---|---|---|---|---|
| | ₱ | U.S.$ | ₱ | U.S.$ | ₱ | U.S.$ |
| | (in millions) | | | | | |
| | (Audited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Indebtedness(2)** | 94,742.1 | 1,723.5 | 94,742.1 | 1,723.5 | 94,742.1 | 1,723.5 |
| **Equity** | | | | | | |
| Common stock | 684.8 | 12.5 | 699.6 | 12.7 | [896.9] | [16.3] |
| Additional paid-in capital | 6,300.0 | 114.6 | 7,173.7 | 130.5 | [35,278.4] | [641.8] |
| Deposit for future stock subscription | – | – | – | – | – | – |
| Cumulative translation adjustment | (415.5) | (7.6) | (415.5) | (7.6) | (415.5) | (7.6) |
| Cumulative changes in fair value of financial assets at FVOCI | 511.8 | 9.3 | 511.8 | 9.3 | 511.8 | 9.3 |
| Hedging reserves | 204.6 | 3.7 | 204.6 | 3.7 | 204.6 | 3.7 |
| Remeasurement gain on defined benefit plans | 41.7 | 0.8 | 41.7 | 0.8 | 41.7 | 0.8 |
| Other equity reserve | (67.5) | (1.2) | (67.5) | (1.2) | (67.5) | (1.2) |
| Retained earnings | 9,940.7 | 180.8 | 9,940.7 | 180.8 | [9,845.9] | [179.1] |
| **Net Equity Attributable to Equity Holders of the Company** | 17,200.6 | 312.9 | 18,089.1 | 329.0 | [46,296.3] | [842.2] |
| **Equity Attributable to Non-controlling interests** | 52,296.7 | 951.4 | 52,296.7 | 951.4 | 52,296.7 | 951.4 |
| **Net Equity** | 69,497.3 | 1,264.3 | 70,385.8 | 1,280.4 | [98,593.0] | [1,793.6] |
| **Total Capitalization(3)** | **164,239.4** | **2,987.8** | **165,127.9** | **3,004.0** | **[193,335.1]** | **[3,517.1]** |

*Notes:*

1. The translation of Philippine Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Philippine Pesos were converted to U.S. dollars using the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin as of July 1, 2022 of U.S.$1.00=₱54.97. See "*Exchange Rates*."
2. Comprised of long-term loans – net of current portion, current portion of long-term loans and short-term loans.
3. Total capitalization is calculated as the sum of total indebtedness and total equity.

## DILUTION

If an investor purchases the Offer Shares, such investor's interest will be diluted for each Offer Share it purchases to the extent of the difference between the offer price per Offer Share and the Issuer's net tangible book value per Common Share after the Offer. As of June 30, 2022 and after giving effect to the September Subscriptions, the Issuer's net tangible book value per Common Share is ₱2.32. Net tangible book value per Common Share represents total assets (less other intangible assets) minus total liabilities and non-controlling interest divided by the total number of Common Shares outstanding.

After giving effect to the sale of the Offer Shares (at an Offer Price of ₱[14.60] per Offer Share), and after deducting estimated discounts, commissions, estimated fees and expenses of the Offer, and giving effect to the September Subscriptions, the net tangible book value per Common Share would be ₱[4.95] per Offer Share. At the Offer Price of ₱[14.60], the Common Shares will be purchased at a premium of ₱[9.65] to net tangible book value per Common Share.

The following table illustrates dilution on a per Common Share basis based on an Offer Price of ₱[14.60] per Offer Share:

| | |
|---|---|
| **Offer Price per Offer Share** | ₱[14.60] |
| Net tangible book value per Common Share as of June 30, 2022 as adjusted after giving effect to the September Subscriptions[(1)] | ₱2.32 |
| Net tangible book value per Common Share as adjusted after giving effect to the September Subscriptions and the Offer | ₱[4.95] |
| Dilution to investors in the Offer | ₱[9.65] |

*Note*:

(1) As adjusted as if the pro forma September Subscriptions adjustments had taken place on June 30, 2022.

The following table sets forth the shareholdings, and percentage of Common Shares outstanding, of existing and new shareholders immediately after completion of the Offer, assuming the Over-allotment Option is not exercised:

| | Number of Shares | % |
|---|---|---|
| Existing shareholders | [7,175,000,501] | [80.0] |
| New investors | [1,793,752,000] | [20.0] |
| **Total** | **[8,968,752,501]** | **100.0** |

The following table sets forth the shareholdings, and percentage of Common Shares outstanding, of existing and new shareholders immediately after completion of the Offer, assuming full exercise of the Over-allotment Option:

| | Number of Shares | % |
|---|---|---|
| Existing shareholders | [6,995,625,301] | [78.0] |
| New investors | [1,973,127,200] | [22.0] |
| **Total** | **[8,968,752,501]** | **100.0** |

See "*Risk Factors – Risks Relating to the Offer Shares and an Investment in the Issuer – Future sales of Common Shares in the public market may adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings*" and "*—Investors may incur immediate and substantial dilution as a result of purchasing Common Shares in the Offer*" in this Prospectus.

## SELECTED FINANCIAL AND OPERATING INFORMATION

*The following tables present the summary of financial information pertaining to the Group and should be read in conjunction with the independent auditors' reports and the Group's audited consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information as of and for the years ended December 31, 2021, 2020, 2019 and 2018, and as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 were derived from the Group's audited consolidated financial statements and were prepared in accordance with PFRS and were audited by SGV & Co., a member firm of Ernst & Young Global Limited in accordance with the PSA.*

*The Issuer was incorporated on August 20, 2020 and completed the acquisitions of Prime Metroline and Prime Metro Power in December 2020 pursuant to deeds of assignment from Prime Strategic Holdings. Prior to their acquisition by the Issuer, Prime Metroline and Prime Metro Power were each wholly-owned subsidiaries of Prime Strategic Holdings since their respective incorporation dates. As such, Prime Metroline and Prime Metro Power were deemed to be the accounting acquirer for accounting purposes under PFRS 3, Business Combinations and, accordingly, the Group's audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 have been prepared as a continuation of the respective consolidated financial statements of Prime Metroline and Prime Metro Power. The difference in the legal capital of the Issuer as compared to Prime Metroline and Prime Metro Power is presented as "Equity reserve" in the Group's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018. See "Risk Factors—Risks Relating to the Presentation of Information in this Prospectus."*

*The Group's summary financial information below should not be considered indicative of the results of future operations.*

*The translation of Peso amounts into U.S. dollars as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 is provided for convenience only and is unaudited. For readers' convenience only, amounts in Pesos as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 were converted to U.S. dollars using the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin on July 1, 2022 of ₱54.97 = U.S.$1.00. As of September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89.*

***Statements of Comprehensive Income***

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022(1) | 2022 |
| | ₱ (Audited) | | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Continuing operations** | | | | | | | | |
| Revenues | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 275.6 | 3,421.4 | 12,601.8 | 229.2 |
| Cost of services | 1,040.2 | 1,822.3 | 2,353.6 | 7,584.1 | 138.0 | 1,816.4 | 6,294.3 | 114.5 |
| Gross profit | 139.3 | 472.3 | 880.8 | 7,566.3 | 137.6 | 1,605.0 | 6,307.5 | 114.7 |
| Operating expenses | 311.7 | 417.4 | 736.3 | 3,487.6 | 63.4 | 814.5 | 2,317.3 | 42.2 |
| | (172.4) | 54.9 | 144.5 | 4,078.7 | 74.2 | 790.5 | 3,990.2 | 72.5 |
| **Other income (expenses):** | | | | | | | | |
| Revenue from development and rehabilitation works | – | 2,706.8 | 1,138.3 | 14,355.7 | 261.2 | 1,561.2 | 12,740.9 | 231.8 |
| Cost of development and rehabilitation works | – | (2,704.0) | (974.6) | (14,335.7) | (260.8) | (1,558.4) | (12,717.6) | (231.4) |
| Gain on acquisition of a subsidiary | – | – | – | 9,120.3 | 165.9 | 9,120.3 | – | – |
| Interest expense | (6.3) | (19.5) | (48.4) | (1,954.7) | (35.6) | (275.9) | (1,797.7) | (32.7) |
| Foreign currency differentials | – | – | – | 951.5 | 17.3 | 699.7 | 2,176.2 | 39.6 |
| Foreign exchange gain (loss) – net | 3.2 | (4.2) | (7.0) | (1,200.8) | (21.8) | (395.6) | (1,549.7) | (28.2) |
| Equity share in net income of associates | – | – | – | 270.4 | 4.9 | 29.2 | 307.3 | 5.6 |
| Interest income | 0.7 | 10.6 | 273.3 | 393.5 | 7.2 | 128.7 | 274.6 | 5.0 |
| Amortization of deferred credits | – | – | – | 17.0 | 0.3 | – | – | – |
| Others | 0.1 | 0.1 | 0.6 | (99.5) | (1.8) | 93.6 | 32.8 | 0.6 |
| | (2.3) | (10.2) | 382.2 | 7,517.7 | 136.8 | 9,402.8 | (533.2) | (9.7) |
| **Income (loss) before income tax from continuing operations** | (174.7) | 44.7 | 526.7 | 11,596.4 | 211.0 | 10,193.3 | 3,457.0 | 62.8 |
| **Provision for (benefit from) income tax** | (29.5) | 65.8 | 84.0 | 752.5 | 13.7 | 167.8 | 907.0 | 16.5 |

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022[1] | 2022 |
| | ₱ (Audited) | | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Net income (loss) from continuing operations** | (145.2) | (21.1) | 442.7 | 10,843.9 | 197.3 | 10,025.5 | 2,550.0 | 46.3 |
| **Net loss after tax from discontinued operations** | – | – | – | (12.3) | (0.2) | 0.4 | (0.6) | (0.0) |
| **Net income (loss)** | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.3 |
| **Other comprehensive income (loss):** | | | | | | | | |
| Items that will be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Gain on cash flow hedge - net of tax | – | – | – | 457.9 | 8.3 | – | 411.3 | 7.5 |
| Costs of hedging - net of tax | – | – | – | (35.7) | (0.6) | – | (258.6) | (4.7) |
| Cumulative translation adjustment - net of tax | 0.0 | (57.2) | (650.1) | 583.0 | 10.6 | (22.8) | 66.2 | 1.2 |
| | 0.0 | (57.2) | (650.1) | 1,005.2 | 18.3 | (22.8) | 218.9 | 4.0 |
| Items that will not be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Actuarial gain on pension liabilities - net of tax | – | – | – | 93.0 | 1.7 | – | – | – |
| Actuarial gain on long-term employee benefits – net of tax | – | – | – | – | – | – | 13.1 | 0.2 |
| Unrealized gain (loss) on equity instrument designated at FVOCI – net of tax | – | – | 347.2 | (145.5) | (2.6) | (90.0) | 310.1 | 5.6 |
| | – | – | 347.2 | (52.5) | (1.0) | (90.0) | 323.2 | 5.8 |
| **Other comprehensive income** | 0.0 | (57.2) | (302.9) | 952.7 | 17.3 | (112.8) | 542.1 | 9.8 |
| **Total comprehensive income (loss)** | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.1 |
| **Net Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company | (117.3) | (78.5) | 356.0 | 9,363.6 | 170.3 | 9,408.9 | 464.5 | 8.4 |
| Non-controlling interests | (27.9) | 57.4 | 86.7 | 1,468.0 | 26.7 | 617.0 | 2,084.9 | 37.9 |
| | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.3 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company | (117.3) | (135.7) | 53.0 | 9,690.0 | 176.3 | 9,196.8 | 840.7 | 15.2 |
| Non-controlling interests | (27.9) | 57.4 | 86.8 | 2,094.3 | 38.1 | 716.3 | 2,250.8 | 40.9 |
| | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.1 |
| **Earnings per Share before Discontinued Operations** | | | | | | | | |
| Basic/diluted | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.4 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |
| **Earnings per Share** | | | | | | | | |
| Basic/diluted | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.3 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |

*Note:*

(1) The Group's decrease in par value on June 8, 2022 resulted in a share split of 10:1 for its issued shares of 50,000,000. In accordance with PAS 33, *Earnings Per Share*, the weighted average number of common shares for the six months ended June 30, 2022 and 2021 was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred on January 1, 2021.

### *Statements of Financial Position*

| | As of December 31, | | | | | As of June 30, | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 (as restated)[1] | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | U.S.$ millions (Unaudited) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 323.0 | 686.2 | 1,343.3 | 15,902.3 | 289.3 | 10,930.9 | 198.9 |
| Short-term investments | – | – | – | 458.5 | 8.3 | 350.9 | 6.4 |
| Trade and other receivables | 158.0 | 523.5 | 975.0 | 3,863.3 | 70.3 | 4,162.0 | 75.7 |

| | As of December 31, | | | | | As of June 30, | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 (as restated)[1] | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | U.S.$ millions (Unaudited) |
| Contract assets - current portion | 38.9 | 20.1 | 176.3 | 1,410.6 | 25.7 | 1,050.1 | 19.1 |
| Inventories | 8.3 | 11.3 | 79.8 | 502.2 | 9.1 | 630.3 | 11.5 |
| Due from related parties | – | 3.6 | 0.5 | – | – | – | – |
| Prepayments and other current assets | 202.6 | 89.5 | 251.4 | 2,556.7 | 46.5 | 3,025.6 | 55.0 |
| **Total current assets** | **730.8** | **1,334.2** | **2,826.3** | **24,693.6** | **449.2** | **20,149.8** | **366.6** |
| **Non-current assets** | | | | | | | |
| Contract asset classified as non-current | – | 3,012.2 | 3,495.8 | 6,938.9 | 126.2 | 9,220.9 | 167.7 |
| Service concession asset | – | – | – | 119,820.5 | 2,179.7 | 128,661.5 | 2,340.6 |
| Investments in associates | – | – | – | 11,452.4 | 208.3 | 12,153.7 | 221.1 |
| Financial assets at fair value through other comprehensive income | – | – | 1,885.2 | 1,617.0 | 29.4 | 2,030.5 | 36.9 |
| Property, plant and equipment | 279.0 | 380.6 | 516.6 | 7,705.3 | 140.2 | 7,929.7 | 144.3 |
| Project development costs | 514.4 | 104.6 | 138.2 | 222.9 | 4.1 | 315.3 | 5.7 |
| Goodwill and other intangible assets | – | – | – | 1,864.1 | 33.9 | 1,834.5 | 33.4 |
| Deferred tax assets – net | 50.8 | 106.8 | 148.1 | 1,590.7 | 28.9 | 1,499.3 | 27.3 |
| Other non-current assets | 63.1 | 146.0 | 502.9 | 10,454.1 | 190.2 | 13,771.9 | 250.5 |
| **Total non-current assets** | **907.3** | **3,750.2** | **6,686.8** | **161,665.9** | **2,941.0** | **177,417.3** | **3,227.5** |
| **Total assets** | **1,638.1** | **5,084.4** | **9,513.1** | **186,359.5** | **3,390.2** | **197,567.1** | **3,594.1** |
| **Current liabilities** | | | | | | | |
| Accounts payable and other current liabilities | 584.8 | 669.6 | 1,294.8 | 14,825.1 | 269.7 | 14,323.5 | 260.6 |
| Short-term loans | 47.2 | 42.2 | – | 52.5 | 1.0 | 4,067.0 | 74.0 |
| Current portion of: | | | | | | | |
| Long-term loans | – | 52.7 | 56.8 | 5,371.7 | 97.7 | 6,135.0 | 111.6 |
| Service concession obligations | – | – | – | 626.5 | 11.4 | 632.4 | 11.5 |
| Lease liabilities | 50.2 | 30.9 | 35.0 | 168.6 | 3.1 | 102.6 | 1.9 |
| Contract liabilities | 265.0 | 475.6 | 303.1 | 883.4 | 16.1 | 342.4 | 6.2 |
| Income tax payable | – | 54.2 | 82.1 | 170.8 | 3.1 | 507.9 | 9.2 |
| Due to related parties | 637.1 | 55.7 | – | – | – | – | – |
| **Total current liabilities** | **1,584.3** | **1,380.9** | **1,771.8** | **22,098.6** | **402.0** | **26,110.8** | **475.0** |
| **Non-current liabilities** | | | | | | | |
| Long-term loans - net of current portion | – | 86.7 | 1,574.8 | 81,236.8 | 1,477.8 | 84,540.1 | 1,537.9 |
| Contract liabilities - net of current portion | – | – | – | 151.5 | 2.8 | 570.8 | 10.4 |
| Lease liability - net of current portion | 140.7 | 46.6 | 26.1 | 328.9 | 6.0 | 323.3 | 5.9 |
| Deposit for future stock subscription | – | 2,973.5 | – | – | – | – | – |
| Service concession obligation | – | 366.3 | 386.4 | 8,841.0 | 160.8 | 9,105.6 | 165.6 |
| Retirement liability – net | 9.9 | 14.3 | 27.5 | 160.7 | 2.9 | 216.7 | 3.9 |
| Deferred tax liabilities – net | – | 0.0 | 12.8 | 583.9 | 10.6 | 721.3 | 13.1 |
| Provisions | – | – | – | 1,167.0 | 21.2 | 1,083.2 | 19.7 |
| Other non-current liabilities | – | – | – | 5,151.0 | 93.7 | 5,398.0 | 98.3 |
| **Total non-current liabilities** | 150.6 | 3,487.4 | 2,027.6 | 97,620.8 | 1,775.9 | 101,959.0 | 1,854.8 |
| **Total liabilities** | **1,734.9** | **4,868.3** | **3,799.4** | **119,719.4** | **2,177.9** | **128,069.8** | **2,329.8** |
| **Equity Attributable to Equity Holders of the Company** | | | | | | | |
| Common stock | – | – | 50.0 | 50.0 | 0.9 | 684.8 | 12.5 |
| Additional paid-in capital | – | – | 6,318.6 | 6,318.6 | 114.9 | 6,300.0 | 114.6 |

| | As of December 31, | | | | | As of June 30, | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 (as restated)[1] | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | U.S.$ millions (Unaudited) |
| Deposit for future stock subscription | – | 391.4 | – | 634.8 | 11.5 | – | – |
| Subscription receivable | – | – | (596.1) | – | – | – | – |
| Cumulative translation adjustment | 0.0 | (57.2) | (707.3) | (422.6) | (7.7) | (415.5) | (7.6) |
| Cumulative changes in fair value of financial assets at FVOCI | – | – | 347.2 | 201.7 | 3.7 | 511.8 | 9.3 |
| Hedging reserves | – | – | – | 150.3 | 2.7 | 204.6 | 3.7 |
| Remeasurement gain on defined benefit plans | – | – | – | 37.1 | 0.7 | 41.7 | 0.8 |
| Other equity reserve | 3.1 | 3.1 | 3.1 | 3.1 | 0.1 | (67.5) | (1.2) |
| Retained earnings | (164.8) | (243.4) | 112.6 | 9,476.3 | 172.4 | 9,940.7 | 180.8 |
| **Net Equity Attributable to Equity Holders of the Company** | **(161.7)** | **93.9** | **5,528.1** | **16,449.3** | **299.2** | **17,200.6** | **312.9** |
| **Equity Attributable to Non-controlling interests** | **64.9** | **122.2** | **185.6** | **50,190.8** | **913.1** | **52,296.7** | **951.4** |
| **Total Equity (Capital Deficiency)** | **(96.8)** | **216.1** | **5,713.7** | **66,640.1** | **1,212.3** | **69,497.3** | **1,264.3** |
| **Total liabilities and equity** | **1,638.1** | **5,084.4** | **9,513.1** | **186,359.5** | **3,390.2** | **197,567.1** | **3,594.1** |

*Note:*

(1) As of June 30, 2022, the fair values of the identifiable net assets of SP Tanauan have been finalized. Accordingly, the provisional fair values as of December 31, 2021 have been restated to reflect the final fair value amounts. Please refer to Note 4 of the Group's audited consolidated financial statements as of June 30, 2022, which are included elsewhere in the Prospectus.

### *Statements of Cash Flows*

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022 | 2022 |
| | ₱ millions (Audited) | | | | U.S.$ millions (Unaudited) | ₱ millions (Audited) | | U.S.$ millions (Unaudited) |
| Net cash provided by (used in) operating activities | 870.1 | (1,694.9) | 90.1 | (1,158.4) | (21.1) | 791.2 | (4,852.5) | (88.3) |
| Net cash provided by (used in) investing activities | (575.1) | (819.4) | (2,925.9) | 7,031.7 | 127.9 | 10,839.0 | (3,032.2) | (55.2) |
| Net cash provided by (used in) financing activities | (79.8) | 2,883.3 | 3,496.9 | 8,591.7 | 156.3 | 10,341.4 | 2,922.6 | 53.2 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 0.0 | (5.8) | (4.1) | 94.0 | 1.7 | 178.0 | (9.4) | (0.2) |
| Net increase (decrease) in cash and cash equivalents | 215.3 | 363.2 | 657.1 | 14,559.0 | 264.9 | 22,149.6 | (4,971.4) | (90.4) |
| Cash and cash equivalents at beginning of year / period | 107.7 | 323.0 | 686.2 | 1,343.3 | 24.4 | 1,343.3 | 15,902.3 | 289.3 |
| Cash and cash equivalents at end of year / period | 323.0 | 686.2 | 1,343.3 | 15,902.3 | 289.3 | 23,492.9 | 10,930.9 | 198.9 |

### *Key Financial and Operating Data*

| Key Financial Ratios | For the year ended December 31, 2018 | 2019 | 2020 | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Revenues (in ₱ millions) | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 12,601.8 |
| EBITDA (in ₱ millions) [(1)] | (148.3) | 147.9 | 700.3 | 6,970.2 | 6,693.3 |
| Core Net Income (Loss) Attributable to the Company (in ₱ millions)[(2)] | (117.3) | (78.6) | 356.0 | 243.3 | 550.3 |
| Current Ratio[(3)] | 0.46 | 0.97 | 1.60 | 1.12 | 0.77 |
| Debt to Equity[(4)] | N/A | 0.84 | 0.29 | 1.30 | 1.36 |
| Return on Equity (in %)[(5)] | N/A | (35.56) | 14.93 | 29.94 | 7.49 |
| Asset to Equity[(6)] | N/A | 23.52 | 1.66 | 2.80 | 2.84 |

*Notes:*

(1) EBITDA is calculated as the Group's consolidated net income (loss) excluding provision for taxes, interest expense, depreciation and amortization, foreign exchange gains/losses, interest income from banks, and other income. The following table sets forth the computation of the Group's EBITDA for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| | | | (in ₱ millions) (Audited) | | |
| Net income (loss) | (145.1) | (21.2) | 442.8 | 10,831.6 | 2,549.4 |
| Net loss from discontinued operations | – | – | – | 12.3 | 0.6 |
| Provision for (benefit from) income tax | (29.5) | 65.8 | 84.0 | 752.5 | 907.0 |
| Other income - net | (0.1) | (0.1) | (0.7) | (9,050.1) | (32.8) |
| Interest income | (0.7) | (7.6) | (2.9) | (176.2) | (29.6) |
| Foreign exchange losses (gains) - net | (3.2) | 4.2 | 7.0 | 249.3 | (626.5) |
| Interest expense | 6.3 | 19.5 | 48.4 | 1,954.7 | 1,797.7 |
| Depreciation and amortization | 24.0 | 87.3 | 121.7 | 2,396.1 | 2,127.5 |
| **EBITDA** | **(148.3)** | **147.9** | **700.3** | **6,970.2** | **6,693.3** |

(2) Core Net Income (Loss) Attributable to the Company is computed as the sum of the net income (loss) of each investment after eliminations and excluding non-recurring items, multiplied by the respective economic interest of the Company. Non-recurring items are defined as gains or losses that are infrequent and do not occur in the normal course of the Group's business. The following table sets forth the computation of the Core Net Income (Loss) Attributable to the Company for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| | | | (in ₱ millions) (Audited) | | |
| Net Income (Loss) Attributable to the Company | (117.3) | (78.6) | 356.0 | 9,363.6 | 464.5 |
| Gain on acquisition of a subsidiary | – | – | – | (9,120.3) | – |
| Provision for impairment loss on Chico Hydropower Project | – | – | – | – | 85.8 |
| **Core Net Income (Loss) Attributable to the Company** | **(117.3)** | **(78.6)** | **356.0** | **243.3** | **550.3** |

(3) Current ratio is derived by dividing current assets by current liabilities at the end of a given period. Current ratio measures the Company's ability to pay short-term obligations.

(4) Debt to equity ratio is derived by dividing the Company's interest-bearing liabilities (loans payable and bonds payable) by the total equity as of the end of the period. Debt to equity ratio measures the degree of the Company's financial leverage.

(5) Return on equity is derived by dividing net income (loss) by total average equity. Return on equity presented for the six months ended June 30, 2022 is annualized (computed as interim net income (loss) multiplied by 12/6).

(6) Asset to equity ratio is derived by dividing total assets by total equity. Asset to equity ratio measures the Company's financial leverage and long-term solvency.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of the Group's financial condition and results of operations should be read in conjunction with the sections entitled "Summary Financial and Operating Information" and "Selected Financial and Operating Information" and with the independent auditor's reports on the Audited Consolidated Financial Statements and notes thereto, and the section entitled "Selected Financial and Operating Information." The Audited Consolidated Financial Statements were audited by SGV & Co. and prepared in accordance with PFRS.*

*The Issuer was incorporated on August 20, 2020 and completed the acquisitions of Prime Metroline and Prime Metro Power in December 2020 pursuant to deeds of assignment from Prime Strategic Holdings. Prior to their acquisition by the Issuer, Prime Metroline and Prime Metro Power were each wholly-owned subsidiaries of Prime Strategic Holdings since their respective incorporation dates. As such, Prime Metroline and Prime Metro Power were deemed to be the accounting acquirer for accounting purposes under PFRS 3, Business Combinations and, accordingly, the Group's audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 have been prepared as a continuation of the respective consolidated financial statements of Prime Metroline and Prime Metro Power. The difference in the legal capital of the Issuer as compared to Prime Metroline and Prime Metro Power is presented as "Equity reserve" in the Group's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018. See "Risk Factors—Risks Relating to the Presentation of Information in this Prospectus."*

*The following discussion contains forward-looking statements and reflects the Group's current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements (see the section entitled "Forward-Looking Statements" in this Prospectus) as a result of certain factors such as those set out in "Risk Factors" and elsewhere in this Prospectus.*

*The translation of Peso amounts into U.S. dollars as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 is provided for convenience only and is unaudited. For readers' convenience only, amounts in Pesos as of and for the year ended December 31, 2021 and as of and for the six months ended June 30, 2022 were converted to U.S. dollars using the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin on July 1, 2022 of ₱54.97 = U.S.$1.00. As of September 22, 2022, the exchange rate between the Peso and the U.S. dollar quoted on the BSP Reference Exchange Rate Bulletin was U.S.$1.00 = ₱57.89.*

### OVERVIEW

The Issuer is a company focused on developing, designing, managing and operating key infrastructure assets that enable delivery of essential services to communities in emerging markets worldwide. As of June 30, 2022, the Group's businesses comprise four core industrial sectors—water, energy generation, construction, and waste and sustainable fuels—in the Philippines and other emerging markets. The Issuer holds its investments and operating companies through the following holding companies: Prime Metro Power, Prime Metroline, Prime Infrastructure and Trident Water.

The Group's principal businesses are summarized below.

- ***Water*** – Through Prime Infrastructure's wholly-owned subsidiary Trident Water, which as of June 30, 2022, has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater), respectively, of the publicly listed Manila Water. The Manila Water Group is a regional player in the water supply and wastewater industry. The Manila Water Group is engaged in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services in the Philippines, South East Asia and the KSA. On February 21, 1997, under a 25-year Concession Agreement with the MWSS, Manila Water was awarded the Manila Concession. The Concession Agreement, as revised on March 31, 2021, expires in May 2037. On December 10, 2021, President Duterte signed the East Zone Franchise Law into law, thereby granting a franchise to Manila Water to operate as a public utility over the East Zone of Metro Manila. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise. Prime Infrastructure also owns 82.0% of WawaJVCo, a joint venture enterprise with San Lorenzo Ruiz Builders & Developers Group, Inc. formed to develop and operate the Wawa Bulk Water

Supply Project and which is expected to increase Manila Water's water capacity by over 30% from about 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project. See "*Description of the Group's Water Business*" for further details.

- ***Energy*** – Through certain subsidiaries and affiliates of Prime Infrastructure and Prime Metro Power and Prime Metro Power's ownership of preferred shares in SP Tarlac, the Group either operates or has invested in energy generation projects, including hydro, solar, and gas, in the Philippines and Iraq. These projects include the 1,400MW (gross) (1,200MW (net)) hydropower Ahunan Laguna Power Plant; the 100MW (150MW upon completion) Tarlac Solar Power Plant; the 140MW Tanauan Solar Power Plant under construction in Tanauan and Maragondon in the Philippines; the Terra Solar Power Plant, a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system expected to be located and constructed in Bulacan and Nueva Ecija, Philippines; and the Umm Qasr Power Plant, a 29.3MW (67.8MW upon completion) gas-fired power plant located in the Umm Qasr Port, Basra, Iraq. See "*Description of the Group's Energy Business*" for further details.

- ***Construction*** – Through Prime Metro BMD Corporation ("**Prime BMD**"), a joint venture partnership between Prime Metroline and BMD International Pty Ltd., a large Australian civil contractor company, the Group constructs major infrastructure projects in the Philippines. Prime BMD's projects include roads and bridges, marine infrastructure and dredging services, airport infrastructure, building works, water and wastewater infrastructure, rail infrastructure, and commercial and residential land subdivision projects. As of the date of this Prospectus, the Issuer's wholly-owned subsidiary Prime Metroline owns 60.0% and BMD International Pty Ltd. owns 40.0% of Prime BMD. See "*Description of the Group's Construction Business"* for further details.

- ***Waste and Sustainable Fuels*** – The Issuer holds 9.04% of the issued share capital of WasteFuel Global, a California-based entity founded to utilize scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas, and green methanol. The Issuer and WasteFuel Global have also established a subsidiary, WasteFuel Philippines to develop a facility in the Philippines to convert municipal waste into aviation-grade low-carbon fuel for sale to customers in the aviation sector. Through Prime Integrated Waste Solutions, a wholly-owned direct subsidiary of Prime Infrastructure, and WasteFuel Philippines, the Group plans to develop an integrated waste and sustainable fuels solution business in the Philippines. See "*Description of the Group's Waste and Sustainable Fuels Business*" for further details.

In addition to the foregoing businesses, Prime Infrastructure incorporated its wholly-owned subsidiary, Torre, Inc., in the Philippines on December 29, 2020, to engage in the development and operation of telecommunications infrastructure. As of the date of this Prospectus, Torre, Inc. does not hold any operational assets.

The Group integrates ESG thinking into its operations, which embodies its purpose to create better lives and more resilient economics in the jurisdictions where it is present. The Group's ESG focus areas include (i) net zero transitions through innovation and technology across water, carbon, and waste and sustainable fuels, (ii) community partnerships through community investments, assisting in resilience and disaster preparedness, and human capital development, and (iii) purpose-driven profits through the generation and distribution of economic value and job creation and consideration for social and environmental impact.

The Group's consolidated revenue for the years ended December 31, 2019, 2020 and 2021 was ₱2,294.6 million, ₱3,234.4 million and ₱15,150.4 million (U.S.$275.6 million), respectively, while consolidated net income (loss) for the years ended December 31, 2019, 2020 and 2021 was ₱(21.2) million, ₱442.8 million and ₱10,831.6 million (U.S.$197.0 million), respectively. The Group's consolidated net income (loss) attributable to shareholders of the Issuer for the years ended December 31, 2019, 2020 and 2021 was ₱(78.6) million, ₱356.0 million and ₱9,363.6 million (U.S.$170.3 million), respectively. The Group's consolidated net income for the year ended December 31, 2019 was derived exclusively from its construction business and its consolidated net income for the year ended December 31, 2020 was derived primarily from its construction business. The Group's consolidated net income for the year ended December 31, 2021 was primarily derived from its water business after the completion of Trident Water's acquisition of Manila Water. For the six months ended June 30, 2022, the Group's consolidated revenue was ₱12,601.8 million (U.S.$229.2 million), consolidated net income was ₱2,549.4 million (U.S.$46.3 million) and consolidated net income attributable to shareholders of the Issuer was ₱464.5 million (U.S.$8.4 million).

The Group has a target gearing ratio, calculated as total debt divided by the sum of total debt and total equity, of between 70% to 75%.

The Group generally targets an EBITDA margin of between 75% to 90% for its projects. In respect of the Group's energy business, the Group believes that, based on standard capacity factors, such target EBITDA margin is attainable and could be substantially achievable through active cost management. In particular:

(i) for solar power plants, the Group believes that the target EBITDA margin is attainable due to the low maintenance costs for solar projects, and in respect of the Terra Solar Power Plant, there will be no lease costs as Terra Solar will own the project land. In the event that WESM prices remain at their current levels or increase, the Group believes there is potential to achieve higher EBITDA margins; and

(ii) for pumped storage hydropower plants, the Group believes that there are generally lower operating and maintenance costs, and in addition, as pumping costs are borne by the offtaker, the Group believes there is potential to improve the EBITDA margin.

The contribution to the Group's EBITDA by the Group's construction business was ₱(64.6) million, ₱292.1 million, ₱368.4 million, ₱371.2 million, ₱129.5 million and ₱250.1 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Group's construction business to attributable net income (loss) amounted to ₱(38.8) million, ₱89.7 million, ₱168.4 million, ₱87.6 million, ₱10.3 million and ₱104.2 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The contribution to the Group's EBITDA by the Energy Companies was ₱(16.4) million, ₱(70.5) million, ₱350.2 million, ₱309.1 million, ₱155.0 million and ₱(166.3) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Group's energy business to attributable net income (loss) amounted to ₱(9.5) million, ₱(74.3) million, ₱346.8 million, ₱287.2 million, ₱142.8 million and ₱(79.1) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The contribution to the Group's EBITDA by the Group's water business, comprising of WawaJVCo, Trident Water and Manila Water, was nil, ₱2.8 million, ₱164.1 million, ₱6,734.9 million, ₱1,159.8 million and ₱6,859.3 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Group's water business to attributable net income (loss) amounted to nil, ₱(4.8) million, ₱3.6 million, ₱9,549.1 million, ₱9,377.1 million and ₱859.2 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The contribution to the Group's EBITDA by the Issuer and other members of the Group (other than those in the construction, energy and water businesses) was ₱(67.2) million, ₱(76.5) million, ₱(182.4) million, ₱(445.1) million, ₱(112.7) million and ₱(249.9) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the by the Issuer and other members of the Group (other than those in the construction, energy and water businesses) to attributable net income (loss) amounted to ₱(68.9) million, ₱(89.3) million, ₱(162.9) million, ₱(560.3) million, ₱(121.2) million and ₱(419.9) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The Company's cash in bank, on a stand-alone basis, was ₱78.3 million and ₱140.4 million as of December 31, 2021 and June 30, 2022, respectively. On a stand-alone basis, the Company had no outstanding bank loans as of December 31, 2021 and had outstanding short-term debt amounting to ₱410.0 million as of June 30, 2022.

The following table describes the contribution of the Group's domestic and foreign subsidiaries for the periods presented:

| | For the six months ended June 30, 2022 (Amounts in ₱ millions) | | | |
|---|---|---|---|---|
| | **Domestic Subsidiaries** | **Foreign Subsidiaries** | **Total** | **Foreign Contribution** |
| Revenue | 12,368.7 | 233.1 | 12,601.8 | 2% |
| Net Income | 2,271.4 | 278.0 | 2,549.4 | 11% |

| | For the year ended December 31, 2021 (Amounts in ₱ millions) | | | |
|---|---|---|---|---|
| | Domestic Subsidiaries | Foreign Subsidiaries | Total | Foreign Contribution |
| Revenue | 14,656.6 | 493.8 | 15,150.4 | 3% |
| Net Income | 10,546.0 | 285.6 | 10,831.6 | 3% |

| | For the year ended December 31, 2020 (Amounts in ₱ millions) | | | |
|---|---|---|---|---|
| | Domestic Subsidiaries | Foreign Subsidiaries | Total | Foreign Contribution |
| Revenue | 2,857.3 | 377.2 | 3,234.4 | 12% |
| Net Income | 95.5 | 347.3 | 442.8 | 78% |

| | For the year ended December 31, 2019 (Amounts in ₱ millions) | | | |
|---|---|---|---|---|
| | Domestic Subsidiaries | Foreign Subsidiaries | Total | Foreign Contribution |
| Revenue | 2,294.6 | - | 2,294.6 | 0% |
| Net Income (loss) | 47.5 | (68.7) | (21.2) | 0% |

## SIGNIFICANT FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

*The Group's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Group's results in the past and which the Group expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on the Group's results of operations and financial condition in the future.*

### Significant Transactions

The Group has previously entered into significant transactions, which have affected the Group's results in the past. A summary of the impact such key significant transactions had on the Group's results in the past is set out below. For further details of the transactions discussed below and other significant transactions of the Group, see Note 1 to the Audited Consolidated Financial Statements.

***Acquisition of the Manila Water Group***

On February 1, 2020, Manila Water and Prime Metroline, on behalf of its subsidiary, Trident Water, signed a subscription agreement for the acquisition by Prime Metroline of 820.0 million common shares of Manila Water at ₱13.0 per share. On February 7, 2020, Prime Metroline announced its intention to make a mandatory offer for Manila Water's shares at an offer price of ₱13.0 per share. In addition, as part of a shareholder agreement executed among Ayala Corporation, its wholly-owned subsidiary, Philwater, and Trident Water, Ayala Corporation granted proxy rights by Philwater over its 4 billion preferred shares to Trident Water to enable the latter to obtain a 51.0% voting interest in Manila Water. Furthermore, Philwater and Trident Water entered into a share purchase agreement wherein the former agreed to sell 2,691,268,205 of its preferred shares in Manila Water to the latter. The purchase of the preferred shares reflected a 39.09% voting stake and 8.19% economic stake in Manila Water. The purchase price for the preferred shares was set at ₱1.80 per share, resulting in a total purchase price of ₱4.8 billion. The aforementioned transactions closed on June 3, 2021, as a result of which the Group gained control over Manila Water from Ayala Corporation.

At such acquisition date, the Group recognized a one-time gain on acquisition amounting to ₱9,120.3 million, largely resulting from the lower market price associated with the pending approval of Manila Water's legislative franchise as of the acquisition date. Acquisition related costs amounted to ₱8.4 million in 2021 and was recognized directly to the Group's profit and loss statement. The Group recorded total identifiable net assets amounting to ₱72,570.6 million, which was based on a provisional assessment of the fair values of the identifiable net assets. The fair value of the non-controlling interest in Manila Water was valued by the Group as equal to its proportionate share in Manila Water's identifiable net assets at fair value. The Group recognized an additional loss of ₱90.0 million in 2021 as a result of re-measuring at fair value of less than 1% equity interest in Manila Water held at the date of the acquisition. The loss is included in other comprehensive income in the Group's consolidated statement of comprehensive income for the year ended December 31, 2021. As at the acquisition date, Manila Water's revenue and net income to be included in the Group's consolidated statement of comprehensive income for the year ended December 31, 2021, will be ₱20,292.4 million and ₱3,754.1 million, respectively, if it was acquired beginning January 1, 2021. For further details, see Notes 1 and 4 to the Audited Consolidated Financial Statements.

The results of the Group for the year ended December 31, 2021 also only reflect the results of operations and earnings of the Manila Water Group starting from its acquisition in June 2021 until December 31, 2021. As of June 30, 2022, Trident Water has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater), respectively, in Manila Water.

***Acquisition of Prime Metroline and Prime Metro Power***

The Issuer was incorporated on August 20, 2020 and completed the acquisitions of Prime Metroline and Prime Metro Power in December 2020 pursuant to deeds of assignment from Prime Strategic Holdings. Prior to their acquisition by the Issuer, Prime Metroline and Prime Metro Power were each wholly-owned subsidiaries of Prime Strategic Holdings since their respective incorporation dates. As such, Prime Metroline and Prime Metro Power were deemed to be the accounting acquirer for accounting purposes under *PFRS 3*, *Business Combinations* and, accordingly, the Group's audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 have been prepared as a continuation of the respective consolidated financial statements of Prime Metroline and Prime Metro Power. The difference in the legal capital of the Issuer as compared to Prime Metroline and Prime Metro Power is presented as "Other equity reserve" in the Group's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2018. See "*Risk Factors—Risks Relating to the Presentation of Information in this Prospectus*."

***Commencement of the Group's energy business in 2020***

In 2018, Prime Metro Power purchased from an individual shareholder 1,000 shares, representing 100% ownership, of Menatech. Menatech, through its branch in Iraq, operates the Umm Qasr Power Plant located at the Umm Qasr Port, Basra Governorate, Republic of Iraq.

The first phase of the Umm Qasr Power Plant, comprising 29.34MW of installed capacity, commenced commercial operations in February 2020. The Company, through Menatech, has entered into a 23-year contract of supplying, installation, management and operation of power plant with GCPI, which agreement provides for the sale of power from February 18, 2020 to February 18, 2043.

As the functional currency of Menatech is U.S. dollars, as of the relevant reporting date, the assets and liabilities of Menatech is translated into the presentation currency of the Group at the rate of exchange at the reporting date and Menatech's profit and loss account is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income and reported as "Cumulative translation adjustment," a separate component of "Equity." For further details, see Note 1 to the Group's audited consolidated financial statements as of and for the years ended December 31, 2021, 2020, 2019 and 2018.

***Increase in capital stock***

On November 19, 2021, Prime Strategic Holdings subscribed to an additional 6,347,541,980 common shares of the Company at a subscription price of ₱0.10 per share for an aggregate consideration of ₱634,754,198. Pending the Philippine SEC's approval for the increase in the Company's authorized capital stock, the total deposits received from Prime Strategic Holdings were recognized as "Deposit for future stock subscription" under the "Equity" section in the Group's consolidated statements of financial position as of December 31, 2021. On December 15, 2021, the Philippine SEC received the certificate of increase in capital stock of the Company. On June 8, 2022, the Philippine SEC approved the increase in the Company's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 Common Shares and 7,000,000,000 preferred shares. In June 2022, the Company incurred share issuance costs for Philippine SEC registration fees, documentary stamp tax, and professional audit fees amounting to ₱18.6 million, which were deducted from "Additional paid-in capital." For further details, see Note 21 to the Group's audited consolidated financial statements as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 and "*Description of Common Shares*."

**General Economic Conditions and Trends in the Philippines**

The Group derives substantially all of its revenue from its operations in the Philippines. Accordingly, the Group is heavily dependent on the state of the Philippine economy generally, and the Group's growth is driven in significant part by growth in the Philippine economy. For example, the general performance of the Philippine economy affects demand for the Group's water, energy, construction, and waste and sustainable fuels services, while inflation affects the Group's costs and its margins. While the Group is allowed under material agreements related to its water business to recover certain costs associated with changes in inflation, these adjustments are implemented after varying periods of time. Moreover, approved tariff rate adjustments in relation to the Group's water business will not cover all increased costs to the Group associated with changes in economic conditions.

**Regulatory Environment**

The Group is subject to and relies on a number of Government and foreign government regulations and initiatives affecting all aspects of its operations in the water, energy, construction, and waste and sustainable fuels segments. For example, the operations of SP Tarlac generally enjoy preferential tax rates on its income as a result of the Government's thrust to support the renewable energy industry. The Group's growth prospects are directly connected to being able to continue to enjoy such preferential tax incentives to maintain its margins. The Group is also subject to other laws and regulations including environmental regulations and regulatory requirements prescribed by the NWRB, amendments or breaches of which could lead to higher costs or expenses.

***Water Business***

The Manila Water Group is subject to various laws and regulations and, apart from the MWSS, one of the primary government regulators of its business is the NWRB that is tasked to regulate and control the utilization, exploitation, development, conservation and protection of all water resources. The Manila Water Group's operations in the Philippines are subject to various environmental laws and regulations, which include, among others, the Philippine Clean Water Act, R.A. 9003 known as the "Ecological Solid Waste Management Act of 2000," R.A. 8749, the "Philippine Clean Air Act of 1999," R.A. 6969 or the "Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990," Presidential Decree No. 856 otherwise known as the "Code on Sanitation of the Philippines" and Presidential Decree No. 1067 or the "The Water Code of the Philippines."

Certain of the Manila Water Group's operations are also regulated by the Laguna Lake Development Authority ("**LLDA**") through R.A. 4850 and various LLDA Board Resolutions and Memorandum Circulars, including, but not limited to, Resolution No. 25, Series of 1996 (Adoption of the Environmental Users Fee System and Approval of the Work and Financial Plan for its Operationalization in the Laguna de Bay Basin), which require entities to secure a discharge permit from the LLDA. The Manila Water Group is also subject to other laws and regulations relating to the protection of human health and the environment.

***Energy Business***

The energy business and its customers are subject to strict regulation in the Philippines. Several Government agencies, such as the ERC, the DOE, the DENR and LGUs regulate the power generation industry such that any perceived violation or any amendments to existing rules and regulations or other newly enacted rules and regulations could adversely delay or entirely hinder the development of projects. Further, the development and operation of power plants require an Environmental Compliance Certificate ("**ECC**") from the DENR.

The Group is also reliant on a number of Government regulations and initiatives affecting the renewable energy industry, including incentives granted to renewable energy developers such as Board of Investments ("**BOI**") incentives. The reduction, modification or elimination of government mandates and economic incentives could materially and adversely affect the growth of the renewable energy industry or result in increased price competition, either of which could cause the Group's revenues to decline and adversely affect its financial results. While the renewable energy industry may continue to offer attractive internal rates of return, any changes in regulations to continue to reduce or eliminate subsidies may cause a decrease in demand and considerable downward pressure on market prices.

***Construction Business***

The construction business is primarily subject to the regulations of the CIAP, an attached agency of the Department of Trade and Industry. The CIAP implements its policies through the following government agencies which are under its jurisdiction: the Philippine Construction Accreditation Board, the Philippine Overseas Construction Board, the Philippine Domestic Construction Board and the Construction Manpower Development Foundation. The construction business is heavily dependent on the CIAP for accreditation and licensing as well as on the policies and guidelines for bidding of public construction projects and contract pricing for private construction projects. Any violation of CIAP regulations could lead to the suspension or withdrawal of the business' construction license. Aside from the CIAP, local government units also regulate the construction and renovation of buildings and structures within their territories by ensuring compliance with minimum safety standards under R.A. 6541 (National Building Code of the Philippines). For the construction of condominiums and subdivisions, on the other hand, these are further regulated by the Department of Human Settlements and Urban Development.

***Waste and Sustainable Fuels Business***

The Group's waste and sustainable fuels business will be primarily subject to the regulations of the Environmental Management Bureau. To protect, restore and enhance environmental quality towards good public health, environmental integrity and economic viability, the Environmental Management Bureau is mandated to implement the following national environmental laws: Presidential Decree 1586 (Establishing an Environmental Impact Statement System, including other Environmental Management Related Measures and For Other Purposes), R.A. 6969 (Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990), R.A. 8749 (Philippine Clean Air Act of 1999), R.A. 9003 (Ecological Solid Waste Management Act of 2000) and the Philippine Clean Water Act.

**Factors Affecting the Group's Water Business**

***Water Supply***

The Manila Water Group is dependent on infrastructure which draws water from both ground and surface sources. Manila Water's water supply is heavily dependent on the allocation of water from the Angat dam. Due to increasing demand over time, Manila Water is continuously implementing projects to develop new water sources to meet customer demand. The Philippines also cyclically experiences the *El Niño* phenomenon, including phases of prolonged and severe drought. During such periods, sources of water available to Manila Water from the MWSS are dramatically diminished. This may affect Manila Water's ability to supply adequate amounts of treated water to its customers. In March 2019, the significant decline in the water levels of the La Mesa dam caused raw water availability in the East Zone of Metro Manila to drop significantly, reaching its lowest level of around 68.5 meters in April 2019. The Angat dam also suffered from a decline in water levels during the second quarter of 2019 which prompted the MWSS to further reduce raw water releases to the MWSS concessionaires. In July 2019, raw water allocation from the Angat dam reached its lowest levels, with releases limited to only 35 cubic meters for the MWSS concessionaires. Manila Water embarked on crisis management responses, such as improving network efficiency and focusing on water supply augmentation projects, including the start of operations of the water treatment plant at Cardona in March 2019 which delivers 100 MLD and the construction and commencement of operations of a treatment plant in Luzon in June 2019, and the recommissioning and development of new wells with a total capacity of 118 MLD as of December 31, 2021.

***Tariff Rates***

The Manila Water Group's water tariff rates are set according to the rate determination clauses in the respective concession agreements between the Manila Water Group and other entities. The Manila Water Group has several concession agreements, mostly with government entities, such as the MWSS, Calasiao Water District, the Philippine Tourism Infrastructure and Enterprise Authority ("**TIEZA**"), Clark Development Corporation, Provincial Government of Laguna, Obando Water District, Tanauan Water District, Bulacan Water District, Pagsanjan Water District, City of Ilagan Water District, Lambunao Water District, and Calbayog City Water District. Manila Water's tariff schedules for the East Zone apply to four main categories of customers, (i) residential; (ii) semi-business; (iii) commercial; and (iv) industrial customers. Customers pay service charges which fall under one or more of the following categories: (i) water charges; (ii) environmental charges; (iii) sewer charges; and (iv) maintenance service charges. Manila Water also charges government taxes, which covers for franchise tax payments for the national government and local government units. In 2021, the Manila Water Group generated 95.0% of its revenue from water and used water charges and 5.0% from its other operating income.

***Tariff Rate Adjustments***

The Manila Water Group's results of operations and its financial condition are substantially dependent upon its ability to receive reasonable tariff rate increases for water and sewerage services under its concession agreements. The Manila Water Group is entitled to one or more of the following tariff rate adjustments on top of the basic water charge under its concession agreements, whenever applicable: (i) annual standard rates adjustment to compensate for increases in the Philippine Consumer Price Index, subject to the rate adjustment limit; (ii) extraordinary price adjustments to account for the financial consequences of certain unforeseen events, subject to the grounds stipulated in the applicable concession agreement; and/or (iii) foreign currency differential adjustment ("**FCDA**"), to recover or account for foreign exchange losses and gains arising from loans, including any concessionaire loans, used for either the expansion or improvement of Manila Water's services. Under the Revised Concession Agreement, the FCDA is no longer a recoverable expense although it remains in the original and separate concession agreement entered into by Manila Water's subsidiary Boracay Island Water Company, Inc. with TIEZA. In addition to the tariff adjustments described above, under Manila Water's concession agreements, tariff rates of the Manila Water Group are evaluated through a regular process called rate rebasing ("**Rate Rebasing**") under which the rates for water and sewerage services are recalibrated to allow the Manila Water Group to recover the following items over the remaining concession period:

- its operating, capital maintenance and investment expenditures (as prudently and efficiently incurred);
- Philippine business taxes; and
- payments corresponding to debt service on grantor and concessionaire loans.

**Factors Affecting the Group's Energy Business**

***Maintaining contractual availability levels and successfully contracting excess capacity***

The Group sells energy to offtakers under power supply agreements. As of the date of this Prospectus, the Group, through Prime Metro Power, has invested in preferred shares of SP Tarlac, which owns and operates the Tarlac Solar Power Plant. In addition, the Group, through Prime Metro Power's wholly-owned subsidiary, Menatech, owns and operates the Umm Qasr Power Plant. SP Tarlac has entered into a 20-year power supply agreement with MERALCO for the sale of 75MW to 85MW of electricity and Menatech has entered into a 23-year contract of supplying, installation, management and operation of power plant with GCPI. See "*Description of the Group's Energy Business*." At their installed configurations as of the date of this Prospectus, neither Tarlac Solar Power Plant nor the Umm Qasr Power Plant has any uncontracted capacity.

The agreements specify a contracted capacity per offtaker, with a corresponding minimum contracted energy. The Group is bound to make available, and the clients are bound to pay for, the specified capacity and energy. The Group's agreements allow for downtime for maintenance and repairs in order for the contracted capacity to be available to its clients. If the Group is unable to supply the minimum contracted energy, the Group's results of operations will be adversely impacted. Further, the Group's ability to grow its future revenue from its solar power business will depend, in part, on its ability to successfully contract out its excess capacity to new and existing offtakers (subject to the terms of the Group's current agreements).

***Cost control***

The Group's ability to effectively manage certain costs that are not passed through under its power supply agreements, such as excess spare parts, labor, security and insurance, will have a significant impact on its results of operations. In addition, the Group's ability to manage its fuel costs for the Umm Qasr Power Plant, even though such costs are passed through to customers under the Group's power supply agreements, will affect its ability to competitively price the power it supplies, which may affect the Group's ability to secure additional power supply agreements or sell excess power to other customers.

***Competition***

Competition has a direct effect on the Group's ability to negotiate power supply agreements with new and existing offtakers, and also sell in the Wholesale Electricity Spot Market ("**WESM**") or compete for contestable customers for its operations in the Philippines. Competition in the Philippine energy markets typically results in lower selling prices in the WESM and under power supply agreements. Despite the demand for power in the Philippines, it has become necessary for power producers to keep their power rates competitive in order to sell on the WESM and attract new offtakers. The Group's ability to effectively manage the competitive landscape for its uncontracted capacity will have a significant impact on its results of operations. The market price of commodities, such as natural gas and coal, are important drivers of energy pricing and competition in most energy markets.

***Expansion and acquisition of generation facilities***

Significant increases in the Group's revenues from its energy business will depend on its ability to successfully develop further generation capacity, or to acquire or develop new generation facilities that will allow it to sell more energy. The Group's ability to further expand its generating capacity will, to some extent, depend on when and how it is able to construct and finance the expansion of its existing power plants, acquire existing generation facilities or construct new facilities, as well as on its ability to negotiate viable power supply agreements in respect of these additional facilities. This growth will also depend generally on the level of economic growth and activity in the markets in which it has energy operations and, more specifically, on the demand for electricity, improvements in the transmission infrastructure and the ability of the Group's additional and new generation facilities to compete with other suppliers in such markets.

**Factors Affecting the Group's Construction Business**

***Level of investment in infrastructure construction in the Philippines and the Asia-Pacific region***

The scope and level of investment in infrastructure construction projects in the Philippines directly affect our construction business segment. In the past, our land reclamation and construction businesses have benefited significantly from both Government and private sector spending and investments in infrastructure, including the construction and improvement of roads, highways, bridges, ports and other projects. The Government, through its "Build, Build, Build!" policy, has emphasized infrastructure as one of its top priorities. We expect this construction project pipeline to generate significant contracting opportunities for us. However, any future reduction in the level of growth in infrastructure projects and Government and private investments in that sector, or delays in anticipated or ongoing construction projects in the Philippines or elsewhere could adversely affect our turnover and profitability. There is also no assurance that future infrastructure projects will be rolled out for bidding as planned or that the number of public and private sector projects will not decrease in the future.

***Price volatility of construction and raw materials***

The Group's construction business' results of operations are affected by price volatility in construction and raw materials, such as steel, cement and sand. Despite the efficiencies and pricing advantages of the Group's volume purchases, rising costs for any construction materials will impact the Group's construction costs and cost of services and sales. If the Group cannot pass the increased costs on to customers, its profitability will suffer. In addition, a majority of the Group's external construction projects takes more than 12 months to complete. Accordingly, prices of construction and raw materials at the time of contract signing may not reflect the prices that the Group will eventually pay during the execution of its projects. Most of the Group's contracts are fixed-price contracts, under which the Group commits to provide all of the resources required to complete a project for a fixed sum. The Group's ability to pass on any cost increases may be limited under such contracts, except to the extent the contracts contain specific price adjustment provisions.

**BASIS OF PREPARATION OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The Audited Consolidated Financial Statements were prepared in accordance with PFRS and provide the historical financial position and performance and cash flows of the Group as of and for the years ended December 31, 2021, 2020, 2019 and 2018 and as of June 30, 2022 and for the six months ended June 30, 2022 and 2021.

The Issuer believes it can prepare audited consolidated financial statements even for periods prior to its incorporation because the assets to be combined are ultimately under common control by Prime Strategic Holdings during the periods presented and the Audited Consolidated Financial Statements will provide the historical financial position and performance and cash flows of the Group's assets which are intended to be used by a wide range of users, including potential investors in the Issuer and the public, who cannot otherwise obtain the financial information through other means.

## KEY FINANCIAL AND OPERATING INFORMATION

| Key Financial Ratios | For the year ended December 31, 2018 | 2019 | 2020 | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Revenues (in ₱ millions) | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 12,601.8 |
| EBITDA (in ₱ millions) (1) | (148.3) | 147.9 | 700.3 | 6,970.2 | 6,693.3 |
| Core Net Income (Loss) Attributable to the Company (in ₱ millions)(2) | (117.3) | (78.6) | 356.0 | 243.3 | 550.3 |
| Current Ratio(3) | 0.46 | 0.97 | 1.60 | 1.12 | 0.77 |
| Debt to Equity(4) | N/A | 0.84 | 0.29 | 1.30 | 1.36 |
| Return on Equity (%)(5) | N/A | (35.56) | 14.93 | 29.94 | 7.49 |
| Asset to Equity(6) | N/A | 23.52 | 1.66 | 2.80 | 2.84 |

*Notes:*

(1) EBITDA is calculated as the Group's consolidated net income (loss) excluding provision for taxes, interest expense, depreciation and amortization, foreign exchange gains/losses, interest income from banks, and other income. The following table sets forth the computation of the Group's EBITDA for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 (in ₱ millions) (Audited) | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Net income (loss) | (145.1) | (21.2) | 442.8 | 10,831.6 | 2,549.4 |
| Net loss from discontinued operations | – | – | – | 12.3 | 0.6 |
| Provision for (benefit from) income tax | (29.5) | 65.8 | 84.0 | 752.5 | 907.0 |
| Other income - net | (0.1) | (0.1) | (0.7) | (9,050.1) | (32.8) |
| Interest income | (0.7) | (7.6) | (2.9) | (176.2) | (29.6) |
| Foreign exchange losses (gains) - net | (3.2) | 4.2 | 7.0 | 249.3 | (626.5) |
| Interest expense | 6.3 | 19.5 | 48.4 | 1,954.7 | 1,797.7 |
| Depreciation and amortization | 24.0 | 87.3 | 121.7 | 2,396.1 | 2,127.5 |
| **EBITDA** | **(148.3)** | **147.9** | **700.3** | **6,970.2** | **6,693.3** |

(2) Core Net Income (Loss) Attributable to the Company is computed as the sum of the net income (loss) of each investment after eliminations and excluding non-recurring items, multiplied by the respective economic interest of the Company. Non-recurring items are defined as gains or losses that are infrequent and do not occur in the normal course of the Group's business. The following table sets forth the computation of the Core Net Income (Loss) Attributable to the Company for the periods presented.

| | For the year ended December 31, 2018 | 2019 | 2020 (in ₱ millions) (Audited) | 2021 | For the six months ended June 30, 2022 |
|---|---|---|---|---|---|
| Net Income (Loss) Attributable to the Company | (117.3) | (78.6) | 356.0 | 9,363.6 | 464.5 |
| Gain on acquisition of a subsidiary | – | – | – | (9,120.3) | – |
| Provision for impairment loss on Chico Hydropower Project | – | – | – | – | 85.8 |
| **Core Net Income (Loss) Attributable to the Company** | **(117.3)** | **(78.6)** | **356.0** | **243.3** | **550.3** |

(3) Current ratio is derived by dividing current assets by current liabilities at the end of a given period. Current ratio measures the Company's ability to pay short-term obligations.

(4) Debt to equity ratio is derived by dividing the Company's interest-bearing liabilities (loans payable and bonds payable) by the total equity as of the end of the period. Debt to equity ratio measures the degree of the Company's financial leverage.

(5) Return on equity is derived by dividing net income (loss) by total average equity. Return on equity presented for the six months ended June 30, 2022 is annualized (computed as interim net income (loss) multiplied by 12/6).

(6) Asset to equity ratio is derived by dividing total assets by total equity. Asset to equity ratio measures the Company's financial leverage and long-term solvency.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a summary of the Group's significant accounting policies, please refer to Note 2 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

## SIGNIFICANT ACCOUNTING JUDGMENTS, ASSUMPTIONS AND ESTIMATES

The preparation of the Group's consolidated financial statements in conformity with PFRS requires the Issuer's management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as of the dates of the consolidated financial statements. Actual results could differ from such estimates, and such estimates will be adjusted accordingly. For a description of the Group's significant accounting judgments, assumptions and estimates, please refer to Note 3 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus.

## DESCRIPTION OF STATEMENTS OF KEY COMPREHENSIVE INCOME LINE ITEMS

The tables below set out the comprehensive income of the Group for each of the years ended December 31, 2021, 2020, 2019 and 2018 and for the six months ended June 30, 2022 and 2021.

### *Statements of Comprehensive Income*

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022 | 2022 |
| | ₱ (Audited) | | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Continuing operations** | | | | | | | | |
| Revenues | 1,179.5 | 2,294.6 | 3,234.4 | 15,150.4 | 275.6 | 3,421.4 | 12,601.8 | 229.2 |
| Cost of services | 1,040.2 | 1,822.3 | 2,353.6 | 7,584.1 | 138.0 | 1,816.4 | 6,294.3 | 114.5 |
| Gross profit | 139.3 | 472.3 | 880.8 | 7,566.3 | 137.6 | 1,605.0 | 6,307.5 | 114.7 |
| Operating expenses | 311.7 | 417.4 | 736.3 | 3,487.6 | 63.4 | 814.5 | 2,317.3 | 42.2 |
| | (172.4) | 54.9 | 144.5 | 4,078.7 | 74.2 | 790.5 | 3,990.2 | 72.5 |
| **Other income (expenses):** | | | | | | | | |
| Revenue from development and rehabilitation works | – | 2,706.8 | 1,138.3 | 14,355.7 | 261.2 | 1,561.2 | 12,740.9 | 231.8 |
| Cost of development and rehabilitation works | – | (2,704.0) | (974.6) | (14,335.7) | (260.8) | (1,558.4) | (12,717.6) | (231.4) |
| Gain on acquisition of a subsidiary | – | – | – | 9,120.3 | 165.9 | 9,120.3 | – | – |
| Interest expense | (6.3) | (19.5) | (48.4) | (1,954.7) | (35.6) | (275.9) | (1,797.7) | (32.7) |
| Foreign currency differentials | – | – | – | 951.5 | 17.3 | 699.7 | 2,176.2 | 39.6 |
| Foreign exchange gain (loss) – net | 3.2 | (4.2) | (7.0) | (1,200.8) | (21.8) | (395.6) | (1,549.7) | (28.2) |
| Equity share in net income of associates | – | – | – | 270.4 | 4.9 | 29.2 | 307.3 | 5.6 |
| Interest income | 0.7 | 10.6 | 273.3 | 393.5 | 7.2 | 128.7 | 274.6 | 5.0 |
| Amortization of deferred credits | – | – | – | 17.0 | 0.3 | – | – | – |
| Others | 0.1 | 0.1 | 0.6 | (99.5) | (1.8) | 93.6 | 32.8 | 0.6 |
| | (2.3) | (10.2) | 382.2 | 7,517.7 | 136.8 | 9,402.8 | (533.2) | (9.7) |
| **Income (loss) before income tax from continuing operations** | (174.7) | 44.7 | 526.7 | 11,596.4 | 211.0 | 10,193.3 | 3,457.0 | 62.8 |
| **Provision for (benefit from) income tax** | (29.5) | 65.8 | 84.0 | 752.5 | 13.7 | 167.8 | 907.0 | 16.5 |
| **Net income (loss) from continuing operations** | (145.2) | (21.1) | 442.7 | 10,843.9 | 197.3 | 10,025.5 | 2,550.0 | 46.3 |
| **Net loss after tax from discontinued operations** | – | – | – | (12.3) | (0.2) | 0.4 | (0.6) | (0.0) |
| **Net income (loss)** | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.3 |
| **Other comprehensive income (loss):** | | | | | | | | |
| Items that will be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Gain on cash flow hedge - net of tax | – | – | – | 457.9 | 8.3 | – | 411.3 | 7.5 |
| Costs of hedging - net of tax | – | – | – | (35.7) | (0.6) | – | (258.6) | (4.7) |
| Cumulative translation adjustment - net of tax | 0.0 | (57.2) | (650.1) | 583.0 | 10.6 | (22.8) | 66.2 | 1.2 |
| | 0.0 | (57.2) | (650.1) | 1,005.2 | 18.3 | (22.8) | 218.9 | 4.0 |
| Items that will not be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Actuarial gain on pension liabilities - net of tax | – | – | – | 93.0 | 1.7 | – | – | – |
| Actuarial gain on long-term employee benefits – net of tax | – | – | – | – | – | – | 13.1 | 0.2 |
| Unrealized gain (loss) on equity instrument designated at FVOCI – net of tax | – | – | 347.2 | (145.5) | (2.6) | (90.0) | 310.1 | 5.6 |
| | – | – | 347.2 | (52.5) | (1.0) | (90.0) | 323.2 | 5.8 |
| **Other comprehensive income** | 0.0 | (57.2) | (302.9) | 952.7 | 17.3 | (112.8) | 542.1 | 9.8 |

| | For the year ended December 31, | | | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2021 | 2022 | 2022 |
| | ₱ (Audited) | | | | U.S.$ (Unaudited) | ₱ (Audited) | | U.S.$ (Unaudited) |
| | (millions except for earnings per share figures) | | | | | | | |
| **Total comprehensive income (loss)**........ | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.1 |
| **Net Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company............ | (117.3) | (78.5) | 356.0 | 9,363.6 | 170.3 | 9,408.9 | 464.5 | 8.4 |
| Non-controlling interests...................... | (27.9) | 57.4 | 86.7 | 1,468.0 | 26.7 | 617.0 | 2,084.9 | 37.9 |
| | (145.2) | (21.1) | 442.7 | 10,831.6 | 197.0 | 10,025.9 | 2,549.4 | 46.3 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | | | | | | |
| Equity holders of the Company.......... | (117.3) | (135.7) | 53.0 | 9,690.0 | 176.3 | 9,196.8 | 840.7 | 15.2 |
| Non-controlling interests.................... | (27.9) | 57.4 | 86.8 | 2,094.3 | 38.1 | 716.3 | 2,250.8 | 40.9 |
| | (145.2) | (78.3) | 139.8 | 11,784.3 | 214.4 | 9,913.1 | 3,091.5 | 56.1 |
| **Earnings per Share before Discontinued Operations** | | | | | | | | |
| Basic/diluted....................................... | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.4 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |
| **Earnings per Share** | | | | | | | | |
| Basic/diluted....................................... | ₱(2.3) | ₱(1.6) | ₱7.1 | ₱187.3 | U.S.$3.4 | ₱18.8 | ₱0.4 | U.S.$0.0 |

*Note:*

(1) The Group's decrease in par value on June 8, 2022 resulted in a share split of 10:1 for its issued shares of 50,000,000. In accordance with PAS 33, *Earnings Per Share*, the weighted average number of common shares for the six months ended June 30, 2022 and 2021 was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred on January 1, 2021.

The Group's results of operations with respect to the years ended December 31, 2021, 2020, 2019 and 2018 and for the six months ended June 30, 2022 and 2021, are based on, and should be read in conjunction with, the Audited Consolidated Financial Statements, and related notes thereto, included elsewhere in this Prospectus.

### Revenues

Revenues consist of water and other related revenues, construction revenue, and sale of electricity. Other operating income included under water and other related revenues consists primarily of supervision fees, connection fees from water and service connections, pipeworks and integrated used water services and service income from bulk water contracts.

### Cost of services

Cost of services consist primarily of depreciation and amortization expenses, salaries, wages and employee benefits, other direct materials, power, light and water expenses, contractual and outside services, repairs and maintenance expenses, water treatment chemicals, technical and professional fees and overhead costs.

### Operating expenses

Operating expenses primarily consist of personnel cost, management, technical and professional fees, provision for expected credit losses ("**ECL**"), provisions and MWSS penalty, taxes and licenses, depreciation and amortization, outside services, repairs and maintenance, business development expenses and insurance expenses.

#### Revenue from development and rehabilitation works & cost of development and rehabilitation works

Revenue from development and rehabilitation works is equivalent to the related cost of development and rehabilitation works, plus a mark-up ranging between 1% to 2%. The costs are covered by the service concession arrangements for certain members of the Manila Water Group which is recognized as part of contract assets included under service concession assets or concession financial receivables and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

**Gain on acquisition of a subsidiary**

The gain on acquisition is attributable to the acquisition of Manila Water, and the gain largely results from the lower market price of Manila Water's shares as of the acquisition date which was associated with the pending approval of Manila Water's legislative franchise as of such date.

**Interest expense**

Interest expense primarily consists of interest arising from long-term debt, service concession obligations and share purchase payables.

**Foreign currency differentials**

Foreign exchange differentials arise from foreign currency transactions of Manila Water's loans and concession fees which are credited to or charged against operations. For further details, see Note 2 of the Group's audited consolidated financial statements as of June 30, 2022 and for the six months ended June 30, 2022 and 2021.

**Foreign exchange gain (loss) – net**

The functional and presentation currency of the Issuer and its Philippine subsidiaries is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the separate financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in other comprehensive income 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.

**Equity share in net income of associates**

Equity share in net income of associates consists of the Group's share in the net income of Manila Water's investments in Thu Duc Water Holdings Pte. Ltd, Kenh Dong Water Holdings Pte. Ltd., Saigon Water Infrastructure Corporation, PT. Triguna Rapindo Mandiri, Eastern Water Resources Development and Management Public Company Limited and International Water Partners Company.

**Interest income**

Interest income primarily consists of interest generated from cash and cash equivalents and short-term investments and finance income from contract assets.

**Amortization of deferred credits**

Deferred credits pertain to the unamortized discounts of the customers' guaranty deposits.

**Others**

Others are gains and losses on fixed asset sale, insurance claims, and other adjustments.

**Provision for income tax**

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the relevant taxation authority. The tax rates and laws used to compute such amounts are those that have been enacted or substantively enacted as of the applicable financial reporting date.

Deferred tax is provided, using the liability method, on all temporary differences as of the applicable financial reporting date between the tax base of assets and liabilities and their respective carrying amounts for financial reporting purposes.

The applicable income tax rate in the Philippines is the regular corporate income tax rate of 25% and the minimum corporate income tax rate of 1%, while foreign subsidiaries are subject to tax rates applicable in their respective countries. WawaJVCo and SP Tanauan have been granted an income tax holiday and other tax incentives from the BOI for the Wawa Bulk Water Supply Project and the Tanauan Solar Power Plant, respectively.

**Net loss after tax from discontinued operations**

Net loss after tax from discontinued operations consist of the Group's losses as a result of discontinued operations in its investments in Manila Water Total Solutions Corp.'s Healthy Family business division and Zamboanga Water Company, Inc. ("**Zamboanga Water**").

**RESULTS OF OPERATIONS**

The discussion of Results of Operations is based on the Audited Consolidated Financial Statements.

Other than as discussed below, the Issuer believes that there are no other material elements of income or loss arising from the Group's operations.

***Six months ended June 30, 2022 compared to six months ended June 30, 2021***

**Revenues**

Revenues increased by ₱9,180.4 million, or 268.3%, from ₱3,421.4 million for the six months ended June 30, 2021 to ₱12,601.8 million (U.S.$229.2 million) for the six months ended June 30, 2022.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | **2021 (audited)** | **2022 (audited)** | **2022 (unaudited)** | **% Change (unaudited)** |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Revenues:** | | | | |
| Water and other related revenues | 1,830.6 | 10,735.7 | 195.3 | 486.4% |
| Construction revenue | 1,357.2 | 1,633.0 | 29.7 | 20.3% |
| Sale of electricity | 233.6 | 233.1 | 4.2 | (0.2)% |
| | **3,421.4** | **12,601.8** | **229.2** | **268.3%** |

The growth in revenues was driven primarily by the increase in water and other related revenues from ₱1,830.6 million to ₱10,735.7 million (U.S.$195.3 million) and increase in construction revenue by ₱275.8 million, or 20.3%, from ₱1,357.2 million to ₱1,633.0 million (U.S.$29.7 million). The sale of electricity remained stable, decreasing slightly by ₱0.5 million, or 0.2%, from ₱233.6 million to ₱233.1 million (U.S.$4.2 million). The increase in water and other related revenues resulted from the contribution of the Manila Water Group starting from its acquisition in June 2021 amounting to ₱1,830.6 million, representing one month of revenue contribution from the Manila Water Group during the period ended six months ended June 30, 2021 as compared with six months of revenue contribution from the Manila Water Group amounting to ₱10,735.7 million for the six months ended June 30, 2022. The increase in construction revenues resulted from the ramp-up of construction activity driven by fewer COVID-19-related disruptions. The revenues from sale of electricity remained stable due to higher foreign currency rates during the period despite the lower energy sold, i.e., 17.9 million kWh for the six months ended June 30, 2022 from 16.0 million kWh for the six months ended June 30, 2021.

### Cost of services

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | 2021 (audited) | 2022 (audited) | 2022 (unaudited) | % Change (unaudited) |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Cost of services:** | | | | |
| Depreciation and amortization | 285.9 | 1,887.5 | 34.3 | 560.2% |
| Salaries, wages and employee benefits | 407.5 | 1,366.5 | 24.9 | 235.3% |
| Power, light and water | 127.6 | 855.8 | 15.6 | 570.7% |
| Contractual and other outsourced services | 418.6 | 852.5 | 15.5 | 103.7% |
| Water and used water service costs | 77.2 | 435.3 | 7.9 | 463.9% |
| Repairs and maintenance | 6.3 | 330.5 | 6.0 | 5,146.0% |
| Direct materials | 379.1 | 221.4 | 4.0 | (41.6)% |
| Regulatory costs | 23.6 | 164.7 | 3.0 | 597.9% |
| Overhead | 90.7 | 180.1 | 3.3 | 98.6% |
| | **1,816.5** | **6,294.3** | **114.5** | **246.5%** |

Cost of services increased by ₱4,477.8 million, or 246.5%, from ₱1,816.4 million for the six months ended June 30, 2021 to ₱6,294.3 million (U.S.$114.5 million) for the six months ended June 30, 2022. The increase in cost of services primarily reflect the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Depreciation and amortization increased by ₱1,601.6 million, or 560.2%, to ₱1,887.5 million (U.S.$34.3 million) for the six months ended June 30, 2022 compared to ₱285.9 million for the six months ended June 30, 2021. The increase was primarily due to the depreciation of property and equipment and amortization of service concession assets related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Salaries, wages and employee benefits increased by ₱959.0 million, or 235.3%, to ₱1,366.5 million (U.S.$24.9 million) for the six months ended June 30, 2022 compared to ₱407.5 million for the six months ended June 30, 2021. The increase was primarily due to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Power, light and water increased by ₱728.2 million, or 570.7%, to ₱855.8 million (U.S.$15.6 million) for the six months ended June 30, 2022 compared to ₱127.6 million for the six months ended June 30, 2021. The increase was primarily due to the fuel and utility consumption related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Contractual and other outsourced services increased by ₱433.9 million, or 103.7%, to ₱852.5 million (U.S.$15.5 million) for the six months ended June 30, 2022 compared to ₱418.6 million for the six months ended June 30, 2021. The increase was primarily due to contractual and outside service costs related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Water and used water service costs increased by ₱358.1 million, or 463.9%, to ₱435.3 million (U.S.$7.9 million) for the six months ended June 30, 2022 compared to ₱77.2 million for the six months ended June 30, 2021. The increase was primarily due to the water treatment chemical costs, wastewater costs, and water tankering and bulk water costs related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Repairs and maintenance increased by ₱324.2 million, or 5,146.0%, to ₱330.5 million (U.S.$6.0 million) for the six months ended June 30, 2022 compared to ₱6.3 million for the six months ended June 30, 2022. The increase was primarily due to repair and sewer network improvement activities related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Direct materials decreased by ₱157.7 million, or 41.6%, to ₱221.4 million (U.S.$4.0 million) for the six months ended June 30, 2022 compared to ₱379.1 million for the six months ended June 30, 2022. The decrease was primarily due to lesser material requirements from the ongoing projects of Prime BMD for the six months ended June 30, 2022.

Regulatory costs increased by ₱141.1 million, or 597.9%, to ₱164.7 million (U.S.$3.0 million) for the six months ended June 30, 2022 compared to ₱23.6 million for the six months ended June 30, 2022. The increase was primarily due to regulatory fees related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Overhead increased by ₱89.4 million, or 98.6%, to ₱180.1 million (U.S.$3.3 million) for the six months ended June 30, 2022 compared to ₱90.7 million for the six months ended June 30, 2021. The increase was primarily due to indirect labor and indirect construction materials related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

**Gross profit**

As a result of the foregoing, gross profit increased by ₱4,702.5 million, or 293.0%, from ₱1,605.0 million for the six months ended June 30, 2021 to ₱6,307.5 million (U.S.$114.7 million) for the six months ended June 30, 2022.

**Operating expenses**

Operating expenses increased by ₱1,502.8 million, or 184.5%, from ₱814.5 million for the six months ended June 30, 2021 to ₱2,317.3 million (U.S.$42.2 million) for the six months ended June 30, 2022. The increase in operating expenses primarily reflect the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | **2021 (audited)** | **2022 (audited)** | **2022 (unaudited)** | **% Change (unaudited)** |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Operating Expenses:** | | | | |
| Personnel cost | 210.1 | 816.6 | 14.9 | 288.7% |
| Depreciation and amortization | 103.3 | 240.0 | 4.4 | 132.3% |
| Technical and professional fees | 101.1 | 199.8 | 3.6 | 97.6% |
| Outside services | 29.7 | 149.6 | 2.7 | 403.7% |
| Repairs and maintenance | 54.6 | 127.7 | 2.3 | 133.9% |
| Replacement energy costs | – | 119.1 | 2.2 | – |
| Taxes and licenses | 32.7 | 112.3 | 2.0 | 243.4% |
| Provision for impairment losses - net | 3.6 | 104.6 | 1.9 | 2,805.6% |
| Provision for ECL - net | 159.3 | 91.4 | 1.7 | (42.6)% |
| Insurance | 15.5 | 83.6 | 1.5 | 439.4% |
| Business development expense | 26.3 | 39.0 | 0.7 | 48.3% |
| Donation | 0.3 | 32.6 | 0.6 | 10,766.7% |
| Rent | 21.0 | 32.2 | 0.6 | 53.3% |
| Transportation and travel | 15.3 | 15.8 | 0.3 | 3.3% |
| Bank charges | 0.6 | 15.3 | 0.3 | 2,450.0% |
| Communication, printing, light and water | 14.5 | 11.2 | 0.2 | (22.8)% |
| Representation and entertainment | 4.6 | 9.9 | 0.2 | 115.2% |
| Provisions and MWSS penalty – net | 8.4 | 7.2 | 0.1 | (14.3)% |
| Others | 13.6 | 109.4 | 2.0 | 705.1% |
| | **814.5** | **2,317.3** | **42.2** | **184.5%** |

Personnel cost increased by ₱606.5 million, or 288.7%, to ₱816.6 million (U.S.$14.9 million) for the six months ended June 30, 2022 compared to ₱210.1 million for the six months ended June 30, 2021. The increase was primarily due to salaries, wages and other personnel costs related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Depreciation and amortization increased by ₱136.7 million, or 132.3%, to ₱240.0 million (U.S.$4.4 million) for the six months ended June 30, 2022 compared to ₱103.3 million for the six months ended June 30, 2021. The increase was due to the acquisition of additional construction equipment and depreciation and amortization expenses related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Technical and professional fees increased by ₱98.7 million, or 97.6%, to ₱199.8 million (U.S.$3.6 million) for the six months ended June 30, 2022 compared to ₱101.1 million for the six months ended June 30, 2021. The increase was due to legal, technical consulting, and business development fees related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Outside services increased by ₱119.9 million, or 403.7%, to ₱149.6 million (U.S.$2.7 million) for the six months ended June 30, 2022 compared to ₱29.7 million for the six months ended June 30, 2021. The increase was primarily due to security and utility services related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Repairs and maintenance increased by ₱73.1 million, or 133.9%, to ₱127.7 million (U.S.$2.3 million) for the six months ended June 30, 2022 compared to ₱54.6 million for the six months ended June 30, 2021. The increase was primarily due to technical equipment maintenance activities related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Replacement energy costs increased to ₱119.1 million (U.S.$2.2 million) for the six months ended June 30, 2022 compared to nil for the six months ended June 30, 2021. The increase was primarily due to the replacement power obligations of SP Tanauan.

Taxes and licenses increased by ₱79.6 million, or 243.4%, to ₱112.3 million (U.S.$2.0 million) for the six months ended June 30, 2022 compared to ₱32.7 million for the six months ended June 30, 2021. The increase was primarily due to local business taxes, real property taxes, and other local and national taxes related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Provision for impairment losses - net increased by ₱101.0 million, or 2,805.6%, to ₱104.6 million (U.S.$1.9 million) for the six months ended June 30, 2022 compared to ₱3.6 million for the six months ended June 30, 2021. The increase was primarily due to the impairment loss recognized for the Chico Hydropower Project.

Provision for ECL - net decreased by ₱67.9 million, or 42.6%, to ₱91.4 million (U.S.$1.7 million) for the six months ended June 30, 2022 compared to ₱159.3 million for the six months ended June 30, 2021. The decrease was primarily due to the net reversal of ECL provisions of the Manila Water Group.

Insurance increased by ₱68.1 million, or 439.4%, to ₱83.6 million (U.S.$1.5 million) for the six months ended June 30, 2022 compared to ₱15.5 million for the six months ended June 30, 2021. The increase was primarily due to employee life insurance, asset insurance, and other insurance related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Business development expense increased by ₱12.7 million, or 48.3%, to ₱39.0 million (U.S.$0.7 million) for the six months ended June 30, 2022 compared to ₱26.3 million for the six months ended June 30, 2021. The increase was primarily due to various technical studies and research costs incurred for different projects and businesses.

Donation increased by ₱32.3 million, or 10,766.7%, to ₱32.6 million (U.S.$0.6 million) for the six months ended June 30, 2022 compared to ₱0.3 million for the six months ended June 30, 2021. The increase was primarily due to the Group's donations for relief operations in relation to typhoon Rai, locally known as typhoon Odette.

Rent increased by ₱11.2 million, or 53.3%, to ₱32.2 million (U.S.$0.6 million) for the six months ended June 30, 2022 compared to ₱21.0 million for the six months ended June 30, 2021. The increase was primarily due to the increase in vehicle rentals of the Group.

Bank charges increased by ₱14.7 million, or 2,450.0%, to ₱15.3 million (U.S.$0.3 million) for the six months ended June 30, 2022 compared to ₱0.6 million for the six months ended June 30, 2021. The increase was primarily due to bank charges from the Group's standby letter of credit facilities.

Communication, printing, light and water decreased by ₱3.3 million, or 22.8%, to ₱11.2 million (U.S.$0.2 million) for the six months ended June 30, 2022 compared to ₱14.5 million for the six months ended June 30, 2021. The decrease was primarily due to the decreased utility usages of the Manila Water Group for the six months ended June 30, 2022.

Representation and entertainment increased by ₱5.3 million, or 115.2%, to ₱9.9 million (U.S.$0.2 million) for the six months ended June 30, 2022 compared to ₱4.6 million for the six months ended June 30, 2021. The increase was primarily due to meals and representation related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Provisions and MWSS penalty – net decreased by ₱1.2 million, or 14.3%, to ₱7.2 million (U.S.$0.1 million) for the six months ended June 30, 2022 compared to ₱8.4 million for the six months ended June 30, 2021. The decrease was primarily due to the reversal of provisions for various exposures of the Manila Water Group.

Others increased by ₱95.9 million, or 705.1%, to ₱109.5 million (U.S.$2.0 million) for the six months ended June 30, 2022 compared to ₱13.6 million for the six months ended June 30, 2021. The increase was primarily due to the other expenses related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Transportation and travel increased by ₱0.5 million, or 3.3%, to ₱15.8 million (U.S.$0.3 million) for the six months ended June 30, 2022 compared to ₱15.3 million for the six months ended June 30, 2021.

**Other income (expenses)**

| | **For the six months ended June 30,** | | | |
|---|---|---|---|---|
| | **2021 (audited)** | **2022 (audited)** | **2022 (unaudited)** | **% Change (unaudited)** |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Other income (expenses):** | | | | |
| Revenue from development and rehabilitation works | 1,561.2 | 12,740.9 | 231.8 | 716.1% |
| Cost of development and rehabilitation works | (1,558.4) | (12,717.6) | (231.4) | 716.1% |
| Interest expense | (275.9) | (1,797.7) | (32.7) | 551.6% |
| Foreign currency differentials | 699.7 | 2,176.2 | 39.6 | 211.0% |
| Foreign exchange gain (loss) - net | (395.6) | (1,549.7) | (28.2) | 291.8% |
| Equity share in net income of associates | 29.2 | 307.3 | 5.6 | 950.6% |
| Interest income | 128.7 | 274.6 | 5.0 | 113.4% |
| Gain on acquisition of a subsidiary | 9,120.3 | – | – | (100)% |
| Others | 93.6 | 32.8 | 0.6 | (65.0)% |
| | **9,402.8** | **(533.2)** | **(9.7)** | **(105.7)%** |

Other income of ₱9,402.8 million for the six months ended June 30, 2021 reversed to other expenses of ₱533.2 million (U.S.$9.7 million) for the six months ended June 30, 2022.

Revenue from development and rehabilitation works increased by ₱11,179.7 million, or 716.1%, to ₱12,740.9 million (U.S.$231.8 million) for the six months ended June 30, 2022 compared to ₱1,561.2 million for the six months ended June 30, 2021. In addition, the cost of development and rehabilitation works also increased by ₱11,159.2 million, or 716.1%, to ₱12,717.6 million (U.S.$231.4 million) for the six months ended June 30, 2022 compared to ₱1,558.4 million for the six months ended June 30, 2021. The increase in revenue from and cost of development and rehabilitation is primarily due to the revenue and costs of all ongoing projects in the construction and rehabilitation phase, accounted for under *IFRIC 12: Service Concession Agreements*, related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Interest expense increased by ₱1,521.8 million, or 551.6%, to ₱1,797.7 million (U.S.$32.7 million) for the six months ended June 30, 2022 compared to ₱275.9 million for the six months ended June 30, 2021. The increase was primarily due to additional loan drawdowns of the Group, and is also related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Foreign currency differentials increased by ₱1,476.5 million, or 211.0%, to ₱2,176.2 million (U.S.$39.6 million) for the six months ended June 30, 2022 compared to ₱699.7 million for the six months ended June 30, 2021. The increase was primarily due to the cumulative adjustment to deferred foreign currency differential adjustments of the Manila Water Group for the period.

Foreign exchange loss–net increased by ₱322.4 million, or 106.0%, to ₱626.5 million (U.S.$11.4 million) for the six months ended June 30, 2022 compared to ₱304.1 million for the six months ended June 30, 2021. The increase was primarily due to the net foreign exchange losses on foreign currency denominated loans of the Manila Water Group for the period.

Equity share in net income of associates increased by ₱278.1 million, or 952.4%, to ₱307.3 million (U.S.$5.6 million) for the six months ended June 30, 2022 compared to ₱29.2 million for the six months ended June 30, 2021. The increase was primarily due to the Group's equity share in net income of associates from investments in Vietnam, Indonesia, Thailand, and the KSA.

Interest income increased by ₱145.9 million, or 113.4%, to ₱274.6 million (U.S.$5.0 million) for the six months ended June 30, 2022 compared to ₱128.7 million for the six months ended June 30, 2021. The increase was primarily due to finance income from contract assets related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

Gain on acquisition of a subsidiary decreased to nil for the six months ended June 30, 2022 as compared to ₱9,120.3 million for the six months ended June 30, 2021. The decrease was primarily due to the gain recognized on the acquisition of the Manila Water Group in June 2021 amounting to ₱9,120.3 million.

Others decreased by ₱60.8 million to ₱32.8 million (U.S.$0.6 million) for the six months ended June 30, 2022 as compared to ₱93.6 million for the six months ended June 30, 2021. The decrease was primarily due to the input VAT adjustment of the Manila Water Group in 2021.

**Income Before Income Tax From Continuing Operations**

As a result of the foregoing, income before income tax from continuing operations for the six months ended June 30, 2022 decreased by ₱6,736.3 million, or 66.1%, to ₱3,457.0 million (U.S.$62.8 million), compared to ₱10,193.3 million recorded for the six months ended June 30, 2021.

**Provision for Income Tax**

Provision for income tax increased by ₱739.2 million, or 440.6%, from ₱167.8 million for the six months ended June 30, 2021 to ₱907.0 million (U.S.$16.5 million) for the six months ended June 30, 2022. The increase was primarily due to the higher taxable income of the Group related to the six months of consolidation of the Manila Water Group for the six months ended June 30, 2022, compared to one month of consolidation for the six months ended June 30, 2021.

**Net Income From Continuing Operations**

As a result of the foregoing, net income from continuing operations decreased by ₱7,475.5 million, or 74.6%, to ₱2,550.0 million (U.S.$46.3 million) for the six months ended June 30, 2022 from ₱10,025.5 million for the six months ended June 30, 2021.

## Net Income

As a result of the foregoing, net income decreased by ₱7,476.5 million, or 74.6%, from ₱10,025.9 million for the six months ended June 30, 2021 to ₱2,549.4 million (U.S.$46.4 million) for the six months ended June 30, 2022.

***Year ended December 31, 2021 compared with the year ended December 31, 2020***

## Revenues

Revenues increased by ₱11,916.0 million, or 368.4%, from ₱3,234.4 million for the year ended December 31, 2020 to ₱15,150.4 million (U.S.$275.6 million) for the year ended December 31, 2021.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | **2020 (audited)** | **2021 (audited)** | **2021 (unaudited)** | **% Change (unaudited)** |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Revenues:** | | | | |
| Water and other related revenues. | – | 11,982.7 | 218.0 | – |
| Construction revenue .................. | 2,857.2 | 2,673.8 | 48.6 | (6.4)% |
| Sale of electricity ........................ | 377.2 | 493.8 | 9.0 | 30.9% |
| | **3,234.4** | **15,150.4** | **275.6** | **368.4%** |

The growth in revenues was driven primarily by the increase in water and other related revenues from nil to ₱11,982.7 million (U.S.$218.0 million), and was partially offset by the decrease in construction revenues by ₱183.4 million, or 6.4%, from ₱2,857.2 million to ₱2,673.8 million (U.S.$48.6 million). The increase in the sale of electricity by ₱116.6 million, or 30.9%, from ₱377.2 million to ₱493.8 million (U.S.$9.0 million) also contributed to the growth in revenues. The increase in water and other related revenues resulted from the contribution of the Manila Water Group starting from its acquisition in June 2021 amounting to ₱11,982.7 million, the decrease in construction revenue from Prime BMD, due to the slowdown in construction activity caused by the COVID-19 pandemic, and delayed grants and execution of new orders during 2021, and the increase in sale of electricity was driven by the first full-year of operation of Menatech, which commenced operations in February 2020. The Manila Water Group's revenue and net income included in the Group's 2021 consolidated statement of comprehensive income would have been ₱20,292.4 million and ₱3,754.1 million, respectively, if the Manila Water Group was acquired beginning January 1, 2021.

## Cost of services

Cost of services increased by ₱5,230.5 million, or 222.2%, from ₱2,353.6 million for the year ended December 31, 2020 to ₱7,584.1 million (U.S.$138.0 million) for the year ended December 31, 2021, which primarily reflects the Group's acquisition of the Manila Water Group's operations beginning June 2021.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2020 (audited) | 2021 (audited) | 2021 (unaudited) | % Change (unaudited) |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Cost of Services:** | | | | |
| Depreciation and amortization | 91.6 | 2,154.7 | 39.2 | 2,252.3% |
| Salaries, wages and employee benefits | 362.3 | 1,063.6 | 19.3 | 193.6% |
| Other direct materials | 968.9 | 1,007.9 | 18.3 | 4.0% |
| Power, light and water | – | 909.7 | 16.5 | – |
| Contractual and outside services | 785.6 | 788.1 | 14.3 | 0.3% |
| Repairs and maintenance | – | 309.1 | 5.6 | – |
| Water treatment chemicals | – | 298.7 | 5.4 | – |
| Management, technical and professional fees | – | 235.3 | 4.3 | – |
| Regulatory costs | – | 165.0 | 3.0 | – |
| Wastewater costs | – | 105.1 | 1.9 | – |
| Water tankering and bulk water costs | – | 104.9 | 1.9 | – |
| Amortization of water service connections | – | 87.0 | 1.6 | – |
| Collection fees | – | 78.5 | 1.4 | – |
| Overhead | 145.2 | 276.4 | 5.0 | 90.4% |
| | **2,353.6** | **7,584.1** | **138.0** | **222.2%** |

Depreciation and amortization increased by ₱2,063.1 million, or 2,252.3%, to ₱2,154.7 million (U.S.$39.2 million) for the year ended December 31, 2021 compared to ₱91.6 million for the year ended December 31, 2020. The increase was primarily due to the depreciation of water and construction equipment and amortization of service concession assets related to the Manila Water Group's operations.

Salaries, wages and employee benefits increased by ₱701.3 million, or 193.6%, to ₱1,063.6 million (U.S.$19.3 million) for the year ended December 31, 2021 compared to ₱362.3 million for the year ended December 31, 2020. The increase was primarily due to the increase in personnel from the Group's acquisition of the Manila Water Group's operations in June 2021.

Other direct costs for water operations increased to ₱2,293.3 million for the year ended December 31, 2021 as compared to nil for the year ended December 31, 2020. The increase was primarily due to power, light and water, respectively, as well as other direct costs relating to water operations (such as water treatment chemicals, wastewater costs and water tankering and bulk water costs) following the Group's acquisition of the Manila Water Group's operations in June 2021.

Overhead increased by ₱131.2 million, or 90.4%, to ₱276.4 million (U.S.$5.0 million) for the year ended December 31, 2021 compared to ₱145.2 million for the year ended December 31, 2020. The increase was primarily due to indirect labor and other overhead costs reflecting the operations of the Manila Water Group beginning June 2021.

**Gross profit**

As a result of the foregoing, gross profit increased by ₱6,685.5 million, or 759.0%, from ₱880.8 million for the year ended December 31, 2020 to ₱7,566.3 million (U.S.$137.6 million) for the year ended December 31, 2021.

**Operating expenses**

Operating expenses increased by ₱2,751.4 million, or 373.7%, from ₱736.3 million for the year ended December 31, 2020 to ₱3,487.6 million (U.S.$63.4 million) for the year ended December 31, 2021. The increase was primarily due to increases driven by the Group's acquisition of the Manila Water Group's operations beginning June 2021.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2020 (audited) | 2021 (audited) | 2021 (unaudited) | % Change (unaudited) |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Operating Expenses:** | | | | |
| Personnel cost | 203.8 | 1,000.2 | 18.2 | 390.8% |
| Management, technical, and professional fees | 105.1 | 417.4 | 7.6 | 297.1% |
| Provision for ECL | 201.7 | 460.8 | 8.4 | 128.5% |
| Provisions and MWSS penalty | – | 335.4 | 6.1 | – |
| Taxes and licenses | 34.1 | 304.0 | 5.5 | 791.5% |
| Depreciation and amortization | 30.1 | 240.6 | 4.4 | 699.3% |
| Outside services | 39.5 | 202.2 | 3.7 | 411.9% |
| Repairs and maintenance | 3.6 | 176.0 | 3.2 | 4,788.9% |
| Business development expense | 21.2 | 151.5 | 2.8 | 614.6% |
| Insurance | 16.2 | 78.9 | 1.4 | 387.0% |
| Representation and entertainment | 3.3 | 24.7 | 0.4 | 648.5% |
| Rent | 2.3 | 17.7 | 0.3 | 669.6% |
| Advertising and promotions | 3.1 | 17.2 | 0.3 | 454.8% |
| Transportation and travel | 16.4 | 17.1 | 0.3 | 4.3% |
| Communication, printing, light and water | 8.9 | 7.5 | 0.1 | (15.7)% |
| Other personnel expenses | 4.1 | 2.2 | 0.04 | (46.3)% |
| Fuel and oil | 1.3 | 3.7 | 0.1 | 184.6% |
| Recruitment, immigration and other services | 1.5 | 1.1 | 0.02 | (26.7)% |
| Office supplies | 0.6 | 1.0 | 0.02 | 66.7% |
| Trainings and seminars | 0.4 | – | – | (100.0)% |
| Staffing expenses | – | – | – | – |
| Others | 39.2 | 28.6 | 0.5 | (27.0)% |
| | **736.4** | **3,487.8** | **63.3** | **373.7%** |

Personnel cost increased by ₱796.4 million, or 390.8%, to ₱1,000.2 million (U.S.$18.2 million) for the year ended December 31, 2021 compared to ₱203.8 million for the year ended December 31, 2020. The increase was primarily due to additional headcount and salary increases reflecting the operations of the Manila Water Group beginning June 2021 amounting to ₱639.8 million.

Management, technical, and professional fees increased by ₱312.3 million, or 297.1%, to ₱417.4 million (U.S.$7.6 million) for the year ended December 31, 2021 compared to ₱105.1 million for the year ended December 31, 2020. The increase was primarily due to legal, technical consulting and business development fees reflecting the operations of the Manila Water Group beginning June 2021.

Provision for ECL increased by ₱259.1 million, or 128.5%, to ₱460.8 million (U.S.$8.4 million) for the year ended December 31, 2021 compared to ₱201.7 million for the year ended December 31, 2020. The increase was primarily due to estimated credit loss provisions for Menatech's receivables and the Manila Water Group's customer receivables.

Provisions and MWSS penalty increased to ₱335.4 million (U.S.$6.1 million) for the year ended December 31, 2021 compared to nil for the year ended December 31, 2020. The increase was primarily due to penalties imposed on the Manila Water Group for its unmet service obligations.

Taxes and licenses increased by ₱269.9 million, or 791.5%, to ₱304.0 million (U.S.$5.5 million) for the year ended December 31, 2021 compared to ₱34.1 million for the year ended December 31, 2020. The increase was primarily due to local business taxes, real property taxes, and other local and national taxes which also reflects the operations of the Manila Water Group from June 2021.

Depreciation and amortization increased by ₱210.5 million, or 699.3%, to ₱240.6 million (U.S.$4.4 million) for the year ended December 31, 2021 compared to ₱30.1 million for the year ended December 31, 2020. The increase was primarily due to additional plant and technical equipment acquired during the year, which also reflects the depreciation and amortization related to the Manila Water Group starting from its acquisition in June 2021.

Outside services increased by ₱162.7 million, or 411.9%, to ₱202.2 million (U.S.$3.7 million) for the year ended December 31, 2021 compared to ₱39.5 million for the year ended December 31, 2020. The increase was primarily due to security and utility services engaged by the Group.

Repairs and maintenance increased by ₱172.4 million, or 4,788.9%, to ₱176.0 million (U.S.$3.2 million) for the year ended December 31, 2021 compared to ₱3.6 million for the year ended December 31, 2020. The increase was primarily due to the maintenance of technical equipment for the Manila Water Group.

Business development expense increased by ₱130.3 million, or 614.6%, to ₱151.5 million (U.S.$2.8 million) for the year ended December 31, 2021 compared to ₱21.2 million for the year ended December 31, 2020. The increase was primarily due to project exploration costs inside and outside the country, including various technical studies and research.

Insurance increased by ₱62.7 million, or 387.0%, to ₱78.9 million (U.S.$1.4 million) for the year ended December 31, 2021 compared to ₱16.2 million for the year ended December 31, 2020. The increase was primarily due to employee life insurance, asset insurance, and other insurance related to the operations of the Manila Water Group amounting to ₱68.4 million starting from its acquisition in June 2021.

Representation and entertainment increased by ₱21.4 million, or 648.5%, to ₱24.7 million (U.S.$0.4 million) for the year ended December 31, 2021 compared to ₱3.3 million for the year ended December 31, 2020. The increase was primarily due to meals and representation related to the operations of the Manila Water Group amounting to ₱21.1 million starting from its acquisition in June 2021.

Rent increased by ₱15.4 million, or 669.6%, to ₱17.7 million (U.S.$0.3 million) for the year ended December 31, 2021 compared to ₱2.3 million for the year ended December 31, 2020. The increase was primarily due to rent expenses related to the operations of the Manila Water Group amounting to ₱13.2 million starting from its acquisition in June 2021.

Advertising and promotions increased by ₱14.1 million, or 454.8%, to ₱17.2 million (U.S.$0.3 million) for the year ended December 31, 2021 compared to ₱3.1 million for the year ended December 31, 2020. The increase was primarily due to the marketing activities of the Manila Water Group.

Communication, printing, light and water decreased by ₱1.4 million, or 15.7%, to ₱7.5 million (U.S.$0.1 million) for the year ended December 31, 2021 compared to ₱8.9 million for the year ended December 31, 2020. The decrease was primarily due to the decrease in utility expenses of the Group.

Other personnel expenses decreased by ₱1.9 million, or 46.3%, to ₱2.2 million (U.S.$0.04 million) for the year ended December 31, 2021 compared to ₱4.1 million for the year ended December 31, 2020. The decrease was primarily due to COVID related expenses incurred in the previous year.

Fuel and oil increased by ₱2.4 million, or 184.6%, to ₱3.7 million (U.S.$0.1 million) for the year ended December 31, 2021 compared to ₱1.3 million for the year ended December 31, 2020. The increase was primarily due to additional fuel consumption of Group vehicles.

Recruitment, immigration and other services decreased by ₱0.4 million, or 26.7%, to ₱1.1 million (U.S.$0.02 million) for the year ended December 31, 2021 compared to ₱1.5 million for the year ended December 31, 2020. The decrease was primarily due to reduced travel costs caused by global travel restrictions during the year.

Office supplies increased by ₱0.4 million, or 66.7%, to ₱1.0 million (U.S.$0.02 million) for the year ended December 31, 2021 compared to ₱0.6 million for the year ended December 31, 2020. The increase was primarily due to additional office materials used.

Trainings and seminars decreased by ₱0.4 million, or 100.0%, to nil for the year ended December 31, 2021 compared to ₱0.4 million for the year ended December 31, 2020. The decrease was primarily due to the Group incurring no seminar costs in 2021.

Others decreased by ₱10.6 million, or 27.0%, to ₱28.6 million (U.S.$0.5 million) for the year ended December 31, 2021 compared to ₱39.2 million for the year ended December 31, 2020. The decrease was primarily due to decrease in bank charges and miscellaneous expenses for the year.

**Other income (expenses)**

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2020 (audited)** | **2021 (audited)** | **2021 (unaudited)** | **% Change (unaudited)** |
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Other income (expenses):** | | | | |
| Revenue from development and rehabilitation works | 1,138.3 | 14,355.7 | 261.2 | 1,161.2% |
| Cost of development and rehabilitation works | (974.6) | (14,335.7) | (260.8) | 1,370.9% |
| Gain on acquisition of a subsidiary | – | 9,120.3 | 165.9 | – |
| Interest expense | (48.4) | (1,954.7) | (35.6) | 3,938.6% |
| Foreign currency differentials | – | 951.5 | 17.3 | 100.0% |
| Foreign exchange gain (loss) - net | (7.0) | (1,200.8) | (21.8) | (17,054.3)% |
| Equity share in net income of associates | – | 270.4 | 4.9 | – |
| Interest income | 273.3 | 393.5 | 7.2 | 44.0% |
| Amortization of deferred credits | – | 17.0 | 0.3 | – |
| Others | 0.6 | (99.5) | (1.8) | (16,683.3)% |
| | **382.2** | **7,517.7** | **136.8** | **1,867.0%** |

Other income increased by ₱7,135.5 million, or 1,867.0%, from ₱382.2 million for the year ended December 31, 2020 to ₱7,517.7 million (U.S.$136.8 million) for the year ended December 31, 2021. This was primarily due to the increase in revenue from development and rehabilitation works, partially offset by the cost of development and rehabilitation works relating to the acquisition of Manila Water beginning June 2021, the gain on acquisition of the Manila Water Group amounting to ₱9,120.3 million and the following:

Revenue from development and rehabilitation works increased by ₱13,217.4 million, or 1,161.2%, to ₱14,355.7 million (U.S.$261.2 million) for the year ended December 31, 2021 compared to ₱1,138.3 million for the year ended December 31, 2020. In addition, the cost of development and rehabilitation works increased by ₱13,361.1 million, or 1,370.9%, to ₱14,335.7 million (U.S.$260.8 million) for the year ended December 31, 2021 compared to ₱974.6 million for the year ended December 31, 2020. The increase in revenue from and cost of development and rehabilitation was primarily due to the revenue and costs of all ongoing projects at construction and rehabilitation phase, accounted for under *IFRIC 12: Service Concession Agreements*, which also reflects the operations of the Manila Water Group from June 2021.

Interest expense increased by ₱1,906.3 million, or 3,938.6%, to ₱1,954.7 million (U.S.$35.6 million) for the year ended December 31, 2021 compared to ₱48.4 million for the year ended December 31, 2021. The increase was primarily due to additional loan drawdowns of the Group, which also reflects the operations of the Manila Water Group amounting to ₱1,713.1 million from June 2021.

Foreign currency differentials increased by ₱951.5 million, or 100.0%, to ₱951.5 million (U.S.$17.3 million) for the year ended December 31, 2021 compared to nil for the year ended December 31, 2020. The increase was primarily due to foreign currency differential adjustments of the Manila Water Group from June 2021.

Foreign exchange loss increased by ₱1,193.8 million, or 17,054.3%, to ₱1,200.8 million (U.S.$21.8 million) for the year ended December 31, 2021 compared to ₱7.0 million for the year ended December 31, 2021. The increase was primarily due to lower foreign exchange gains on foreign currency denominated cash, which also reflects the operations of the Manila Water Group from June 2021.

Equity share in net income of associates increased to ₱270.4 million (U.S.$4.9 million) for the year ended December 31, 2021 compared to nil for the year ended December 31, 2021. The increase was primarily due to the Group's equity share in net income of associates from investments in Vietnam, Indonesia, Thailand, and the KSA.

Interest income increased by ₱120.2 million, or 44%, to ₱393.5 million (U.S.$7.2 million) for the year ended December 31, 2021 compared to ₱273.3 million for the year ended December 31, 2020. The increase was primarily due to finance income from contract assets, which also reflects the operations of the Manila Water Group amounting to ₱171.5 million from June 2021.

**Income Before Income Tax From Continuing Operations**

As a result of the foregoing, income before income tax from continuing operations for the year ended December 31, 2021, increased by ₱11,069.6 million, or 2,101.3%, to ₱11,596.4 million (U.S.$211.0 million), compared to ₱526.8 million recorded for the year ended December 31, 2020.

**Provision for Income Tax**

Provision for income tax increased by ₱668.5 million, or 795.9%, from ₱84.0 million for the year ended December 31, 2020 to ₱752.5 million (U.S.$13.7 million) for the year ended December 31, 2021 due to higher taxable income, particularly that of the Manila Water Group.

**Net Income From Continuing Operations**

As a result of the foregoing, net income from continuing operations increased by ₱10,401.1 million, or 2,348.9%, to ₱10,843.9 million (U.S.$197.3 million) for the year ended December 31, 2021 from ₱442.7 million for the year ended December 31, 2020.

**Net Loss After Tax From Discontinued Operations**

Net loss after tax from discontinued operations for the year ended December 31, 2021 was ₱12.3 million (U.S.$0.2 million) compared to nil recorded for the year ended December 31, 2020 as a result of Manila Water's discontinued operations relating to the Manila Water Total Solutions Corp.'s Healthy Family business division and Zamboanga Water.

**Net Income**

As a result of the foregoing, net income increased by ₱10,388.9 million, or 2,346.2%, from ₱442.7 million for the year ended December 31, 2020 to ₱10,831.6 million (U.S.$197.0 million) for the year ended December 31, 2021. For the period from June 3, 2021 to December 31, 2021, the Manila Water Group contributed net income to the Group amounting to ₱2,234.6 million.

***Year ended December 31, 2020 compared with year ended December 31, 2019***

**Revenues**

Revenues increased by ₱939.8 million, or 41.0%, from ₱2,294.6 million for the year ended December 31, 2019 to ₱3,234.4 million for the year ended December 31, 2020.

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2019** | **2020** | **% Change** |
| | **(audited)** | **(audited)** | **(unaudited)** |
| | (in millions of ₱) | | |
| Water and other related revenues .. | – | – | – |
| Construction revenue..................... | 2,294.6 | 2,857.2 | 24.5% |
| Sale of electricity.......................... | – | 377.2 | – |
| | **2,294.6** | **3,234.4** | **41.0%** |

The growth in revenues was driven by the increase in construction revenue by ₱562.6 million, or 24.5%, from ₱2,294.6 million for the year ended December 31, 2019 to ₱2,857.2 million for the year ended December 31, 2020, and the increase in the sale of electricity by ₱377.2 million from nil for the year ended December 31, 2019 to ₱377.2 million for the year ended December 31, 2020. The increase in construction revenue, the entirety of which is from Prime BMD, is due to the percentage of completion revenue recognition in new projects such as Solaire North, Montclair Interchange Project and the construction of a COVID-19 quarantine facility. The increase in sale of electricity pertains to the start of Menatech's operations in February 2020.

**Cost of services**

Cost of services increased by ₱531.3 million, or 29.2%, from ₱1,822.3 million for the year ended December 31, 2019 to ₱2,353.6 million for the year ended December 31, 2020, primarily due to an increase in depreciation and amortization, amounting to ₱37.9 million, to ₱91.6 million for the year ended December 31, 2020 compared to ₱53.7 million for the year ended December 31, 2019, which was offset by the decrease in contractual and outside services costs of ₱377.0 million due to productivity losses as a result of implementing safety protocols in connection with and disruptions caused by the COVID-19 pandemic.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2020 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Cost of Services** | | | |
| Depreciation and amortization ......... | 53.7 | 91.6 | 70.6% |
| Salaries, wages and employee benefits......................................... | 159.4 | 362.3 | 127.3% |
| Other direct materials ...................... | 418.0 | 968.9 | 131.8% |
| Power, light and water..................... | – | – | – |
| Contractual and outside services ...... | 1,162.6 | 785.6 | (32.4)% |
| Repairs and maintenance................. | – | – | – |
| Water treatment chemicals .............. | – | – | – |
| Management, technical and professional fees........................... | – | – | – |
| Regulatory costs .............................. | – | – | – |
| Wastewater costs ............................. | – | – | – |
| Water tankering and bulk water costs ............................................. | – | – | – |
| Amortization of water service connections .................................. | – | – | – |
| Collection fees................................. | – | – | – |
| Overhead ......................................... | 28.6 | 145.2 | 407.7% |
| | **1,822.3** | **2,353.6** | **29.2%** |

Depreciation and amortization increased by ₱37.9 million, or 70.6%, to ₱91.6 million for the year ended December 31, 2020 compared to ₱53.7 million for the year ended December 31, 2019. The increase was primarily due to purchases of construction machineries and equipment.

Salaries, wages and employee benefits increased by ₱202.9 million, or 127.3%, to ₱362.3 million for the year ended December 31, 2020 compared to ₱159.4 million for the year ended December 31, 2019. The increase was primarily due to additional headcount and salary rate adjustments for ongoing projects.

Other direct materials increased by ₱551.0 million, or 131.8%, to ₱969.0 million for the year ended December 31, 2020 compared to ₱418.0 million for the year ended December 31, 2019. The increase was primarily due to materials used for Prime BMD's material intensive projects.

Contractual and outside services decreased by ₱377.0 million, or 32.4%, to ₱785.6 million for the year ended December 31, 2020 compared to ₱1,162.6 million for the year ended December 31, 2019. The decrease was due to productivity losses as a result of implementing safety protocols in connection with and disruptions caused by the COVID-19 pandemic.

Overhead increased by ₱116.6 million, or 407.7%, to ₱145.2 million for the year ended December 31, 2020 compared to ₱28.6 million for the year ended December 31, 2019. The increase was primarily due to bonds and insurance, permits, project management costs, and temporary facilities for ongoing construction projects.

**Gross profit**

As a result of the foregoing, gross profit increased by ₱408.5 million, or 86.5%, from ₱472.3 million for the year ended December 31, 2019 to ₱880.8 million for the year ended December 31, 2020.

**Operating expenses**

Operating expenses increased by ₱318.9 million, or 76.4%, from ₱417.4 million for the year ended December 31, 2019 to ₱736.3 million for the year ended December 31, 2020 because of the below changes and as further described below.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2020 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Operating Expenses** | | | |
| Personnel cost | 193.4 | 203.8 | 5.4% |
| Management, technical, and professional fees | 31.5 | 105.1 | 233.7% |
| Provision for ECL | – | 201.7 | – |
| Provisions and MWSS penalty | – | – | – |
| Taxes and licenses | 13.8 | 34.1 | 147.1% |
| Depreciation and amortization | 33.7 | 30.1 | (10.7)% |
| Outside services | 46.5 | 39.5 | (15.1)% |
| Repairs and maintenance | 4.6 | 3.6 | (22.0)% |
| Business development expense | 2.0 | 21.2 | 960.0% |
| Insurance | 4.0 | 16.2 | 305.0% |
| Representation and entertainment | 4.0 | 3.3 | (17.5)% |
| Rent | 2.1 | 2.3 | 9.5% |
| Advertising and promotions | 1.8 | 3.1 | 72.2% |
| Transportation and travel | 21.7 | 16.4 | (24.5)% |
| Communication, printing, light and water | 8.4 | 8.9 | 6.0% |
| Other personnel expenses | – | 4.1 | – |
| Fuel and oil | 2.6 | 1.3 | (50.0)% |
| Recruitment, immigration and other services | – | 1.5 | – |
| Office supplies | – | 0.6 | – |
| Trainings and seminars | – | 0.4 | – |
| Staffing expenses | 15.5 | – | (100)% |
| Others | 31.9 | 39.2 | 22.9% |
| | **417.5** | **736.4** | **76.4%** |

Personnel cost increased by ₱10.4 million, or 5.4%, to ₱203.8 million for the year ended December 31, 2020 compared to ₱193.4 million for the year ended December 31, 2019. The increase was primarily due to additional headcount and salary rate adjustments.

Management, technical, and professional fees increased by ₱73.6 million, or 233.7%, to ₱105.1 million for the year ended December 31, 2020 compared to ₱31.5 million for the year ended December 31, 2019. The increase was primarily due to professional fees incurred for business development and due diligence-related costs.

Provision for ECL increased to ₱201.7 million for the year ended December 31, 2020 compared to nil for the year ended December 31, 2019. The increase was primarily due to estimated credit loss provisions for electricity receivables pertaining to Menatech.

Taxes and licenses increased by ₱20.3 million, or 147.1%, to ₱34.1 million for the year ended December 31, 2020 compared to ₱13.8 million for the year ended December 31, 2019. The increase was primarily due to additional local and national taxes for the year ended December 31, 2020.

Depreciation and amortization decreased by ₱3.6 million, or 10.7%, to ₱30.1 million for the year ended December 31, 2020 compared to ₱33.7 million for the year ended December 31, 2019. The decrease was primarily due to fully depreciated software in the previous year.

Outside services decreased by ₱7.0 million, or 15.1%, to ₱39.5 million for the year ended December 31, 2020 compared to ₱46.5 million for the year ended December 31, 2019. The decrease was primarily due to limited service engagements during the pandemic.

Repairs and maintenance decreased by ₱1.0 million, or 22.0%, to ₱3.6 million for the year ended December 31, 2020 compared to ₱4.6 million for the year ended December 31, 2019. The decrease was primarily due to less office and vehicle maintenance for the year.

Business development expense increased by ₱19.2 million, or 960.0%, to ₱21.2 million for the year ended December 31, 2020 compared to ₱2.0 million for the year ended December 31, 2019. The increase was primarily due to project exploration costs inside and outside the country, including various technical studies and research.

Insurance increased by ₱12.2 million, or 305.0%, to ₱16.2 million for the year ended December 31, 2020 compared to ₱4.0 million for the year ended December 31, 2019. The increase was primarily due to increased premiums paid for life, general liability, and other insurances during the year.

Representation and entertainment decreased by ₱0.7 million, or 17.5%, to ₱3.3 million for the year ended December 31, 2020 compared to ₱4.0 million for the year ended December 31, 2019. This was primarily due to decrease in meeting expenses during the year.

Rent increased by ₱0.2 million, or 9.5%, to ₱2.3 million for the year ended December 31, 2020 compared to ₱2.1 million for the year ended December 31, 2019. The increase was primarily due to additional short-term leases of the Group.

Advertising and promotions increased by ₱1.3 million, or 72.2%, to ₱3.1 million for the year ended December 31, 2020 compared to ₱1.8 million for the year ended December 31, 2019. The increase was primarily due to logo and branding development expenses incurred.

Transportation and travel decreased by ₱5.3 million, or 24.5%, to ₱16.4 million for the year ended December 31, 2020 compared to ₱21.7 million for the year ended December 31, 2019. The decrease was primarily due to restrictions to business travel brought about by the COVID-19 pandemic.

Communication, printing, light and water increased by ₱0.5 million, or 6.0%, to ₱8.9 million for the year ended December 31, 2020 compared to ₱8.4 million for the year ended December 31, 2019. This was primarily due to increased utility charges for the year.

Other personnel expenses increased to ₱4.1 million for the year ended December 31, 2020 compared to nil for the year ended December 31, 2019. The increase was primarily due to personnel costs incurred for the COVID-19 response.

Fuel and oil decreased by ₱1.3 million, or 50.0%, to ₱1.3 million for the year ended December 31, 2020 compared to ₱2.6 million for the year ended December 31, 2019. The decrease was primarily from the lesser consumption due to travel restrictions.

Recruitment, immigration and other services increased to ₱1.5 million for the year ended December 31, 2020 compared to nil for the year ended December 31, 2019. The increase was primarily due to increased hiring activities of the Group.

Office supplies increased to ₱0.6 million for the year ended December 31, 2020 compared to nil for the year ended December 31, 2019. The increase was primarily due to supplies used.

Trainings and seminars increased to ₱0.4 million for the year ended December 31, 2020 compared to nil for the year ended December 31, 2019. The increase was primarily due to personnel training costs during the year.

Staffing expenses decreased by ₱15.5 million, or 100.0%, to nil for the year ended December 31, 2020 compared to ₱15.5 million for the year ended December 31, 2019. The decrease was primarily due to the commencement of operations of the Umm Qasr Power Plant in 2020.

Others increased by ₱7.3 million, or 22.9%, to ₱39.2 million for the year ended December 31, 2020 compared to ₱31.9 million for the year ended December 31, 2019. The increase was primarily due to bank charges and other miscellaneous expenses incurred.

**Other income (expenses)**

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2020 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Other income (expenses):** | | | |
| Revenue from development and rehabilitation works | 2,706.8 | 1,138.3 | (57.9)% |
| Cost of development and rehabilitation works | (2,704.0) | (974.6) | (64.0)% |
| Interest expense | (19.5) | (48.4) | 148.2% |
| Foreign exchange gain (loss) - net | (4.2) | (7.0) | 66.7% |
| Interest income | 10.6 | 273.3 | 2,478.3% |
| Others | 0.1 | 0.6 | 500.0% |
| | **(10.2)** | **382.2** | **(3,847.1)%** |

Other expenses of ₱10.2 million for the year ended December 31, 2019 changed to other income of ₱382.2 million for the year ended December 31, 2020 primarily due to the following:

Revenue from development and rehabilitation works decreased by ₱1,568.5 million, or 57.9%, to ₱1,138.3 million for the year ended December 31, 2020 compared to ₱2,706.8 million for the year ended December 31, 2019. The decrease was primarily due to the commencement of operations of the Umm Qasr Power Plant, which was previously accounted for as part of revenue and cost of development works under *IFRIC 12: Service Concession Agreements*.

Cost of development and rehabilitation works decreased by ₱1,729.4 million, or 64%, to ₱974.6 million for the year ended December 31, 2020 compared to ₱2,704.0 million for the year ended December 31, 2019. The decrease was primarily due to the commencement of operations of the Umm Qasr Power Plant, which was previously accounted for as part of revenue and cost of development works under *IFRIC 12: Service Concession Agreements*.

Interest expense increased by ₱28.9 million, or 148.2%, to ₱48.4 million for the year ended December 31, 2020 compared to ₱19.5 million for the year ended December 31, 2019. The increase was primarily due to the loan drawdowns of the Group during the year.

Interest income increased by ₱262.7 million, or 2,478.3%, to ₱273.3 million for the year ended December 31, 2020 compared to ₱10.6 million for the year ended December 31, 2019. The increase was primarily due to the Group's interest income from contract assets.

Foreign exchange loss – net increased by ₱2.8 million, or 66.7%, to ₱7.0 million for the year ended December 31, 2020 compared to ₱4.2 million for the year ended December 31, 2019.

Others increased by ₱0.5 million, or 500.0%, to ₱0.6 million for the year ended December 31, 2020 compared to ₱0.1 million for the year ended December 31, 2019.

**Income Before Income Tax From Continuing Operations**

As a result of the foregoing, income before income tax from continuing operations for the year ended December 31, 2020 increased ₱482.0 million, or 1,078.3%, to ₱526.7 million, from income before income tax from continuing operations of ₱44.7 million recorded for the year ended December 31, 2019.

**Provision for Income Tax**

Provision for income tax increased by ₱18.2 million, or 27.6%, from ₱65.8 million for the year ended December 31, 2019 to ₱84.0 million for the year ended December 31, 2020 because of Prime BMD's higher taxable income.

**Net Income (Loss) From Continuing Operations**

As a result of the foregoing, net income from continuing operations for the year ended December 31, 2020 was ₱442.7 million, compared with a net loss from continuing operations of ₱21.1 million for the year ended December 31, 2019.

**Net Loss After Tax From Discontinued Operations**

Net loss after tax from discontinued operations for each of the years ended December 31, 2019 and 2020 was nil.

**Net Income (Loss)**

As a result of the foregoing, net loss of ₱21.1 million for the year ended December 31, 2019 changed to net income of ₱442.7 million for the year ended December 31, 2020.

***Year ended December 31, 2019 compared with year ended December 31, 2018***

**Revenues**

Revenues increased by ₱1,115.1 million, or 94.5%, from ₱1,179.5 million for the year ended December 31, 2018 to ₱2,294.6 million for the year ended December 31, 2019 due to Prime BMD reaching construction milestones for many projects, such as MICT Berth 7 Expansion and MICT Berth 1-5 Wharf Repairs.

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2018** | **2019** | **% Change** |
| | **(audited)** | **(audited)** | **(unaudited)** |
| | (in millions of ₱) | | |
| Water and other related revenues .. | – | – | – |
| Construction revenue..................... | 1,179.5 | 2,294.6 | 94.5% |
| Sale of electricity........................... | – | – | – |
| | **1,179.5** | **2,294.6** | **94.5%** |

**Cost of services**

Cost of services increased by ₱782.0 million, or 75.2%, from ₱1,040.3 million for the year ended December 31, 2018 to ₱1,822.3 million for the year ended December 31, 2019, primarily due to an increase in depreciation and amortization of ₱40.4 million, or 303.9%, to ₱53.7 million for the year ended December 31, 2019 compared to ₱13.3 million for the year ended December 31, 2018 from purchases of additional construction equipment; and an increase in contractual and outside services of ₱672.4 million, or 137.2%, to ₱1,162.6 million for the year ended December 31, 2019 compared to ₱490.2 million for the year ended December 31, 2018 due to the cost of project subcontractors.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Cost of Services** | | | |
| Depreciation and amortization | 13.3 | 53.7 | 303.8% |
| Salaries, wages and employee benefits | 131.8 | 159.4 | 20.9% |
| Other direct materials | 390.8 | 418.0 | 7.0% |
| Power, light and water | – | – | – |
| Contractual and outside services | 490.2 | 1,162.6 | 137.2% |
| Repairs and maintenance | – | – | – |
| Water treatment chemicals | – | – | – |
| Management, technical and professional fees | – | – | – |
| Regulatory costs | – | – | – |
| Wastewater costs | – | – | – |
| Water tankering and bulk water costs | – | – | – |
| Amortization of water service connections | – | – | – |
| Collection fees | – | – | – |
| Overhead | 14.2 | 28.6 | 101.4% |
| | **1,040.3** | **1,822.3** | **75.2%** |

Depreciation and amortization increased by ₱40.4 million, or 303.8%, to ₱53.7 million for the year ended December 31, 2019 compared to ₱13.3 million for the year ended December 31, 2018. The increase was primarily due to purchases of additional construction equipment.

Contractual and outside services increased by ₱672.4 million, or 137.2%, to ₱1,162.6 million for the year ended December 31, 2019 compared to ₱490.2 million for the year ended December 31, 2018. The increase was primarily due to the cost of project subcontractors.

Salaries, wages and employee benefits increased by ₱27.6 million, or 20.9%, to ₱159.4 million for the year ended December 31, 2019 compared to ₱131.8 million for the year ended December 31, 2018. The increase was primarily due to additional headcount and salary rate adjustments for ongoing projects.

Overhead increased by ₱14.4 million, or 101.4%, to ₱28.6 million for the year ended December 31, 2019 compared to ₱14.2 million for the year ended December 31, 2018. The increase was primarily due to bonds and insurance, permits, project management costs, and temporary facilities for ongoing construction projects.

Other direct materials increased by ₱27.2 million, or 7.0%, to ₱418.0 million for the year ended December 31, 2019 compared to ₱390.8 million for the year ended December 31, 2018. The increase was primarily due to materials used for Prime BMD's projects.

**Gross profit**

As a result of the foregoing, gross profit increased by ₱333.0 million, or 239.0%, from ₱139.3 million for the year ended December 31, 2018 to ₱472.3 million for the year ended December 31, 2019.

**Operating expenses**

Operating expenses increased by ₱105.8 million, or 33.9%, from ₱311.7 million for the year ended December 31, 2018 to ₱417.5 million for the year ended December 31, 2019 due to the following accounts and as described below.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Operating Expenses** | | | |
| Personnel cost | 136.2 | 193.4 | 42.0% |
| Management, technical, and professional fees | 75.3 | 31.5 | (58.2)% |
| Provision for ECL | – | – | – |
| Provisions and MWSS penalty | – | – | – |
| Taxes and licenses | 4.4 | 13.8 | 213.6% |
| Depreciation and amortization | 10.8 | 33.7 | 212.0% |
| Outside services | 15.2 | 46.5 | 205.9% |
| Repairs and maintenance | 2.0 | 4.6 | 130.0% |
| Business development expense | – | 2.0 | – |
| Insurance | 3.3 | 4.0 | 21.2% |
| Representation and entertainment | 4.4 | 4.0 | (9.1)% |
| Rent | 18.4 | 2.1 | (88.6)% |
| Advertising and promotions | 0.3 | 1.8 | 500.0% |
| Transportation and travel | 13.0 | 21.7 | 66.9% |
| Communication, printing, light and water | 4.7 | 8.4 | 78.7% |
| Other personnel expenses | – | – | – |
| Fuel and oil | 2.4 | 2.6 | 8.3% |
| Recruitment, immigration and other services | 0.7 | – | (100.0)% |
| Office supplies | 0.1 | – | (100.0)% |
| Trainings and seminars | – | – | – |
| Staffing expenses | – | 15.5 | – |
| Others | 20.5 | 31.9 | 55.6% |
| | **311.7** | **417.5** | **33.9%** |

Personnel cost increased by ₱57.2 million, or 42.0%, to ₱193.4 million for the year ended December 31, 2019 compared to ₱136.2 million for the year ended December 31, 2018. The increase was primarily due to the hiring of additional personnel for business development, pre-contract and engineering functions.

Management, technical, and professional fees decreased by ₱43.8 million, or 58.2%, to ₱31.5 million for the year ended December 31, 2019 compared to ₱75.3 million for the year ended December 31, 2018. The decrease was primarily due to the commencement of construction of the Umm Qasr Power Plant, wherein a portion of the technical and professional fees formed part of the capitalized costs.

Taxes and licenses increased by ₱9.4 million, or 213.6%, to ₱13.8 million for the year ended December 31, 2019 compared to ₱4.4 million for the year ended December 31, 2018. The increase was primarily due to the payment of additional local taxes.

Depreciation and amortization increased by ₱22.9 million, or 212.0%, to ₱33.7 million for the year ended December 31, 2019 compared to ₱10.8 million for the year ended December 31, 2018. The increase was primarily due to additional heavy equipment for the construction operations of Prime BMD.

Outside services increased by ₱31.3 million, or 205.9%, to ₱46.5 million for the year ended December 31, 2019 compared to ₱15.2 million for the year ended December 31, 2018. The increase was primarily due to the employment of technical consultants for the design and review of projects.

Repairs and maintenance increased by ₱2.6 million, or 130.0%, to ₱4.6 million for the year ended December 31, 2019 compared to ₱2.0 million for the year ended December 31, 2018. The increase was primarily due to vehicle and office equipment maintenance during the year.

Business development expense increased to ₱2.0 million for the year ended December 31, 2019 compared to nil for the year ended December 31, 2018. The increase was primarily due to project exploration costs inside and outside the country, including various technical studies and research.

Insurance increased by ₱0.7 million, or 21.2%, to ₱4.0 million for the year ended December 31, 2019 compared to ₱3.3 million for the year ended December 31, 2018. The increase was primarily due to additional life and general liability insurance availed during the year.

Representation and entertainment decreased by ₱0.4 million, or 9.1%, to ₱4.0 million for the year ended December 31, 2019 compared to ₱4.4 million for the year ended December 31, 2018. This was primarily due to decrease in meeting expenses.

Rent decreased by ₱16.3 million, or 88.6%, to ₱2.1 million for the year ended December 31, 2019 compared to ₱18.4 million for the year ended December 31, 2018. The decrease was primarily due to the recognition of right-of-use assets and related lease liabilities under PFRS 16.

Advertising and promotions increased by ₱1.5 million, or 500.0%, to ₱1.8 million for the year ended December 31, 2019 compared to ₱0.3 million for the year ended December 31, 2018. The increase was primarily due to logo and branding expenses incurred.

Transportation and travel increased by ₱8.7 million, or 66.9%, to ₱21.7 million for the year ended December 31, 2019 compared to ₱13.0 million for the year ended December 31, 2018. The increase was primarily due to travel expenses incurred.

Communication, printing, light and water increased by ₱3.7 million, or 78.7%, to ₱8.4 million for the year ended December 31, 2019 compared to ₱4.7 million for the year ended December 31, 2018. This was primarily due to additional utility expenses incurred for the year.

Fuel and oil increased by ₱0.2 million, or 8.3%, to ₱2.6 million for the year ended December 31, 2019 compared to ₱2.4 million for the year ended December 31, 2018. The increase was primarily due to the additional fuel consumption during the year.

Recruitment, immigration and other services decreased by ₱0.7 million, or 100.0%, to nil for the year ended December 31, 2019 compared to ₱0.7 million for the year ended December 31, 2018. The decrease was primarily due to extensive hiring activities in the previous year.

Office supplies decreased by ₱0.1 million, or 100.0%, to nil for the year ended December 31, 2019 compared to ₱0.1 million for the year ended December 31, 2018. The decrease was primarily due to supplies used in the previous year.

Staffing expenses increased to ₱15.5 million for the year ended December 31, 2019 compared to nil for the year ended December 31, 2018. This was primarily due to increase in personnel.

Others increased by ₱11.4 million, or 55.6%, to ₱31.9 million for the year ended December 31, 2019 compared to ₱20.5 million for the year ended December 31, 2018. The increase was primarily due to bank charges and other miscellaneous expenses incurred.

**Other income (expenses)**

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2019 | % Change |
| | (audited) | (audited) | (unaudited) |
| | (in millions of ₱) | | |
| **Other income (expenses):** | | | |
| Revenue from development and rehabilitation works | – | 2,706.8 | – |
| Cost of development and rehabilitation works | – | (2,704.0) | – |
| Interest expense | (6.3) | (19.5) | 209.5% |
| Foreign exchange gain (loss) - net | 3.2 | (4.2) | (231.3)% |
| Interest income | 0.7 | 10.6 | 1,414.3% |
| Others | 0.1 | 0.1 | – |
| | **(2.3)** | **(10.2)** | **344.7%** |

Other income (expenses) increased by ₱7.9 million, or 344.7%, from ₱2.3 million for the year ended December 31, 2018 to ₱10.3 million for the year ended December 31, 2019 primarily due to the following:

Revenue from development and rehabilitation works increased to ₱2,706.8 million for the year ended December 31, 2019 compared to nil for the year ended December 31, 2018.

Cost of development and rehabilitation works increased to ₱2,704.0 million for the year ended December 31, 2019 compared to nil for the year ended December 31, 2018. The increase was primarily due to the commencement of the construction phase for the Wawa Bulk Water Supply Project and Umm Qasr Power Plant, accounted for under *IFRIC 12: Service Concession Agreements.*

Interest expense increased by ₱13.2 million, or 209.5%, to ₱19.5 million for the year ended December 31, 2019 compared to ₱6.3 million for the year ended December 31, 2018. The increase was primarily due to interest expenses related to service concession obligations and lease liabilities.

Foreign exchange gain–net of ₱3.2 million for the year ended December 31, 2018 reversed to a foreign exchange loss–net of ₱4.2 million for the year ended December 31, 2019.

Interest income increased by ₱9.9 million, or 1,414.3%, to ₱10.6 million for the year ended December 31, 2019 compared to ₱0.7 million for the year ended December 31, 2018. The increase was primarily due to the additional interest income earned from cash and cash equivalents and contract assets.

Others decreased by ₱0.02 million, or 23.8%, to ₱0.1 million for the year ended December 31, 2019 compared to ₱0.1 million for the year ended December 31, 2018.

**Income (Loss) Before Income Tax From Continuing Operations**

As a result of the foregoing, loss before income tax from continuing operations for the year ended December 31, 2018 of ₱174.7 million reversed to income before income tax from continuing operations of ₱44.6 million for the year ended December 31, 2019.

**Provision for (Benefit From) Income Tax**

Benefit from income tax of ₱29.5 million for the year ended December 31, 2018 changed to provision for income tax of ₱65.8 million for the year ended December 31, 2019 because of Prime BMD's higher taxable income.

**Net Loss From Continuing Operations**

As a result of the foregoing, net loss from continuing operations for the year ended December 31, 2019 decreased by ₱123.9 million, or 85.4%, to ₱21.2 million, from ₱145.1 million recorded for the year ended December 31, 2018.

**Net Loss After Tax From Discontinued Operations**

Net loss after tax from discontinued operations for each of the years ended December 31, 2018 and 2019 was nil.

**Net Loss**

As a result of the foregoing, net loss for the year ended December 31, 2019 decreased by ₱123.9 million, or 85.4%, to ₱21.2 million, from ₱145.1 million recorded for the year ended December 31, 2018.

**FINANCIAL POSITION**

The Group's statements of financial position as of December 31, 2021, 2020, 2019 and 2018 and as of June 30, 2022 and 2021, are based on, and should be read in conjunction with, the Audited Consolidated Financial Statements, and related notes thereto, included elsewhere in this Prospectus.

**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.

**Short-term investments**

These are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months from the date of acquisition and that are subject to an insignificant risk of change in value

**Trade and other receivables**

Trade receivables represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). This is composed of trade receivables arising from construction services, water and used water services, supervision fees on the development of water and used water facilities, pipework services, concession receivables, billed charges, retention receivables, and other receivables.

**Contract assets**

A contract asset is the right to consideration, which is conditional, in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. If the construction revenue is recognized which is determined based on the percentage-of-completion for the construction of the sold property is higher than the amount due (i.e. receivable) as of the date arising from the contract with customer, a contract asset is recognized for the difference representing the earned consideration in which the right of the Group on the consideration is still conditional. Upon completion and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade receivables.

**Inventories**

Inventories consisting of uninstalled materials for use in the construction, water treatment chemicals, maintenance materials, water meters, connection supplies and spare parts are valued at the lower of cost or net realizable value ("**NRV**").

**Prepayments and other current assets**

These are composed of the following:

Advances to contractors. Advances to contractors represent advance payments on services to be received in connection with the Group's operations. These are reclassified to "Cost of services" account upon actual render of services, which is normally within 12 months.

Creditable withholding tax ("**CWT**"). CWT represents the amount withheld by the Group's customers in relation to its sale of services. These are recognized upon collection of the related billings and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations. CWT is stated at its estimated NRV.

Prepayments. Prepayments are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

**Service concession assets and obligations**

The Group accounts for its concession agreements with MWSS, Calasiao Water District ("**CWD**"), TIEZA, Clark Development Corporation ("**CDC**"), Obando Water District ("**OWD**"), Bulacan Water District ("**BuWD**") and Provincial Government of Laguna ("**PGL**"); joint venture agreements with Calbayog City Water District ("**CCWD**"), Tanauan Water District ("**TnWD**"), Pagsanjan Water District ("**PAGWAD**"), and Lambunao Water District ("**LWD**"); septage management agreement ("**SMA**)" with City of Ilagan Water District ("**CIWD**"); and memorandum of agreements ("**MOAs**") with the Municipalities of Sta. Barbara, San Fabian, and Manaoag under the intangible asset model as it receives the right (license) to charge users of public service. Under the Group's concession arrangements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall transfer to MWSS, CWD, TIEZA, CDC, OWD, BuWD, PGL, CCWD, TnWD, PAGWAD, LWD, and CIWD (under the SMA) at the end of the concession period. Meanwhile, the legal title to the assets covered by the MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag shall remain with North Luzon Water.

The bulk water sale and purchase agreements with CIWD, Tagum Water District ("**TWD**"), Metropolitan Cebu Water District ("**MCWD**"), the Group's Wawa Offtake Agreement with MWSS and GCPI are accounted for under the financial asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the service concession arrangements, Cebu Manila Water Development, Inc., Tagum Water Company, Inc., Metro Ilagan Water Company, Inc., and WawaJVCo are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. Prime Metro Power was also awarded the right to receive payments from GCPI for the minimum power quantity at the agreed tariff rate every year under a take-or-pay arrangement on the Umm Qasr power plant.

During the construction phase, the Group is not yet entitled to collect any consideration. As such, revenue from the construction service being provided is recognized as a contract asset. The operator will be able to receive the fixed amount pertaining to the construction service over the term of the service concession arrangement starting when the construction of the infrastructure is completed.

**Investments in Associates**

An associate is an entity in which the Group has significant influence and which is not a subsidiary of the Company. 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 Group's investments in associates are as follows:

- Thu Duc Water Holdings Pte. Ltd ("**TDWH**")

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

  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 (equivalent to 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. TDWH has a 50-year bulk water supply contract with Saigon Water Corporation ("**SAWACO**") for a minimum consumption of 300 MLD on a take-or-pay arrangement.

- Kenh Dong Water Holdings Pte. Ltd. ("**KDWH**")

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

On May 17, 2012, MWCI, through KDWH, entered into a sale and purchase agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The payment for the shares was done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱1,659.89 million.

As of December 31, 2012, the consideration paid by MWCI for its investment in Kenh Dong Water amounted to ₱1,571.92 million (VND785.24 billion). 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 ₱1,373.57 million (VND650.85 billion). Kenh Dong Water has a 20-year bulk water supply agreement with SAWACO for a minimum consumption of 150 MLD, expandable to 200 MLD.

- Saigon Water Infrastructure Corporation

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

  On October 8, 2013, MWCI, through Manila Water South Asia Holdings Pte. Ltd. ("**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 ₱293.65 million (VND139.51 billion) arising from the acquisition of shares of stock in Saigon Water by the Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

  On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water for ₱229.16 million (VND103.87 billion), which increased MWSAH's holding in Saigon Water's outstanding capital stock from 31.47% to 37.99%. The notional goodwill arising from the additional subscription amounted to ₱42.05 million (VND19.06 billion).

- Cu Chi Water Supply Sewerage Company Ltd. ("**Cu Chi Water**")

  Cu Chi Water is incorporated in the Socialist Republic of Vietnam with its principal place of business in Ho Chi Minh City, Vietnam. As of June 30, 2022, Cu Chi Water has no commercial operations.

  On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water in the total amount of ₱318.16 million (VND154.35 billion). Pursuant to the Capital Transfer Agreement, Saigon Water granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. On October 29, 2021, the Capital Transfer Agreement has been extended for one year. As of June 30, 2022, no trigger event has occurred and the value of the put option was determined to be nil.

- PT. Triguna Rapindo Mandiri ("**PT STU**")

  PT STU is incorporated in Indonesia with its principal place of business in Semarang, Indonesia. PT STU is a bulk water supply company servicing Perusahaan Daerah Air Minum Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.50 million liters per day.

  On March 6, 2018, PT Manila Water Indonesia signed an SPA with PT. Triguna Rapindo Mandiri to acquire 4,478 ordinary shares in PT STU to own 20.00% of its outstanding capital stock.

- Eastern Water Resources Development and Management Public Company Limited ("**East Water**")

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

On February 19, 2018, MWCI signed a SPA with Electricity Generating Public Company Limited ("**EGCO**") to acquire EGCO's 18.72% equity in East Water. East Water is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 14, 2018, Manila Water (Thailand) Co., Ltd. acquired 311.44 million ordinary shares in East Water representing 18.72% equity of East Water.

- International Water Partners Company ("**IWP**")

  IWP is incorporated in Saudi Arabia with its principal place of business in the city of Madinah, Kingdom of Saudi Arabia. IWP is a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 40.00%, 40.00%, and 20.00%, respectively.

**Financial Assets at fair value through other comprehensive income**

This represents the Group's investment in unlisted corporate preferred shares of Solar Philippines Tarlac Corporation (SP Tarlac) and unlisted preferred shares of Wastefuel Global LLC.

- Wastefuel Global LLC

  On February 1, 2021 and on March 17, 2021, PIHI purchased and subscribed 2,000,000 Class A and 589,544 Class C shares, respectively, for a total purchase price of U.S.$2.0 million from Wastefuel Global, LLC, an entity incorporated in 2021.

- Solar Philippines Tarlac Corporation

  Investment in unquoted shares of stock represent unlisted corporate preferred shares in SP Tarlac. On June 3, 2020, Prime Metro Power entered into an investment agreement with SP Tarlac for a 150MW solar power plant in Concepcion, Tarlac. The Group paid ₱535.0 million, ₱465.0 million and ₱500.0 million on July 6, 2020, August 14, 2020, and January 15, 2021, respectively, for the three tranches of an aggregate investment of 1.5 billion preferred shares.

**Property, plant and equipment**

Property, plant and equipment consists of plant and technical equipment, office furniture and equipment, transportation equipment, machineries, building, and leasehold improvements with estimated useful lives ranging from two to five years from the date it became available for use by the Group.

**Project development costs**

Project development costs are expensed as incurred until management determines that the project is technically, commercially and financially viable, at which time, project development costs are capitalized. This is composed of payments made for the Ahunan Laguna Power Plant, Chico Hydropower Project, WasteFuel project, and Terra Solar Power Plant.

**Goodwill and other intangible assets**

This is composed of goodwill, customer relationship, water rights and other intangible assets. The fair value of the customer relationship was recognized resulting from the acquisition of SP Tanauan on December 2021. Water rights pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Portero River, Agno River, and Cagayan River.

**Deferred tax assets – net**

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

**Other non-current assets**

Other non-current assets are advances to contractors and suppliers, security deposits and deposit for land acquisition, non-current prepaid taxes, and others.

**Accounts payable and other current liabilities**

This consists of trade payables, accrued expenses, payables to contractors, interest payables, and others.

**Short-term loans**

Short-term loans consist of loans obtained by the Group with maturity of one year or less to fund its working capital requirements.

**Long-term loans**

Long-term loans consists of loans obtained by the Group with maturity of more than a year to finance its long-term projects and to acquire capital expenditures.

**Lease liabilities**

Lease liabilities are financial liabilities arising from contracts which contains a lease, to which the Group has the right to control the use of the identified asset for a period of time in exchange for a consideration. The Group's lease liabilities arise from its lease of transportation equipment, office space, storage and plant facilities, land, right-of-way and furniture and fixtures with lease term ranging from three to six years.

**Contract liabilities**

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

**Income tax payable**

Income tax payable arises from current income taxes which are measured at the amount expected to be 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 at the reporting date.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in profit or loss, net of any reimbursement.

**Other non-current liabilities**

Other non-current liabilities consist of share purchase payable, deferred credits, customers' guaranty deposits and other deposits owed by the Group.

*As of June 30, 2022 compared with as of December 31, 2021*

| | As of December 31, 2021 (audited) | As of June 30, 2022 (audited) | (unaudited) | % Change (unaudited) |
|---|---|---|---|---|
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Assets** | | | | |
| Cash and cash equivalents | 15,902.3 | 10,930.9 | 198.9 | (31.3)% |
| Short-term investments | 458.5 | 350.9 | 6.4 | (23.5)% |
| Trade and other receivables | 3,863.3 | 4,162.0 | 75.7 | 7.7% |
| Contract assets - current portion | 1,410.6 | 1,050.1 | 19.1 | (25.6)% |
| Inventories | 502.2 | 630.3 | 11.5 | 25.5% |
| Prepayments and other current assets | 2,556.7 | 3,025.5 | 55.0 | 18.3% |
| **Total current assets** | **24,693.6** | **20,149.8** | **366.6** | **(18.4)%** |
| **Non-current assets** | | | | |
| Contract asset classified as non-current | 6,938.9 | 9,220.9 | 167.7 | 32.9% |
| Service concession asset | 119,820.5 | 128,661.5 | 2,340.6 | 7.4% |
| Investments in associates | 11,452.4 | 12,153.7 | 221.1 | 6.1% |
| Financial assets at fair value through other comprehensive income | 1,617.0 | 2,030.5 | 36.9 | 25.6% |
| Property, plant and equipment | 7,705.3 | 7,929.7 | 144.3 | 2.9% |
| Project development costs | 222.9 | 315.3 | 5.7 | 41.5% |
| Goodwill and other intangible assets | 1,864.1 | 1,834.5 | 33.4 | (1.6)% |
| Deferred tax assets – net | 1,590.7 | 1,499.3 | 27.3 | (5.7)% |
| Other non-current assets | 10,454.1 | 13,771.9 | 250.5 | 31.7% |
| **Total non-current assets** | **161,665.9** | **177,417.3** | **3,227.5** | **9.7%** |
| **Total assets** | **186,359.5** | **197,567.1** | **3,594.1** | **6.0%** |
| **Current liabilities** | | | | |
| Accounts payable and other current liabilities | 14,825.1 | 14,323.5 | 260.6 | (3.4)% |
| Short-term loans | 52.5 | 4,067.0 | 74.0 | 7,646.7% |
| Current portion of: | | | | |
| Long-term loans | 5,371.7 | 6,135.0 | 111.6 | 14.2% |
| Service concession obligations | 626.5 | 632.4 | 11.5 | 0.9% |
| Lease liabilities | 168.6 | 102.6 | 1.9 | (39.1)% |
| Contract liabilities | 883.4 | 342.4 | 6.2 | (61.2)% |
| Income tax payable | 170.8 | 507.9 | 9.2 | 197.4% |
| **Total current liabilities** | **22,098.6** | **26,110.8** | **475.0** | **18.2%** |
| **Non-current liabilities** | | | | |
| Long-term loans - net of current portion | 81,236.8 | 84,540.1 | 1,537.9 | 4.1% |
| Contract liabilities - net of current portion | 151.5 | 570.8 | 10.4 | 276.8% |
| Lease liability - net of current portion | 328.9 | 323.3 | 5.9 | (1.7)% |
| Service concession obligation | 8,841.0 | 9,105.6 | 165.6 | 3.0% |
| Retirement liability – net | 160.7 | 216.7 | 3.9 | 34.8% |
| Deferred tax liabilities – net | 583.9 | 721.3 | 13.1 | 23.5% |
| Provisions | 1,167.0 | 1,083.2 | 19.7 | (7.2)% |
| Other non-current liabilities | 5,151.0 | 5,398.0 | 98.3 | 4.8% |
| **Total non-current liabilities** | **97,620.8** | **101,959.0** | **1,854.8** | **4.4%** |
| **Total liabilities** | **119,719.4** | **128,069.8** | **2,329.8** | **7.0%** |

Assets

Total assets were ₱197,567.1 million (U.S.$3,594.1 million) as of June 30, 2022, an increase of ₱11,207.7 million, or 6.0%, from total assets of ₱186,359.5 million as of December 31, 2021.

Current assets

Current assets were ₱20,149.8 million (U.S.$366.6 million) as of June 30, 2022, a decrease of ₱4,543.8 million, or 18.4%, from current assets of ₱24,693.6 million as of December 31, 2021. The decrease was mainly due to decreases in cash and cash equivalents, short-term investments and contract assets – current portion, partially offset primarily by an increase in trade, other receivables and inventories as discussed below.

***Cash and cash equivalents***

Cash and cash equivalents were ₱10,930.9 million (U.S.$198.9 million) as of June 30, 2022, a decrease of ₱4,971.4 million, or 31.3%, from cash and cash equivalents of ₱15,902.3 million as of December 31, 2021, primarily due to increased spending related to the Group's capital expenditures on water concession assets and interest payments, which were partially offset by the Group's availment of short-term and long-term debt.

***Short-term investments***

Short-term investments were ₱350.9 million (U.S.$6.4 million) as of June 30, 2022, a decrease of ₱107.6 million, or 23.5%, from short-term investments of ₱458.5 million as of December 31, 2021, due to the maturity of the Group's short-term money market placements.

***Trade and other receivables***

Trade and other receivables were ₱4,162.0 million (U.S.$75.7 million) as of June 30, 2022, an increase of ₱298.7 million, or 7.7%, from trade and other receivables of ₱3,863.3 million as of December 31, 2021, mainly from the increase in trade and retention receivables of Prime BMD and additional electricity receivables of Menatech, which were offset by the collection of receivables by the Manila Water Group and reversal of output VAT on receivables of the Manila Water Group upon effectivity of the East Zone Franchise Law during the six months ended June 30, 2022. The allowance for expected credit losses of receivables from customers amounted to ₱720.3 million (U.S.$13.1 million) as of June 30, 2022, an increase of ₱99.8 million, or 16.1%, from allowance for expected credit losses of receivables from customers of ₱620.5 million as of December 31, 2021. For further details, see Note 7 to the audited consolidated financial statements as of and for the six months ended June 30, 2022.

***Contract assets - current portion***

Contract assets - current portion were ₱1,050.1 million (U.S.$19.1 million) as of June 30, 2022, a decrease of ₱360.5 million, or 25.6%, from contract assets - current portion of ₱1,410.6 million as of December 31, 2021, mainly from the billings of earned construction revenues of Prime BMD.

***Inventories***

Inventories were ₱630.3 million (U.S.$11.5 million) as of June 30, 2022, an increase of ₱128.1 million, or 25.5%, from inventories of ₱502.2 million as of December 31, 2021, mainly due to the purchase of water meter inventories of the Manila Water Group.

***Prepayments and other current assets***

Prepayments and other current assets were ₱3,025.5 million (U.S.$55.0 million) as of June 30, 2022, an increase of ₱468.8 million, or 18.3%, from prepayments and other current assets of ₱2,556.7 million as of December 31, 2021, mainly due to the increase in prepaid taxes of the Group.

Non-current assets

Non-current assets were ₱177,417.3 million (U.S.$3,227.5 million) as of June 30, 2022, an increase of ₱15,751.5 million, or 9.7%, from non-current assets of ₱161,665.9 million as of December 31, 2021. The increase was mainly due to increases in contract asset classified as non-current, service concession asset, financial assets at fair value through other comprehensive income, project development costs, and other non-current assets, as discussed below.

***Contract asset classified as non-current***

Contract asset classified as non-current was ₱9,220.9 million (U.S.$167.7 million) as of June 30, 2022, an increase of ₱2,282.0 million, or 32.9%, from contract asset classified as non-current of ₱6,938.9 million as of December 31, 2021, due to additional development costs related to the Wawa Bulk Water Supply Project.

***Service concession asset***

Service concession asset was ₱128,661.5 million (U.S.$2,340.60 million) as of June 30, 2022, an increase of ₱8,841.0 million, or 7.4%, from service concession asset of ₱119,820.5 million as of December 31, 2021, due to additional capital expenditures for rehabilitation works of the Manila Water Group, which was partially offset by amortization expenses.

***Investments in associates***

Investments in associates were ₱12,153.7 million (U.S.$221.1 million) as of June 30, 2022, an increase of ₱701.3 million, or 6.1%, from investments in associates of ₱11,452.4 million as of December 31, 2021, due to cumulative translation adjustments recognized for foreign investments of the Manila Water Group.

***Financial assets at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income were ₱2,030.5 million (U.S.$36.9 million) as of June 30, 2022, an increase of ₱413.5 million, or 25.6%, from financial assets at fair value through other comprehensive income of ₱1,617.0 million as of December 31, 2021, due to fair value changes of the Group's investment in WasteFuel Global.

***Property, plant and equipment***

Property, plant and equipment were ₱7,929.7 million (U.S.$144.3 million) as of June 30, 2022, an increase of ₱224.4 million, or 2.9%, from property, plant and equipment of ₱7,705.3 million as of December 31, 2021.

***Project development costs***

Project development costs were ₱315.3 million (U.S.$5.7 million) as of June 30, 2022, an increase of ₱92.4 million, or 41.5%, from project development costs of ₱222.9 million as of December 31, 2021, due to additional development costs related to the Ahunan Laguna Power Plant.

***Goodwill and other intangible assets***

Goodwill and other intangible assets were ₱1,834.5 million (U.S.$33.4 million) as of June 30, 2022, a decrease of ₱29.6 million, or 1.6%, from goodwill and other intangible assets of ₱1,864.1 million as of December 31, 2021.

***Deferred tax assets - net***

Deferred tax assets - net were ₱1,499.3 million (U.S.$27.3 million) as of June 30, 2022, a decrease of ₱91.4 million, or 5.7%, from deferred tax assets - net of ₱1,590.7 million as of December 31, 2021, due to tax and accounting differences pertaining to unrealized foreign exchange losses and provision for estimated credit losses.

***Other non-current assets***

Other non-current assets were ₱13,771.9 million (U.S.$250.5 million) as of June 30, 2022, an increase of ₱3,317.8 million, or 31.7%, from other non-current assets of ₱10,454.1 million as of December 31, 2021, due to the Manila Water Group's revaluation gain from derivative assets and foreign currency differential adjustments.

Liabilities

Total liabilities were ₱128,069.8 million (U.S.$2,329.8 million) as of June 30, 2022, an increase of ₱8,350.4 million, or 7.0%, from liabilities of ₱119,719.4 million as of December 31, 2021.

Current liabilities

Current liabilities were ₱26,110.8 million (U.S.$475.0 million) as of June 30, 2022, an increase of ₱4,012.1 million, or 18.2%, from current liabilities of ₱22,098.6 million as of December 31, 2021. The increase was mainly due to the Group's availment of short-term loans and the increase in income tax payable by the Group, which were partially offset by lease payments and contract liabilities, as discussed below.

***Accounts payable and other current liabilities***

Accounts payable and other current liabilities were ₱14,323.5 million (U.S.$260.6 million) as of June 30, 2022, a decrease of ₱501.6 million, or 3.4%, from accounts payable and other current liabilities of ₱14,825.1 million as of December 31, 2021, primarily due to the settlement of WawaJVCo's vendors and contractors accounts.

***Short-term loans***

Short-term loans were ₱4,067.0 million (U.S.$74.0 million) as of June 30, 2022, an increase of ₱4,014.5 million, or 7,646.7%, from short-term loans of ₱52.5 million as of December 31, 2021, primarily due to the Group's availment of short-term financing loans for operating and capital expenditure requirements.

***Long-term loans—current portion***

Long-term loans—current portion were ₱6,135.0 million (U.S.$111.6 million) as of June 30, 2022, an increase of ₱763.3 million, or 14.2%, from current portion of long term loans amounting to ₱5,371.7 million as of December 31, 2021, primarily due to the increase in the Group's availment of long-term loans for its capital expenditure requirements.

***Service concession obligations—current portion***

Service concession obligations—current portion were ₱632.4 million (U.S.$11.5 million) as of June 30, 2022, an increase of ₱5.9 million, or 0.9%, from service concession obligations—current portion of ₱626.5 million as of December 31, 2021.

***Lease liabilities—current portion***

Lease liabilities—current portion were ₱102.6 million (U.S.$1.9 million) as of June 30, 2022, a decrease of ₱66.0 million, or 39.1%, from lease liabilities of ₱168.6 million as of December 31, 2021, primarily due to lease payments for the six months ended June 30, 2022.

***Contract liabilities—current portion***

Contract liabilities—current portion were ₱342.4 million (U.S.$6.2 million) as of June 30, 2022, a decrease of ₱541.0 million, or 61.2%, from contract liabilities of ₱883.4 million as of December 31, 2021, primarily due to the application of advance payments of customers for construction contracts.

***Income tax payable***

Income tax payable were ₱507.9 million (U.S.$9.2 million) as of June 30, 2022, an increase of ₱337.1 million, or 197.4%, from income tax payable of ₱170.8 million as of December 31, 2021, primarily due to the higher taxable income of the Group.

Non-current liabilities

Non-current liabilities were ₱101,959.0 million (U.S.$1,854.8 million) as of June 30, 2022, an increase of ₱4,338.3 million, or 4.4%, from non-current liabilities of ₱97,620.8 million as of December 31, 2021. The increase was mainly due to an increase in the Group's availment of long-term loans and additional unearned income from supervision and connection fees, as described below.

***Long-term loans - net of current portion***

Long-term loans - net of current portion were ₱84,540.1 million (U.S.$1,537.9 million) as of June 30, 2022, an increase of ₱3,303.3 million, or 4.1%, from long-term loans - net of current portion of ₱81,236.8 million as of December 31, 2021.

***Contract liabilities - net of current portion***

Contract liabilities - net of current portion were ₱570.8 million (U.S.$10.4 million) as of June 30, 2022, an increase of ₱419.3 million, or 276.8%, from contract liabilities - net of current portion of ₱151.5 million as of December 31, 2021, primarily due to additional unearned income from supervision fees and connection fees of the Manila Water Group.

***Lease liability - net of current portion***

Lease liability - net of current portion was ₱323.3 million (U.S.$5.9 million) as of June 30, 2022, a decrease of ₱5.6 million, or 1.7%, from lease liability - net of current portion of ₱328.9 million as of December 31, 2021, primarily due to lease payments for the six months ended June 30, 2022.

***Service concession obligations***

Service concession obligations were ₱9,105.6 million (U.S.$165.6 million) as of June 30, 2022, an increase of ₱264.6 million, or 3.0%, from service concession obligations of ₱8,841.0 million as of December 31, 2021.

***Retirement liability - net***

Retirement liability - net was ₱216.7 million (U.S.$3.9 million) as of June 30, 2022, an increase of ₱56.0 million, or 34.8%, from retirement liability - net of ₱160.7 million as of December 31, 2021, primarily due to recognition of defined benefit costs.

***Deferred tax liabilities - net***

Deferred tax liabilities - net were ₱721.3 million (U.S.$13.1 million) as of June 30, 2022, an increase of ₱137.4 million, or 23.5%, from deferred tax liabilities - net of ₱583.9 million as of December 31, 2021, primarily due to the tax and accounting differences from the unrealized gain on the Group's investment in WasteFuel Global.

***Provisions***

Provisions were ₱1,083.2 million (U.S.$19.7 million) as of June 30, 2022, a decrease of ₱83.8 million, or 7.2%, from provisions of ₱1,167.0 million as of December 31, 2021, primarily due to the Manila Water Group's reversal of various provisions.

***Other non-current liabilities***

Other non-current liabilities were ₱5,398.0 million (U.S.$98.3 million) as of June 30, 2022, an increase of ₱247.0 million, or 4.8%, from other non-current liabilities of ₱5,151.0 million as of December 31, 2021.

*As of December 31, 2021 compared with as of December 31, 2020*

| | As of December 31, 2020 (audited) | As of December 31, 2021 (audited) | As of December 31, 2021 (unaudited) | % Change (unaudited) |
|---|---|---|---|---|
| | (in millions of ₱) | | (U.S.$ in millions) | |
| **Assets** | | | | |
| Cash and cash equivalents | 1,343.3 | 15,902.3 | 289.3 | 1,083.8% |
| Short-term investments | – | 458.5 | 8.3 | – |
| Trade and other receivables | 975.0 | 3,863.3 | 70.3 | 296.2% |
| Contract assets - current portion | 176.3 | 1,410.6 | 25.7 | 700.1% |
| Inventories | 79.8 | 502.2 | 9.1 | 529.3% |
| Due from related parties | 0.5 | – | – | (100.0)% |
| Prepayments and other current assets | 251.4 | 2,556.7 | 46.5 | 917.0% |
| **Total current assets** | **2,826.3** | **24,693.6** | **449.2** | **773.7%** |
| **Non-current assets** | | | | |
| Contract asset classified as non-current | 3,495.8 | 6,938.9 | 126.2 | 98.5% |
| Service concession asset | – | 119,820.5 | 2,179.7 | – |
| Investments in associates | – | 11,452.4 | 208.3 | – |
| Financial assets at fair value through other comprehensive income | 1,885.2 | 1,617.0 | 29.4 | (14.2)% |
| Property, plant and equipment | 516.6 | 7,705.3 | 140.2 | 1,391.5% |
| Project development costs | 138.2 | 222.9 | 4.1 | 61.3% |
| Goodwill and other intangible assets | – | 1,864.1 | 33.9 | – |
| Deferred tax assets – net | 148.1 | 1,590.7 | 28.9 | 974.1% |
| Other non-current assets | 502.9 | 10,454.1 | 190.2 | 1,978.8% |
| **Total non-current assets** | **6,686.8** | **161,665.9** | **2,941.0** | **2,317.7%** |
| **Total assets** | **9,513.1** | **186,359.5** | **3,390.2** | **1,859.0%** |
| **Current liabilities** | | | | |
| Accounts payable and other current liabilities | 1,294.8 | 14,825.1 | 269.7 | 1,045.0% |
| Short-term loans | – | 52.5 | 1.0 | – |
| Current portion of: | | | | |
| Long-term loans | 56.8 | 5,371.7 | 97.7 | 9,357.2% |
| Service concession obligations | - | 626.5 | 11.4 | 0.0% |
| Lease liabilities | 35.0 | 168.6 | 3.1 | 381.7% |
| Contract liabilities | 303.1 | 883.4 | 16.1 | 191.5% |
| Income tax payable | 82.1 | 170.8 | 3.1 | 108.0% |
| **Total current liabilities** | **1,771.8** | **22,098.6** | **402.0** | **1,147.2%** |
| **Non-current liabilities** | | | | |
| Long-term loans - net of current portion | 1,574.8 | 81,236.8 | 1,477.8 | 5058.5% |
| Contract liabilities - net of current portion | – | 151.5 | 2.8 | – |
| Lease liability - net of current portion | 26.1 | 328.9 | 6.0 | 1,160.2% |
| Service concession obligation | 386.4 | 8,841.0 | 160.8 | 2,188.0% |
| Retirement liability – net | 27.5 | 160.7 | 2.9 | 484.4% |
| Deferred tax liabilities – net | 12.8 | 583.9 | 10.6 | 4,461.7% |
| Provisions | – | 1,167.0 | 21.2 | – |
| Other non-current liabilities | – | 5,151.0 | 93.7 | – |
| **Total non-current liabilities** | **2,027.6** | **97,620.8** | **1,775.9** | **4,714.6%** |
| **Total liabilities** | **3,799.4** | **119,719.4** | **2,177.9** | **3,051.0%** |

Assets

Total assets were ₱186,359.4 million (U.S.$3,390.2 million) as of December 31, 2021, an increase of ₱176,846.3 million, or 1,859.0%, from assets of ₱9,513.1 million as of December 31, 2020.

Current assets

Current assets were ₱24,693.6 million (U.S.$449.2 million) as of December 31, 2021, an increase of ₱21,867.1 million, or 773.7%, from current assets of ₱2,826.3 million as of December 31, 2020. The increase was mainly due to an increase in cash and cash equivalents, trade and other receivables and prepayments and other current assets as discussed below.

***Cash and cash equivalents***

Cash and cash equivalents were ₱15,902.3 million (U.S.$289.3 million) as of December 31, 2021, an increase of ₱14,559.0 million, or 1,083.8%, from cash and cash equivalents of ₱1,343.3 million as of December 31, 2020, primarily due to the Manila Water Group's net cash at its acquisition of ₱15,681.2 million and net proceeds from loans to finance the Group's capital expenditures and working capital requirements, partially offset by actual disbursements.

***Short-term investments***

Short-term investments were ₱458.5 million (U.S.$8.3 million) as of December 31, 2021, as compared to short-term investments of nil as of December 31, 2020, due to placements of time deposits during the year.

***Trade and other receivables***

Trade and other receivables were ₱3,863.3 million (U.S.$70.3 million) as of December 31, 2021, an increase of ₱2,888.2 million, or 296.2%, from trade and other receivables of ₱975.0 million as of December 31, 2020, due to the assumption of the Manila Water Group's customer accounts and an increase in Menatech electricity receivables during the year.

***Contract assets - current portion***

Contract assets - current portion were ₱1,410.6 million (U.S.$25.7 million) as of December 31, 2021, an increase of ₱1,234.3 million, or 700.1%, from contract assets - current portion of ₱176.3 million as of December 31, 2020. These mainly pertain to earned, but not yet billed, construction revenues and the Manila Water Group's contract assets, which pertain to supervision fees, pipeworks and integrated used water services and bulk water contracts.

***Inventories***

Inventories were ₱502.2 million (U.S.$9.1 million) as of December 31, 2021, an increase of ₱422.4 million, or 529.3%, from inventories of ₱79.8 million as of December 31, 2020. These largely pertain to materials and supplies for water treatment, maintenance, water meters and connection supplies and spare parts of the Manila Water Group.

***Prepayments and other current assets***

Prepayments and other current assets were ₱2,556.7 million (U.S.$46.5 million) as of December 31, 2021, an increase of ₱2,305.1 million, or 917.0%, from prepayments and other current assets of ₱251.4 million as of December 31, 2020. The increase mainly consists of input VAT, prepaid expenses and advances to suppliers and contractors of the Manila Water Group.

Non-current assets

Non-current assets were ₱161,665.9 million (U.S.$2,941.0 million) as of December 31, 2021, an increase of ₱154,979.1 million, or 2,317.7%, from non-current assets of ₱6,686.8 million as of December 31, 2020 primarily due to an increase in service concession assets, investments in associates and other non-current assets as discussed below.

***Contract asset classified as non-current***

Contract asset classified as non-current was ₱6,938.9 million (U.S.$126.2 million) as of December 31, 2021, an increase of ₱3,443.1 million, or 98.5%, from contract asset classified as non-current of ₱3,495.8 million as of

December 31, 2020, due to additional development costs for the Wawa Bulk Water Supply Project and the Manila Water Group's contract assets, which pertain to supervision fees, pipeworks and integrated used water services and bulk water contracts.

***Service concession asset***

Service concession asset was ₱119,820.5 million (U.S.$2,179.7 million) as of December 31, 2021, compared to service concession asset of nil as of December 31, 2020, due to existing service concession assets at the date of acquisition of the Manila Water Group arising from capitalized concession fees and rehabilitation works of assets used in the provision of water and used water services.

***Investments in associates***

Investments in associates were ₱11,452.4 million (U.S.$208.3 million) as of December 31, 2021 compared to investments in associates of nil as of December 31, 2020, due to the Manila Water Group's investments in Thailand, Vietnam, Indonesia and the KSA.

***Financial assets at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income were ₱1,617.0 million (U.S.$29.4 million) as of December 31, 2021, a decrease of ₱268.2 million, or 14.2%, from financial assets at fair value through other comprehensive income of ₱1,885.2 million as of December 31, 2020, due to the reclassification of Manila Water shares from Fair Value through Other Comprehensive Income ("**FVOCI**") to those of a subsidiary during 2021 and investments in WasteFuel Global and SP Tarlac in 2021.

***Property, plant and equipment***

Property, plant and equipment were ₱7,705.3 million (U.S.$140.2 million) as of December 31, 2021, an increase of ₱7,188.7 million, or 1,391.5%, from property, plant and equipment of ₱516.6 million as of December 31, 2020, mainly from existing plant and technical equipment of the Manila Water Group at the time of its acquisition and additions to construction equipment during the year.

***Project development costs***

Project development costs were ₱222.9 million (U.S.$4.1 million) as of December 31, 2021, an increase of ₱84.7 million, or 61.3%, from project development costs of ₱138.2 million as of December 31, 2020, relating to the Ahunan Laguna Power Plant and the Group's waste and sustainable fuels business.

***Goodwill and other intangible assets***

Goodwill and other intangible assets were ₱1,864.1 million (U.S.$33.9 million) as of December 31, 2021 compared to goodwill and other intangible assets of nil as of December 31, 2020, due to the recognition of the fair value of customer relationships arising from the SP Tanauan acquisition.

***Deferred tax assets - net***

Deferred tax assets - net were ₱1,590.7 million (U.S.$28.9 million) as of December 31, 2021, an increase of ₱1,442.6 million, or 974.1%, from deferred tax assets - net of ₱148.1 million as of December 31, 2020. This is mainly due to differences in the tax treatment of the Manila Water Group's service concession assets and liabilities and fair value accounting of the Manila Water Group's assets and liabilities at the time of acquisition.

***Other non-current assets***

Other non-current assets were ₱10,454.1 million (U.S.$190.2 million) as of December 31, 2021, an increase of ₱9,951.2 million, or 1,978.8%, from other non-current assets of ₱502.9 million as of December 31, 2020, mainly from advances to contractors and suppliers of the Manila Water Group and a deposit for the land acquisition of SP Tanauan.

Liabilities

Total liabilities were ₱119,719.4 million (U.S.$2,179.7 million) as of December 31, 2021, an increase of ₱115,920.1 million, or 3,051.0%, from liabilities of ₱3,799.4 million as of December 31, 2020.

Current liabilities

Current liabilities were ₱22,098.6 million (U.S.$402.0 million) as of December 31, 2021, an increase of ₱20,327.0 million, or 1,147.2%, from current liabilities of ₱1,771.8 million as of December 31, 2020. The increase was mainly due to increases in account payables and other current liabilities and long term loan—current portion as discussed below.

***Accounts payable and other current liabilities***

Accounts payable and other current liabilities were ₱14,825.1 million (U.S.$269.7 million) as of December 31, 2021, an increase of ₱13,530.5 million, or 1,045.0%, from accounts payable and other current liabilities of ₱1,294.8 million as of December 31, 2020, primarily relating to the Manila Water Group's vendors and contractors.

***Short-term loans***

Short-term loans were ₱52.5 million (U.S.$1.0 million) as of December 31, 2021, compared to short-term loans of nil as of December 31, 2020, primarily due to incurrence of short-term debt financing for the Group's operational requirements.

***Long-term loan—current portion***

Long-term loan—current portion was ₱5,371.7 million (U.S.$97.7 million) as of December 31, 2021, an increase of ₱5,314.9 million, or 9,357.2%, from long-term loan—current portion of ₱56.8 million as of December 31, 2020, primarily due to the existing long-term loan of Manila Water at the time of its acquisition.

***Service concession obligations—current portion***

Service concession obligations—current portion were ₱626.5 million (U.S.$11.4 million) as of December 31, 2021, compared to service concession obligations—current portion of nil as of December 31, 2020, primarily due to existing service concession obligations of the Manila Water Group at the time of its acquisition.

***Lease liabilities—current portion***

Lease liabilities—current portion were ₱168.6 million (U.S.$3.1 million) as of December 31, 2021, an increase of ₱133.6 million, or 381.7%, from lease liabilities—current portion of ₱35.0 million as of December 31, 2020, primarily due existing lease liabilities of the Manila Water Group at the time of acquisition. In addition, the Group entered into lease contracts for office space and transportation equipment in 2021.

***Contract liabilities—current portion***

Contract liabilities—current portion were ₱883.4 million (U.S.$16.1 million) as of December 31, 2021, an increase of ₱580.3 million, or 191.5%, from contract liabilities—current portion of ₱303.1 million as of December 31, 2020, primarily due to contract liabilities arising from the supervision fees of the Manila Water Group.

***Income tax payable***

Income tax payable were ₱170.8 million (U.S.$3.1 million) as of December 31, 2021, an increase of ₱88.7 million, or 108.0%, from income tax payable of ₱82.1 million as of December 31, 2020, due to the higher taxable income of the Group.

***Due to related parties***

Due to related parties was nil as of December 31, 2020 and 2021.

Non-current liabilities

Non-current liabilities were ₱97,620.8 million (U.S.$1,775.9 million) as of December 31, 2021, an increase of ₱95,593.1 million, or 4,714.6%, from non-current liabilities of ₱2,027.6 million as of December 31, 2020 mainly due to the increase in long-term loans—net of current portion and service concession obligation as discussed below.

***Long-term loans - net of current portion***

Long-term loans - net of current portion were ₱81,236.8 million (U.S.$1,477.8 million) as of December 31, 2021, an increase of ₱79,662.0 million, or 5,058.5%, from long-term loans - net of current portion of ₱1,574.8 million as of December 31, 2020, primarily due to the existing long-term loans of Manila Water at the time of its acquisition.

***Contract liabilities - net of current portion***

Contract liabilities - net of current portion were ₱151.5 million (U.S.$2.8 million) as of December 31, 2021, compared to contract liabilities - net of current portion of nil as of December 31, 2020, primarily due to existing contract liabilities arising from the Manila Water Group's supervision fees at the time of its acquisition.

***Lease liability - net of current portion***

Lease liability - net of current portion was ₱328.9 million (U.S.$6.0 million) as of December 31, 2021, an increase of ₱302.8 million, or 1,160.2%, from lease liability - net of current portion of ₱26.1 million as of December 31, 2020, primarily due to existing lease liabilities of the Manila Water Group at the time of its acquisition and additional lease contracts for the office space and transportation equipment of the Group.

***Service concession obligations***

Service concession obligations were ₱8,841.0 million (U.S.$160.8 million) as of December 31, 2021, an increase of ₱8,454.5 million, or 2,187.8%, from service concession obligations of ₱386.4 million as of December 31, 2020, primarily due to existing obligations of Manila Water at the time of acquisition relating to MWSS concession fees.

***Retirement liability - net***

Retirement liability - net was ₱160.7 million (U.S.$2.9 million) as of December 31, 2021, an increase of ₱133.2 million, or 484.4%, from retirement liability - net of ₱27.5 million as of December 31, 2020, primarily due to the existing retirement liability of the Manila Water Group at the time of its acquisition.

***Deferred tax liabilities - net***

Deferred tax liabilities - net were ₱583.9 million (U.S.$10.6 million) as of December 31, 2021, an increase of ₱571.1 million, or 4,461.7%, from deferred tax liabilities - net of ₱12.8 million as of December 31, 2020, mainly pertaining to tax differences in the amortization of service concession assets from the Manila Water Group and the customer relationship asset account from SP Tanauan.

***Provisions***

Provisions were ₱1,167.0 million (U.S.$21.2 million) as of December 31, 2021, compared to provisions of nil as of December 31, 2020, primarily due to primarily due to existing provisions of the Manila Water Group at the time of acquisition for probable losses pertaining to various legal proceedings and exposures arising in the ordinary course of business.

***Other non-current liabilities***

Other non-current liabilities were ₱5,151.0 million (U.S.$93.7 million) as of December 31, 2021 compared to nil as of December 31, 2020, primarily due to the payables for the purchase of Manila Water's preferred shares.

*As of December 31, 2020 compared with as of December 31, 2019*

| | As of December 31 2019 (audited) | 2020 (audited) | % Change |
|---|---|---|---|
| | (in millions of ₱) | | |
| **Assets** | | | |
| Cash and cash equivalents | 686.2 | 1,343.3 | 95.8% |
| Trade and other receivables | 523.5 | 975.0 | 86.2% |
| Contract assets - current portion | 20.1 | 176.3 | 777.1% |
| Inventories | 11.3 | 79.8 | 606.2% |
| Due from related parties | 3.6 | 0.5 | (86.1)% |
| Prepayments and other current assets | 89.5 | 251.4 | 181.0% |
| **Total current assets** | **1,334.2** | **2,826.3** | **111.8%** |
| **Non-current assets** | | | |
| Contract asset classified as non-current | 3,012.2 | 3,495.8 | 16.1% |
| Financial assets at fair value through other comprehensive income | – | 1,885.2 | – |
| Property, plant and equipment | 380.6 | 516.6 | 35.7% |
| Project development costs | 104.6 | 138.2 | 32.1% |
| Goodwill and other intangible assets | – | – | – |
| Deferred tax assets – net | 106.8 | 148.1 | 38.7% |
| Other non-current assets | 146.0 | 502.9 | 244.5% |
| **Total non-current assets** | **3,750.2** | **6,686.8** | **78.3%** |
| **Total assets** | **5,084.4** | **9,513.1** | **87.1%** |
| **Current liabilities** | | | |
| Accounts payable and other current liabilities | 669.6 | 1,294.8 | 93.4% |
| Short-term loans | 42.2 | – | (100.0)% |
| Current portion of: | | | |
| Long-term loans | 52.7 | 56.8 | 7.8% |
| Service concession obligations | – | – | – |
| Lease liabilities | 30.9 | 35.0 | 13.3% |
| Contract liabilities | 475.6 | 303.1 | (36.3)% |
| Income tax payable | 54.2 | 82.1 | 51.5% |
| Due to related parties | 55.7 | – | (100.0)% |
| **Total current liabilities** | **1,380.9** | **1,771.8** | **28.3%** |
| **Non-current liabilities** | | | |
| Long-term loans - net of current portion | 86.7 | 1,574.8 | 1,716.4% |
| Contract liabilities - net of current portion | – | – | – |
| Lease liability - net of current portion | 46.6 | 26.1 | (44.0)% |
| Deposit for future stock subscription | 2,973.5 | – | (100.0)% |
| Service concession obligation | 366.3 | 386.4 | 5.5% |
| Retirement liability – net | 14.3 | 27.5 | 92.3% |
| Deferred tax liabilities – net | – | 12.8 | – |
| Provisions | – | – | – |
| Other non-current liabilities | – | – | – |
| **Total non-current liabilities** | **3,487.4** | **2,027.6** | **(41.9)%** |
| **Total liabilities** | **4,868.3** | **3,799.4** | **(22.0)%** |

Assets

Total assets were ₱9,513.1 million as of December 31, 2020, an increase of ₱4,428.6 million, or 87.1%, from assets of ₱5,084.4 million as of December 31, 2019.

Current assets

Current assets were ₱2,826.3 million as of December 31, 2020, an increase of ₱1,492.1 million, or 111.8%, from current assets of ₱1,334.2 million as of December 31, 2019 primarily due to increases in cash and cash equivalents and trade and other receivables as discussed below.

***Cash and cash equivalents***

Cash and cash equivalents were ₱1,343.3 million as of December 31, 2020, an increase of ₱657.1 million, or 95.8%, from cash and cash equivalents of ₱686.2 million as of December 31, 2019, due to additional equity infusion into the Issuer by Prime Strategic Holdings and drawdowns of long-term debt facilities.

***Short-term investments***

Short-term investments were nil as of December 31, 2020 and 2019.

***Trade and other receivables***

Trade and other receivables were ₱975.0 million as of December 31, 2020, an increase of ₱451.5 million, or 86.2%, from trade and other receivables of ₱523.5 million as of December 31, 2019, primarily due to an increase in billed construction revenues and Menatech receivables.

***Contract assets - current portion***

Contract assets - current portion were ₱176.3 million as of December 31, 2020, an increase of ₱156.2 million, or 775.6%, from contract assets - current portion of ₱20.1 million as of December 31, 2019, due to the ongoing development of the Wawa Bulk Water Supply Project.

***Inventories***

Inventories were ₱79.8 million as of December 31, 2020, an increase of ₱68.5 million, or 608.0%, from inventories of ₱11.3 million as of December 31, 2019, due to construction materials purchased for ongoing projects.

***Prepayments and other current assets***

Prepayments and other current assets were ₱251.4 million as of December 31, 2020, an increase of ₱162.0 million, or 181.0%, from prepayments and other current assets of ₱89.5 million as of December 31, 2019, due to an increase in advances to suppliers and contractors of Prime BMD and WawaJVCo.

Non-current assets

Non-current assets were ₱6,686.8 million as of December 31, 2020, an increase of ₱2,936.5 million, or 78.3%, from non-current assets of ₱3,750.2 million as of December 31, 2019 mainly due to increases in financial assets at fair value through other comprehensive income and other non-current assets as discussed below.

***Contract asset classified as non-current***

Contract asset classified as non-current was ₱3,495.8 million as of December 31, 2020, an increase of ₱483.7 million, or 16.1%, from contract asset classified as non-current of ₱3,012.2 million as of December 31, 2019, due to ongoing development works of the Wawa Bulk Water Supply Project.

***Service concession asset***

Service concession asset was nil as of December 31, 2020 and 2019.

***Investments in associates***

Investments in associates were nil as of December 31, 2020 and 2019.

***Financial assets at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income were ₱1,885.2 million as of December 31, 2020, compared to financial assets at fair value through other comprehensive income of nil as of December 31, 2019, due to the investment in SP Tarlac's preferred shares.

***Property, plant and equipment***

Property, plant and equipment were ₱516.6 million as of December 31, 2020, an increase of ₱136.0 million, or 35.7%, from property, plant and equipment of ₱380.6 million as of December 31, 2019, due to additions in the Group's heavy equipment for construction projects.

***Project development costs***

Project development costs were ₱138.2 million as of December 31, 2020, an increase of ₱33.6 million, or 32.1%, from project development costs of ₱104.6 million as of December 31, 2019, due to development costs associated with the Ahunan Laguna Power Plant.

***Goodwill and other intangible assets***

Goodwill and other intangible assets were nil as of December 31, 2020 and December 31, 2019.

***Deferred tax assets - net***

Deferred tax assets - net were ₱148.1 million as of December 31, 2020, an increase of ₱41.3 million, or 38.6%, from deferred tax assets - net of ₱106.8 million as of December 31, 2019, due to tax timing differences from provisions and accruals of Prime BMD.

***Other non-current assets***

Other non-current assets were ₱502.9 million as of December 31, 2020, an increase of ₱356.9 million, or 244.4%, from other non-current assets of ₱146.0 million as of December 31, 2019, primarily due to prepaid debt issuance costs and additional retention receivables.

Liabilities

Total liabilities were ₱3,799.4 million as of December 31, 2020, a decrease of ₱1,068.9 million, or 22.0%, from liabilities of ₱4,868.3 million as of December 31, 2019.

Current liabilities

Current liabilities were ₱1,771.8 million as of December 31, 2020, an increase of ₱390.9 million, or 28.3%, from current liabilities of ₱1,380.9 million as of December 31, 2019 mainly due to an increase in accounts payable and other current liabilities and partially offset by a decrease in contract liabilities—current portion as discussed below.

***Accounts payable and other current liabilities***

Accounts payable and other current liabilities were ₱1,294.8 million as of December 31, 2020, an increase of ₱625.2 million, or 93.4%, from accounts payable and other current liabilities of ₱669.6 million as of December 31, 2019, primarily due to the increase in supplier payables of Prime BMD and WawaJVCo.

***Short-term loans***

Short-term loans were nil as of December 31, 2020, a decrease of ₱42.2 million, or 100%, from short-term loans of ₱42.2 million as of December 31, 2019, primarily due to the settlement of short-term debt from 2019.

***Long-term loan—current portion***

Long-term loan—current portion was ₱56.8 million as of December 31, 2020, an increase of ₱4.1 million, or 7.7%, from long-term loan—current portion of ₱52.7 million as of December 31, 2019, primarily due to Prime BMD availing of loans.

***Service concession obligations—current portion***

Service concession obligations—current portion were nil as of December 31, 2020 and 2019.

***Lease liabilities—current portion***

Lease liabilities—current portion were ₱35.0 million as of December 31, 2020, an increase of ₱4.1 million, or 13.4%, from lease liabilities—current portion of ₱30.9 million as of December 31, 2019, due to additional lease liabilities for office space.

***Contract liabilities—current portion***

Contract liabilities—current portion were ₱303.1 million as of December 31, 2020, a decrease of ₱172.6 million, or 36.3%, from contract liabilities—current portion of ₱475.6 million as of December 31, 2019, primarily due to the application of advance payments to construction billings.

***Income tax payable***

Income tax payable were ₱82.1 million as of December 31, 2020, an increase of ₱27.9 million, or 51.4%, from income tax payable of ₱54.2 million as of December 31, 2019, primarily due to the increase in taxable income of Prime BMD.

***Due to related parties***

Due to related parties were nil as of December 31, 2020, a decrease of ₱55.7 million, or 100%, from due to related parties of ₱55.6 million as of December 31, 2019, primarily due to the conversion of Prime Strategic Holdings' advances to the Issuer to equity.

<u>Non-current liabilities</u>

Non-current liabilities were ₱2,027.6 million (U.S.$39.0 million) as of December 31, 2020, a decrease of ₱1,459.8 million, or 41.9%, from non-current liabilities of ₱3,487.4 million as of December 31, 2019 primarily due to a decrease in deposit for future stock subscription and partially offset by an increase in long term loans-net of current portion as discussed below.

***Long-term loans - net of current portion***

Long-term loans - net of current portion were ₱1,574.8 million as of December 31, 2020, an increase of ₱1,488.2 million, or 1,717.3%, from long-term loans - net of current portion of ₱86.7 million as of December 31, 2019, primarily due to loan drawdowns by WawaJVCo for the development of the Wawa Bulk Water Supply Project.

***Contract liabilities - net of current portion***

Contract liabilities - net of current portion were nil as of December 31, 2020 and 2019.

***Lease liability - net of current portion***

Lease liability - net of current portion was ₱26.1 million as of December 31, 2020, a decrease of ₱20.5 million, or 43.9%, from lease liability - net of current portion of ₱46.6 million as of December 31, 2019, primarily due to additions related to the expansion of office space.

***Deposits for future stock subscription***

Deposits for future stock subscription were nil as of December 31, 2020, a decrease of ₱2,973.5 million, or 100.0%, from deposits for future stock subscription of ₱2,973.5 million as of December 31, 2019, primarily due to the conversion of Prime Strategic Holdings' deposits into equity.

***Service concession obligations***

Service concession obligations were ₱386.4 million as of December 31, 2020, an increase of ₱20.1 million, or 5.5%, from service concession obligations of ₱366.3 million as of December 31, 2019, primarily due to WawaJVCo's right of use fee for raw water.

***Retirement liability - net***

Retirement liability - net was ₱27.5 million as of December 31, 2020, an increase of ₱13.2 million, or 92.0%, from retirement liability - net of ₱14.3 million as of December 31, 2019, primarily due to the recognition of defined benefit costs.

***Deferred tax liabilities - net***

Deferred tax liabilities - net were ₱12.8 million as of December 31, 2020, an increase of ₱12.7 million, or 45,140.8%, from deferred tax liabilities - net of ₱0.03 million as of December 31, 2019, primarily due to deferred taxes arising from the fair value changes of the investment in SP Tarlac.

***Provisions***

Provisions were nil as of December 31, 2020 and 2019.

***Other non-current liabilities***

Other non-current liabilities were nil as of December 31, 2020 and 2019.

*As of December 31, 2019 compared with as of December 31, 2018*

| | As of December 31 | | |
|---|---|---|---|
| | 2018 (audited) | 2019 (audited) | % Change |
| | (in millions of ₱) | | |
| **Assets** | | | |
| Cash and cash equivalents | 323.0 | 686.2 | 112.4% |
| Trade and other receivables | 158.0 | 523.5 | 231.3% |
| Contract assets - current portion | 38.9 | 20.1 | (48.3)% |
| Inventories | 8.3 | 11.3 | 36.1% |
| Due from related parties | – | 3.6 | 0.0% |
| Prepayments and other current assets | 202.6 | 89.5 | (55.8)% |
| **Total current assets** | **730.8** | **1,334.2** | **82.6%** |
| **Non-current assets** | | | |
| Contract asset classified as non-current | – | 3,012.2 | – |
| Property, plant and equipment | 279.0 | 380.6 | 36.4% |
| Project development costs | 514.4 | 104.6 | (79.7)% |
| Goodwill and other intangible assets | - | - | 0.0% |
| Deferred tax assets – net | 50.8 | 106.8 | 110.2% |
| Other non-current assets | 63.1 | 146.0 | 131.4% |
| **Total non-current assets** | **907.3** | **3,750.2** | **313.3%** |
| **Total assets** | **1,638.1** | **5,084.4** | **210.4%** |
| **Current liabilities** | | | |
| Accounts payable and other current liabilities | 584.8 | 669.6 | 14.5% |
| Short-term loans | 47.2 | 42.2 | (10.6)% |
| Current portion of: | | | |
| Long-term loans | – | 52.7 | – |
| Service concession obligations | – | – | – |
| Lease liabilities | 50.2 | 30.9 | (38.4)% |
| Contract liabilities | 265.0 | 475.6 | 79.5% |
| Income tax payable | – | 54.2 | – |
| Due to related parties | 637.1 | 55.7 | (91.3)% |
| **Total current liabilities** | **1,584.3** | **1,380.9** | **(12.8)%** |
| **Non-current liabilities** | | | |
| Long-term loans - net of current portion | – | 86.7 | – |
| Contract liabilities - net of current portion | – | – | – |
| Lease liability - net of current portion | 140.7 | 46.6 | (66.9)% |
| Deposit for future stock subscription | - | 2,973.5 | – |
| Service concession obligation | - | 366.3 | – |
| Retirement liability – net | 9.9 | 14.3 | 44.4% |
| Deferred tax liabilities – net | – | – | – |
| Provisions | – | – | – |
| Other non-current liabilities | – | – | – |
| **Total non-current liabilities** | 150.6 | 3,487.4 | 2,215.7% |
| **Total liabilities** | 1,734.9 | 4,868.3 | 180.6% |

Assets

Total assets were ₱5,084.4 million as of December 31, 2019, an increase of ₱3,446.4 million, or 210.4%, from assets of ₱1,638.1 million as of December 31, 2018.

Current assets

Current assets were ₱1,334.2 million as of December 31, 2019, an increase of ₱603.4 million, or 82.6%, from current assets of ₱730.8 million as of December 31, 2018 mainly due to increases in cash and cash equivalents and trade and other receivables and partially offset by a decrease in prepayments and other current assets as discussed below.

***Cash and cash equivalents***

Cash and cash equivalents were ₱686.2 million as of December 31, 2019, an increase of ₱363.2 million, or 112.5%, from cash and cash equivalents of ₱323.0 million as of December 31, 2018, primarily due to Prime Strategic Holdings' cash infusion, which was partially offset by outflows for the construction of the Wawa Bulk Water Supply Project and the Umm Qasr Power Plant.

***Short-term investments***

Short-term investments were nil as of December 31, 2019 and 2018.

***Trade and other receivables***

Trade and other receivables were ₱523.5 million as of December 31, 2019, an increase of ₱365.5 million, or 231.4%, from trade and other receivables of ₱158.0 million as of December 31, 2018, primarily due to an increase in billed construction services.

***Contract assets - current portion***

Contract assets - current portion were ₱20.1 million as of December 31, 2019, a decrease of ₱18.7 million, or 48.2%, from contract assets - current portion of ₱38.9 million as of December 31, 2018, primarily due to additional capital expenditures for the Wawa Bulk Water Supply Project.

***Inventories***

Inventories were ₱11.3 million as of December 31, 2019, an increase of ₱2.9 million, or 35.0%, from inventories of ₱8.3 million as of December 31, 2018, due to additional materials purchased for ongoing construction projects.

***Prepayments and other current assets***

Prepayments and other current assets were ₱89.5 million as of December 31, 2019, a decrease of ₱113.1 million, or 55.8%, from prepayments and other current assets of ₱202.6 million as of December 31, 2018, due to the recoupment of advances made to suppliers and contractors in 2018.

Non-current assets

Non-current assets were ₱3,750.2 million as of December 31, 2019, an increase of ₱2,842.9 million, or 313.3%, from non-current assets of ₱907.3 million as of December 31, 2018 mainly due to an increase in contract asset classified as non-current and partially offset by a decrease in project development costs as discussed below.

***Contract asset classified as non-current***

Contract asset classified as non-current was ₱3,012.2 million as of December 31, 2019, compared to contract asset classified as non-current of nil as of December 31, 2018, due to additional capital expenditures for the Wawa Bulk Water Supply Project and the Umm Qasr Power Plant.

***Service concession asset***

Service concession asset was nil as of December 31, 2019 and 2018.

***Investments in associates***

Investments in associates were nil as of December 31, 2019 and 2018.

***Financial assets at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income were nil as of December 31, 2019 and 2018.

***Property, plant and equipment***

Property, plant and equipment were ₱380.6 million as of December 31, 2019, an increase of ₱101.6 million, or 36.4%, from property, plant and equipment of ₱279.0 million as of December 31, 2018, due to additions to the Group's heavy equipment.

***Project development costs***

Project development costs were ₱104.6 million as of December 31, 2019, a decrease of ₱409.8 million, or 79.7%, from project development costs of ₱514.4 million as of December 31, 2018, due to the reclassification of the Umm Qasr Power Plant Project and the Wawa Bulk Water Supply Project to contract assets upon securing relevant purchase or offtake agreements.

***Goodwill and other intangible assets***

Goodwill and other intangible assets were nil as of December 31, 2019 and 2018.

***Deferred tax assets - net***

Deferred tax assets - net were ₱106.8 million as of December 31, 2019, an increase of ₱56.0 million, or 110.2%, from deferred tax assets - net of ₱50.8 million as of December 31, 2018, mainly from tax timing differences pertaining to advances from customers of Prime BMD.

***Other non-current assets***

Other non-current assets were ₱146.0 million as of December 31, 2019, an increase of ₱82.9 million, or 131.4%, from other non-current assets of ₱63.1 million as of December 31, 2018, due to an increase in advances to contractors and suppliers for ongoing projects.

Liabilities

Total liabilities were ₱4,868.3 million as of December 31, 2019, an increase of ₱3,133.4 million, or 180.6%, from liabilities of ₱1,734.9 million as of December 31, 2018.

Current liabilities

Current liabilities were ₱1,380.9 million as of December 31, 2019, a decrease of ₱203.5 million, or 12.8%, from current liabilities of ₱1,584.3 million as of December 31, 2018 mainly due to a decrease in due to related parties and partially offset by increases in certain other line items, such as an increase in contract liabilities—current portion, as discussed below.

***Accounts payable and other current liabilities***

Accounts payable and other current liabilities were ₱669.6 million as of December 31, 2019, an increase of ₱84.7 million, or 14.5%, from accounts payable and other current liabilities of ₱584.8 million as of December 31, 2018, primarily due to an increase in outstanding payables for the engineering, procurement and construction of the Umm Qasr Power Plant.

***Short-term loans***

Short-term loans were ₱42.2 million as of December 31, 2019, a decrease of ₱5.0 million, or 10.6%, from short-term loans of ₱47.2 million as of December 31, 2018, primarily due to the equity conversion of Prime BMD's short-term loan in 2018.

***Long-term loans—current portion***

Long-term loans—current portion was ₱52.8 million as of December 31, 2019 compared to long-term loan—current portion of nil as of December 31, 2018, primarily due to a loan drawdown by Prime BMD for construction equipment.

***Service concession obligations—current portion***

Service concession obligations—current portion were nil as of December 31, 2019 and 2018.

***Lease liabilities—current portion***

Lease liabilities—current portion were ₱30.9 million as of December 31, 2019, a decrease of ₱19.3 million, or 38.4%, from lease liabilities—current portion of ₱50.2 million as of December 31, 2018, primarily due to the termination of an equipment lease of Prime BMD.

***Contract liabilities—current portion***

Contract liabilities—current portion were ₱475.6 million as of December 31, 2019, an increase of ₱210.6 million, or 79.5%, from contract liabilities—current portion of ₱265.0 million as of December 31, 2018, primarily due to primarily due to additional billings related to ongoing construction contracts.

***Income tax payable***

Income tax payable were ₱54.2 million as of December 31, 2019, compared to income tax payable of nil as of December 31, 2018, primarily due to the increase in Prime BMD's taxable income.

***Due to related parties***

Due to related parties were ₱55.7 million as of December 31, 2019, a decrease of ₱581.5 million, or 91.3%, from due to related parties of ₱637.1 million as of December 31, 2018, primarily due to the conversion of Prime Strategic Holdings' advances into deposit for future stock subscription.

<u>Non-current liabilities</u>

Non-current liabilities were ₱3,487.4 million as of December 31, 2019, an increase of ₱3,336.9 million, or 2,215.7%, from non-current liabilities of ₱150.6 million as of December 31, 2018 mainly due to increases in deposit for future stock subscription and long-term loan—net of current portion as discussed below.

***Long-term loans - net of current portion***

Long-term loans - net of current portion were ₱86.7 million compared to long-term loans - net of current portion of nil as of December 31, 2018, primarily due to loan drawdowns for purchases of equipment.

***Contract liabilities - net of current portion***

Contract liabilities - net of current portion were nil as of December 31, 2019 and December 31, 2018.

***Lease liability - net of current portion***

Lease liability - net of current portion was ₱46.6 million as of December 31, 2019, a decrease of ₱94.1 million, or 66.9%, from lease liability - net of current portion of ₱140.7 million as of December 31, 2018, primarily due to the termination of an equipment lease of Prime BMD.

***Deposits for future stock subscription***

Deposits for future stock subscription were ₱2,973.5 million as of December 31, 2019 compared to deposits for future stock subscription of nil as of December 31, 2018, primarily due to the conversion of Prime Strategic Holdings' advances into deposit for future stock subscription.

***Service concession obligations***

Service concession obligations were ₱366.3 million as of December 31, 2019, compared to service concession obligations of nil as of December 31, 2018, due to WawaJVCo's right of use fee for raw water.

***Retirement liability - net***

Retirement liability - net was ₱14.3 million as of December 31, 2019, an increase of ₱4.4 million, or 44.4%, from retirement liability - net of ₱9.9 million as of December 31, 2018, primarily due to the recognition of a defined benefit cost.

***Deferred tax liabilities - net***

Deferred tax liabilities - net were ₱0.03 million as of December 31, 2019, compared to deferred tax liabilities - net of nil as of December 31, 2018, primarily due to deferred tax liabilities recognized from foreign exchange differences.

***Provisions***

Provisions were nil as of December 31, 2019 and 2018.

***Other non-current liabilities***

Other non-current liabilities were nil as of December 31, 2019 and 2018.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

For the period covered by the Audited Consolidated Financial Statements, the principal sources of liquidity pertaining to the Group's operations were cash flow from operations and bank loans. As of June 30, 2022, the Group had cash and cash equivalents totaling ₱10,930.9 million (U.S.$198.9 million). The Group expects that its principal uses of cash for 2022 will be for capital expenditure and operational costs and expenses.

The Group is not aware of any demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. As of June 30, 2022, the Group's trade payables amounted to ₱9,468.1 million (U.S.$172.2 million) and for the six months ended June 30, 2022, the majority of the Group's trade payables have been paid within the stated trade terms. The Group does not anticipate having any cash flow or liquidity problems over the next 12 months. The Group is not in breach or default on any loan or other form of indebtedness. As of June 30, 2022, the Group is in compliance with all loan covenants required by the creditors.

The Group expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from equity or debt financing and cash flows from operations. It may also from time to time seek other sources of funding, depending on its financing needs and market conditions.

## Cash Flows

The following table sets forth selected information from the consolidated statements of cash flows for the periods indicated that are contained in the Audited Consolidated Financial Statements and should be read in conjunction with the statements of cash flows included in the Audited Consolidated Financial Statements.

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 (audited) | 2019 (audited) | 2020 (audited) | 2021 (audited) | 2021 (unaudited) (1) |
| | ₱ millions | | | | U.S.$ millions |
| Net cash provided by (used in) operating activities | 870.1 | (1,694.9) | 90.1 | (1,158.4) | (21.1) |
| Net cash provided by (used in) investing activities | (575.1) | (819.4) | (2,925.9) | 7,031.7 | 127.9 |
| Net cash provided by (used in) financing activities | (79.8) | 2,883.3 | 3,496.9 | 8,591.7 | 156.3 |

| | For the six months ended June 30, | | |
|---|---|---|---|
| | 2021 (audited) | 2022 (audited) | 2022 (unaudited) (1) |
| | ₱ millions | | U.S.$ millions |
| Net cash (used in) operating activities | 791.2 | (4,852.5) | (88.3) |
| Net cash (used in) investing activities | 10,839.0 | (3,032.2) | (55.2) |
| Net cash provided by financing activities | 10,341.4 | 2,922.6 | 53.2 |

*Note:*

(1) *The translations from Pesos to U.S. dollars have been made on the basis of the exchange rate between the Peso and the U.S. dollar quoted on the BSP's Reference Exchange Rate Bulletin on July 1, 2022 of ₱54.97 = U.S.$1.00. See "Exchange Rates."*

### *Cash flow (used in) operating activities*

The Group's net cash used in operating activities is primarily affected by the revenues and expenses related to its operations, as adjusted by non-cash items such as interest expense and interest income. The Group's cash flows from operating activities are also affected by working capital changes such as changes in receivables, prepayments and other current assets, accounts payable and accrued expenses, and other current liabilities.

For the six months ended June 30, 2022, operating income before working capital changes was ₱6,303.6 million (U.S.$114.7 million). This was reduced by an increase in receivables of ₱325.1 million (U.S.$5.9 million), an increase in inventories of ₱128.1 million (U.S.$2.3 million) , an increase in prepayments and other current assets of ₱515.5 million (U.S.$9.4 million), an increase in service concession assets of ₱9,854.0 million (U.S.$179.3 million), and a decrease in accounts payable and other current liabilities of ₱594.8 million (U.S.$10.8 million); and was partially offset by a decrease in contract assets of ₱610.2 million (U.S.$11.1 million). After the collection of ₱27.9 million (U.S.$0.5 million) in interest, and payment of ₱376.8 million (U.S.$6.9 million) of income tax, resulting net cash used in operating activities amounted to ₱4,852.5 million (U.S.$88.3 million).

For the six months ended June 30, 2021, operating income before working capital changes was ₱1,617.6 million. This was reduced by an increase in receivables of ₱402.7 million, an increase in prepayments and other current assets of ₱61.0 million, an increase in service concession assets of ₱840.0 million and a decrease in accounts payable and other current liabilities of ₱38.6 million; and was partially offset by a decrease in contract assets of ₱506.4 million, a decrease in inventories of ₱44.9 million. After the collection of ₱8.8 million in interest, and payment of ₱44.2 million of income tax, resulting net cash generated in operating activities amounted to ₱791.2 million.

For the year ended December 31, 2021, operating income before working capital changes was ₱8,929.0 million. This was reduced by an increase in receivables of ₱253.1 million (U.S.$4.6 million), an increase in contract assets of ₱188.2 million (U.S.$3.4 million), an increase in inventories of ₱25.3 million (U.S.$0.5 million) and an increase in service concession assets of ₱11,151.3 million (U.S.$202.9 million); and was partially offset by a decrease in prepayments and other current assets of ₱766.5 million (U.S.$13.9 million) and an increase in accounts payable and other current liabilities of ₱1,545.4 million (U.S.$28.1 million). After the collection of ₱48.6 million

(U.S.$0.9 million) in interest, and payment of ₱829.9 million (U.S.$15.1 million) of income tax, resulting net cash used in operating activities amounted to ₱1,158.4 million (U.S.$21.1 million).

For the year ended December 31, 2020, operating income before working capital changes was ₱442.7 million. This was reduced by an increase in receivables of ₱281.8 million, an increase in contract assets of ₱273.9 million, an increase in inventories of ₱68.5 million and an increase in prepayments and other current assets of ₱162.0 million; and was partially offset by an increase in accounts payable of ₱528.3 million. After the collection of ₱2.9 million in interest, and payment of ₱97.6 million of income tax, resulting net cash provided by operating activities amounted to ₱90.1 million.

For the year ended December 31, 2019, operating income before working capital changes was ₱149.4 million. This was reduced by an increase in receivables of ₱265.1 million, an increase in contract assets of ₱1,764.1 million, an increase in inventories of ₱2.9 million; and was partially offset by a decrease in prepayments and other current assets of ₱131.9 million and an increase in accounts payable and other current liabilities of ₱116.3 million. After the collection of ₱7.2 million in interest, and payment of ₱67.5 million of income tax, resulting net cash used in operating activities amounted to ₱1,694.9 million.

For the year ended December 31, 2018, operating loss before working capital changes was ₱142.5 million. This was increased by an increase in accounts payable and other current liabilities amounting to ₱708.9 million and an increase in due from related parties of ₱627.1 million; and was partially offset by an increase in receivables of ₱89.4 million, an increase in inventories of ₱8.3 million and an increase in prepayments and other current assets of ₱226.2 million. After the collection of ₱0.7 million in interest, resulting net cash provided by operating activities amounted to ₱870.1 million.

***Cash flow provided by (used in) investing activities***

The Group's net cash flow used in investing activities for the six months ended June 30, 2022 amounted to ₱3,032.2 million (U.S.$55.2 million), which primarily reflected acquisitions of property, plant and equipment, an increase in project development costs, an increase in contract asset during construction phase, and an increase in other non-current assets.

The Group's net cash flow generated from investing activities for the six months ended June 30, 2021 amounted to ₱10,839.0 million, which primarily reflected cash and cash equivalents acquired from the business combination with Manila Water.

The Group's net cash flow provided by investing activities for the year ended December 31, 2021 amounted to ₱7,031.7 million (U.S.$127.9 million), which primarily reflected cash and cash equivalents acquired from the business combination with Manila Water.

The Group's net cash flow used in investing activities for the year ended December 31, 2020 amounted to ₱2,925.9 million, which primarily reflected acquisitions of financial assets at FVOCI, purchases of property, plant and equipment and an increase in contract assets during construction phase.

The Group's net cash flow used in investing activities for the year ended December 31, 2019 amounted to ₱819.4 million, which primarily reflected purchases of property, plant and equipment and an increase in contract assets during the construction phase.

The Group's net cash flow used in investing activities for the year ended December 31, 2018 amounted to ₱575.1 million, which primarily reflected purchases of plant, property and equipment, and increases in project development costs and other non-current assets.

***Cash flow provided by (used in) financing activities***

Net cash flow provided by financing activities for the six months ended June 30, 2022 was ₱2,922.6 million (U.S.$53.2 million). Net cash provided by financing activities were primarily due to proceeds from the availment of short-term debt and long-term debt, partially offset primarily by the payment of a portion of the principal of the Group's long-term loan and interest payments.

Net cash flow provided by financing activities for the six months ended June 30, 2021 was ₱10,341.4 million. Net cash provided by financing activities were primarily due to proceeds from the availment of long-term debt and the collection of subscription receivable, partially offset by interest payments, settlement of long-term debt, and the payment of lease liabilities.

Net cash flow provided by financing activities for the year ended December 31, 2021 was ₱8,591.7 million (U.S.$156.3 million). Net cash provided by financing activities were primarily due to the availment of long-term debt by the Group, partially offset by a payment of a portion of the principal of the Group's bank loans and related interest.

The Group's net cash flow provided by financing activities for the year ended December 31, 2020 was ₱3,496.9 million which was primarily due to the availment of long-term debt and deposits for future stock subscription, partially offset primarily by debt issue costs.

The Group's net cash flow provided by financing activities for the year ended December 31, 2019 was ₱2,883.3 million, which was primarily due to deposits for future stock subscription, partially offset primarily by payments of principal on long-term loan and payments of principal relating to lease liabilities.

The Group's net cash flow used in financing activities for the year ended December 31, 2018 was ₱79.8 million, which was primarily due to payments of principal on lease liabilities.

## INDEBTEDNESS

As of June 30, 2022, the Group had ₱94,742.1 million in outstanding indebtedness comprising ₱46,411.0 million of Philippine Peso-denominated long-term loans and revolving credit lines, ₱33,283.1 million of U.S. dollar-denominated bonds, and ₱15,048.0 million of other foreign-currency loans. These include, amongst others: (i) ₱7,500.1 million floating rate loans drawn under a ₱20.0 billion fifteen-year term loan facility maturing on October 30, 2025 with WawaJVCo as borrower and BDO Unibank, Inc. as lender; (ii) ₱5,355.4 million loans drawn under a ₱5.5 billion loan facility maturing on June 3, 2024 with Trident Water as borrower and BPI as lender; (iii) ₱145.9 million loans drawn under a ₱200 million financial lease facility maturing in December 2026 with Prime BMD as borrower and BOT Leasing and Finance Corporation as lender; (iv) ₱989.5 million in loans drawn under a ₱1.0 billion long-term loan facility maturing on December 9, 2026 extended to Prime Infrastructure as borrower, with the Issuer as guarantor, by HSBC Limited; (v) ₱1,490.9 million in loans drawn by Prime Metro Power as borrower, with Prime Strategic Holdings as guarantor, under a ₱1.5 billion debt facility maturing on May 18, 2028 extended to it by Union Bank of the Philippines ("**Union Bank**"); (vi) ₱2,336.3 million in loans drawn under a ₱3.5 billion long-term loan facility maturing on December 13, 2028 extended to Prime Infrastructure as borrower, with the Issuer and Prime Strategic Holdings as guarantors, by Union Bank; (vii) ₱300.0 million in short-term loans drawn by the Issuer under a ₱3.0 billion facility with RCBC; and (viii) ₱110.0 million in short-term loans drawn by the Issuer under a ₱2.0 billion facility with HSBC Limited.

In addition, certain members of the Group have entered into long-term debt facilities under which no funds have been drawn by the respective borrowers as of the date of this Prospectus.

As of June 30, 2022, total unamortized debt discounts (premiums) and issuance costs of the Group amounted to ₱1,116.8 million.

## CAPITAL EXPENDITURES

Capital expenditures for the years ended December 31, 2018, 2019, 2020 and 2021 were related primarily to additions to service concession assets; contract assets during construction phase; acquisitions of property, plant, and equipment; and investments in financial assets at FVOCI, as discussed below.

The following table sets forth the capital expenditures during the periods indicated:

| **Year ended December 31,** | **Capital Expenditure (₱ millions)** |
|---|---|
| 2018 (actual) | 809.7 |
| 2019 (actual) | 2,889.5 |
| 2020 (actual) | 2,429.5 |
| 2021 (actual) | 16,147.3 |

As a percentage of revenue, the Group's capital expenditure for the years ended December 31, 2018, 2019, 2020 and 2021 amounted to 68.6%, 125.9%, 75.1%, and 106.6%, respectively.

The Group spent ₱13,698.7 million for capital expenditures (108.7% of total revenue) in the six months ended June 30, 2022 and the Group expects to spend an estimated ₱313.2 billion for capital expenditure from 2022 to 2027 (inclusive). The estimated capital expenditure pertains mainly to the requirements of (a) the Group's energy business, amounting to an aggregate of ₱292.4 billion (₱29.7 billion in 2022, ₱48.1 billion in 2023, ₱64.2 billion in 2024, and ₱150.5 billion from 2025 to 2027), (b) the Group's water business (excluding the Manila Water Group), amounting to an aggregate of ₱19.7 billion (₱7.7 billion in 2022, ₱5.3 billion in 2023, ₱2.9 billion in 2024, and ₱3.9 billion from 2025 to 2027), and (c) the Group's waste and sustainable fuels business, amounting to an aggregate of ₱1.1 billion in 2022.

The Manila Water Group's capital expenditure amounted to an aggregate of ₱12.1 billion, ₱15.3 billion, ₱13.4 billion, and ₱10.8 billion for the years ended December 31, 2018, 2019, and 2020, and for the six months ended June 30, 2022, respectively.

**Components of Capital Expenditure**

Components of the capital expenditures pertaining to the Group for the years ended December 31, 2018, 2019, 2020 and 2021, and for the six months ended June 30, 2021 and 2022, are summarized below.

| | For the years ended December 31, | | | | For the six months ended June 30, | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2021 | 2022 |
| | | | (₱ millions) | | | |
| Service Concession Assets ... | – | – | – | 12,103.2 | 961.5 | 10,407.5 |
| Investments in financial assets at FVOCI (SP Tarlac and WasteFuel Global)............. | – | – | 1,000.0 | 596.1 | 596.1 | – |
| Contract asset during construction phase............. | – | 2,706.8 | 1,138.3 | 2,255.9 | 270.5 | 2,316.3 |
| Property, plant, and equipment.......................... | 295.3 | 178.1 | 257.6 | 1,107.4 | 430.4 | 777.8 |
| Project development costs .... | 514.4 | 4.6 | 33.6 | 84.7 | 24.3 | 197.1 |
| **Total ..............................** | **809.7** | **2,889.5** | **2,429.5** | **16,147.3** | **2,282.8** | **13,698.7** |

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth the contractual maturities of the Group's financial liabilities, including interest payments and excluding the impact of netting agreements as of June 30, 2022:

| | As of June 30, 2022 (audited) | | | | |
|---|---|---|---|---|---|
| | Due and Demandable | Less than 3 months | 3 to 12 months | More than 12 months | Total |
| | | | (₱ thousands) | | |
| Accounts payable and other current liabilities [(1)]............. | 589,886 | 779,704 | 12,779,117 | – | 14,148,707 |
| Lease liabilities.......... | – | 1,233 | 127,925 | 511,252 | 640,410 |
| Short term loans......... | – | 484,126 | 3,582,827 | – | 4,066,953 |
| Long-term loans[(2)]...... | – | – | 5,564,045 | 106,172,092 | 111,736,137 |
| Service concession obligations.............. | – | – | 1,077,522 | 15,660,796 | 16,738,318 |
| Other non-current liabilities................. | – | – | – | 6,021,517 | 6,021,517 |
| **Total.........................** | **589,886** | **1,265,063** | **23,131,436** | **128,365,657** | **153,352,042** |

*Notes:*

(1) Excluding advances from customers, defects liability, deferred output VAT payable, and statutory payables.

(2) Including interest payments.

As of June 30, 2022, other than the financial obligations described in "—*Indebtedness*" above, there is no known event that will trigger a direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

## OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Prospectus, the Group has no material off-balance sheet transactions, arrangements, obligations other than those loan facilities described in "—*Indebtedness*" for which the Issuer is a guarantor. The Issuer also has no unconsolidated subsidiaries. In the ordinary course of business, members of the Group have obtained, and may from time to time obtain, performance or bid bonds in favor of their counterparties.

## QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group's income or the value of its holdings of financial instruments. The Group's water supply, power generation, construction, and waste and sustainable fuels operations are exposed to various types of market risks in the ordinary course of business, including interest rate risk, liquidity risk, credit risk and foreign exchange risk. See Note 33 of the Audited Consolidated Financial Statements included elsewhere in this Prospectus for more information on the Group's exposure to such market risks and a discussion on financial risk management.

### Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate and others with fixed interest rate. The Group's interest rate risk management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. The Group's policy is to manage its interest cost using a mix of fixed and floating interest-rate debt. The Group regularly monitors available loans in the market which are of cheaper interest rate and substitutes high-rate debt of the Group. Please also see "*Risk Factors-Risks relating to the Issuer and the Group—Failure to obtain financing on reasonable terms or at all could affect the execution of the Group's growth strategies and increased debt financing may have a material adverse effect on the Group.*"

### Liquidity Risk

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group uses internally generated funds and available long-term and short-term credit facilities. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows and seeks to manage its liquid funds through cash planning on a monthly basis. The Group also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities including bank loans and capital market issuances, in case any requirements arise. Accordingly, the Group regularly reviews its loan maturity profile to ensure availability of funding through an adequate amount of credit facilities with financial institutions. Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses.

### Credit Risk

The Group is exposed to credit risk from each of its business segments. Credit risk is the risk of loss that may occur from the failure of a customer to abide by the terms and conditions of such customer's financial contract with the Group, principally the failure to make required payments on amounts due to the Group. Please also see "*Risk Factors—Risks Relating to the Group's Water Business—A significant percentage of the Manila Water Group's business operations and facilities are concentrated in and around Metro Manila in connection with the Manila Concession*" and "*Risk Factors—Risks Relating to the Group's Energy Business—The loss of SP Tarlac's or Menatech's key customers could have an adverse effect on the Group's financial condition and results of operations*."

### Foreign Currency Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency exchange risk for the years ended December 31, 2021, 2020, 2019 and 2018 pertains primarily to movements of the Philippine Peso against U.S. dollars, Japanese yen and Euros on the Group's long-term debt and service concession obligations. Similarly, for the six months ended June 30, 2022 and 2021, respectively, the Group's foreign currency exchange risk pertains primarily to movements of the Philippine Peso against U.S. dollars, Japanese yen and Euros on the Group's long-term debt and service concession obligations.

The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities. Manila Water's board of directors also approved a foreign exchange risk policy in 2021 and the Group manages its exposure to foreign currency exchange risk by engaging in hedging transactions.

**SEASONALITY**

The Group's revenues from its solar power operations are expected to be correlated to the amount of electricity generated by the Terra Solar Power Plant and the Tanauan Solar Power Plant, which in turn will be dependent upon irradiance and weather conditions generally. Irradiance and weather conditions have natural variations from season to season and from year to year and may also change permanently because of climate change or other factors. In addition, revenues from the Tarlac Solar Power Plant, owned and operated by SP Tarlac, which the Group has invested in through Prime Metro Power's ownership of preferred shares in SP Tarlac, are exposed to the same seasonality. The Group believes that such seasonality is effectively managed as its solar power plants have been designed to be effective even during the monsoon season.

Other than the foregoing, there were no seasonal factors that had a material impact on the financial condition or operations of the Group for the years ended December 31, 2021, 2020, 2019 and 2018, and for the six months ended June 30, 2022 and 2021.

## DESCRIPTION OF THE ISSUER AND THE GROUP

### OVERVIEW

Prime Infrastructure Capital, Inc. (the "**Issuer**," and together with its Subsidiaries, the "**Group**") was incorporated on August 20, 2020 and is a company focused on developing, designing, managing and operating key infrastructure assets that enable delivery of essential services to communities in emerging markets worldwide. As of June 30, 2022, the Group's businesses comprise four core industrial sectors—water, energy generation, construction, and waste and sustainable fuels—in the Philippines and other emerging markets. The Issuer holds its investments and operating companies through the following holding companies: Prime Metro Power Holdings Corporation ("**Prime Metro Power**"), Prime Metroline Infrastructure Holdings Corp. ("**Prime Metroline**"), Prime Infrastructure, Inc. ("**Prime Infrastructure**") and Trident Water Company Holdings, Inc. ("**Trident Water**," and together with Prime Metro Power, Prime Metroline and Prime Infrastructure, the "**Intermediate Holding Companies**").

The Group's principal businesses are summarized below.

- ***Water*** – Through Prime Infrastructure's wholly-owned subsidiary Trident Water, which as of June 30, 2022, has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from Philwater Holdings Company, Inc. ("**Philwater**")), respectively, of the publicly listed Manila Water Company, Inc. ("**Manila Water**," and together with its subsidiaries, the "**Manila Water Group**"). The Manila Water Group is a regional player in the water supply and wastewater industry. The Manila Water Group is engaged in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services in the Philippines, South East Asia and the KSA. On February 21, 1997, under a 25-year Concession Agreement with the MWSS, Manila Water was given the exclusive right to provide services to the East Zone of Metro Manila, as an agent and contractor of the MWSS (the "**Manila Concession**"). The Concession Agreement, as revised on March 31, 2021, expires in May 2037. On December 10, 2021, President Duterte signed the East Zone Franchise Law into law, thereby granting a franchise to Manila Water to operate as a public utility over the East Zone of Metro Manila. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise. Prime Infrastructure also owns 82.0% of WawaJVCo, a joint venture enterprise with San Lorenzo Ruiz Builders & Developers Group, Inc. formed to develop and operate the Tayabasan Weir and Upper Wawa Dam which will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila (the "**Wawa Bulk Water Supply Project**") and which is expected to increase Manila Water's water capacity by over 30% from about 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project. See "*Description of the Group's Water Business*" for further details.

- ***Energy*** – Through certain subsidiaries and affiliates of Prime Infrastructure and Prime Metro Power (such subsidiaries and affiliates, the "**Energy Companies**") and Prime Metro Power's ownership of preferred shares in SP Tarlac, the Group either operates or has invested in energy generation projects, including hydro, solar, and gas, in the Philippines and Iraq. These projects include the 1,400MW (gross) (1,200MW (net)) hydropower project expected to be located and constructed in Laguna, Philippines (the "**Ahunan Laguna Power Plant**"); the 100MW (150MW upon completion) solar power plant in Tarlac, Philippines (the "**Tarlac Solar Power Plant**"); the 140MW solar power plant under construction in Tanauan and Maragondon in the Philippines (the "**Tanauan Solar Power Plant**"); the 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system expected to be located and constructed in Bulacan and Nueva Ecija, Philippines (the "**Terra Solar Power Plant**"); and the 29.3MW (67.8MW upon completion) gas-fired power plant located in the Umm Qasr Port, Basra, Iraq (the "**Umm Qasr Power Plant**") (collectively, the "**Power Projects**"). See "*Description of the Group's Energy Business*" for further details.

- ***Construction*** – Through Prime Metro BMD Corporation ("**Prime BMD**"), a joint venture partnership between Prime Metroline and BMD International Pty Ltd., a large Australian civil contractor company, the Group constructs major infrastructure projects in the Philippines. Prime BMD's projects include roads and bridges, marine infrastructure and dredging services, airport infrastructure, building works, water and wastewater infrastructure, rail infrastructure, and commercial and residential land subdivision projects. As of the date of this Prospectus, the Issuer's wholly-owned subsidiary Prime Metroline owns 60.0% and

BMD International Pty Ltd. owns 40.0% of Prime BMD. See "*Description of the Group's Construction Business*" for further details.

- ***Waste and Sustainable Fuels*** – The Issuer holds 9.04% of the issued share capital of WasteFuel Global LLC ("**WasteFuel Global**"), a California-based entity founded to utilize scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas, and green methanol. The Issuer and WasteFuel Global have also established a subsidiary, WasteFuel Philippines Inc. ("**WasteFuel Philippines**") to develop a facility in the Philippines to convert municipal waste into aviation-grade low-carbon fuel for sale to customers in the aviation sector. Through Prime Integrated Waste Solutions, Inc. ("**Prime Integrated Waste Solutions**"), a wholly-owned direct subsidiary of Prime Infrastructure, and WasteFuel Philippines, the Group plans to develop an integrated waste and sustainable fuels solution business in the Philippines. See "*Description of the Group's Waste and Sustainable Fuels Business*" for further details.

In addition to the foregoing businesses, Prime Infrastructure incorporated its wholly-owned subsidiary, Torre, Inc., in the Philippines on December 29, 2020, to engage in the development and operation of telecommunications infrastructure. As of the date of this Prospectus, Torre, Inc. does not hold any operational assets.

The Group integrates environmental, social and governance ("**ESG**") thinking into its operations, which embodies its purpose to create better lives and more resilient economics in the jurisdictions where it is present. The Group's ESG focus areas include (i) net zero transitions through innovation and technology across water, carbon, and waste and sustainable fuels, (ii) community partnerships through community investments, assisting in resilience and disaster preparedness, and human capital development, and (iii) purpose-driven profits through the generation and distribution of economic value and job creation and consideration for social and environmental impact.

The Group's consolidated revenue for the years ended December 31, 2019, 2020 and 2021 was ₱2,294.6 million, ₱3,234.4 million and ₱15,150.4 million (U.S.$291.4 million), respectively, while consolidated net income (loss) for the years ended December 31, 2019, 2020 and 2021 was ₱(21.2) million, ₱442.8 million and ₱10,831.6 million (U.S.$208.3 million), respectively. The Group's consolidated net income (loss) attributable to shareholders of the Issuer for the years ended December 31, 2019, 2020 and 2021 was ₱(78.6) million, ₱356.0 million and ₱9,363.6 million (U.S.$180.1 million), respectively. The Group's consolidated net income for the year ended December 31, 2019 was derived exclusively from its construction business and its consolidated net income for the year ended December 31, 2020 was derived primarily from its construction business. The Group's consolidated net income for the year ended December 31, 2021 was primarily derived from its water business after the completion of Trident Water's acquisition of Manila Water. For the six months ended June 30, 2022, the Group's consolidated revenue was ₱12,601.8 million (U.S.$229.2 million), consolidated net income was ₱2,549.4 million (U.S.$46.4 million) and consolidated net income attributable to shareholders of the Issuer was ₱464.5 million (U.S.$8.5 million).

The Group's revenue has grown at a 228% CAGR from ₱132 million for the year ended December 31, 2017 to ₱15,150.4 million for the year ended December 31, 2021.

The following tables show the contribution of each of Menatech (from the Group's energy business), the Manila Water Group (from the Group's water business), and Prime BMD (from the Group's construction business), to the Group's revenues for the periods presented:

| | For the six months ended June 30, 2022 | | | For the year ended December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | (₱ millions) | | | | | |
| | Menatech | Manila Water Group | Prime BMD | Menatech | Manila Water Group | Prime BMD |
| Revenue | 233.1 | 10,735.7 | 1,633.0 | 493.8 | 11,982.9 | 2,673.8 |
| % of total revenue of the Group | 2% | 85% | 13% | 3% | 79% | 18% |
| Net income | 122.9 | 3,322.5 | 173.7 | 300.4 | 2,234.6 | 146.0 |
| % of total net income of the Group | 5% | 130% | 7% | 3% | 21% | 1% |

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2018 | |
| | (₱ millions) | | | | | |
| | Menatech | Prime BMD | Menatech | Prime BMD | Menatech | Prime BMD |
| Revenue................ | 377.2 | 2,857.2 | - | 2,294.6 | - | 1,179.5 |
| % of total revenue of the Group............ | 12% | 88% | - | 100% | - | 100% |
| Net income (loss)... | 347.6 | 158.0 | (67.8) | 149.6 | (11.6) | (64.6) |
| % of total net income (loss) of the Group | 79% | 36% | 319% | (705)% | 8% | 44% |

## COMPETITIVE STRENGTHS

The Company believes that it has the following principal competitive strengths as it aims to be a leading developer of sustainable critical infrastructure in the Philippines, across four core industrial sectors—energy generation, water, construction, and waste and sustainable fuels.

### *Driving impact and sustainable development with its ESG commitment*

The Company is focused on sustainable development and integrates ESG philosophy into its operations, which embodies its purpose to create better lives and more resilient economics in the jurisdictions where it is present. The Company believes that its ESG focus is a core factor in driving its strategic competitive advantage. The Company's purpose is to create better lives and more resilient economies in the jurisdictions where it is present through innovation and by implementing sustainable practices in the critical infrastructure it delivers.

The Company is guided by the following key ESG principles:

1. purpose-driven profits — the Company identifies and evaluates markets and opportunities with integrity by espousing best corporate governance practices. In addition to shareholder value creation and profit generation, the Company considers economic value creation and distribution, jobs creation, social and environmental impact, among others, in evaluating opportunities.

2. sustainability focus — the Company integrates sustainable thinking and innovative practices into its businesses and operations, facilitating the adoption of global best practices and technology in managing resources, waste and sustainable fuels, and carbon emissions, to achieve net zero transitions.

3. community partnerships — the Company believes in inclusive economic growth and that fostering resilient communities is a key factor in and an important measure of the success of its projects. The Company invests in the communities in which it operates, assists in building community resilience and disaster preparedness, and facilitates human capital development, and in doing so, seeks to improve economic, cultural, educational, and overall welfare and living conditions. The Company aims to make the communities in which the Company operates partners and stewards of its projects.

### *Leveraging on the solid track record of the Issuer's senior management team's agile and forward thinking*

The Group has achieved exceptional growth since its inception as a result of the Issuer's senior management team's solid track record of executing and delivering complex transactions and projects that the Company believes play a significant role in both the industries and markets the Company serves. In particular, the Issuer's senior management team has a strong track record of executing infrastructure projects, in terms of quality control, cost control, and delivering in accordance with agreed timelines.

### *A diversified portfolio of assets and projects across sectors enables the Company to enjoy stable earnings and cash flows while undertaking growth projects*

The Company believes that its 35.6% economic interest (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater) in Manila Water as of June 30, 2022 enables the Company to enjoy stable earnings and cash flow while it undertakes numerous projects, particularly in the renewable energy space. The Company also expects to receive cash flow from the operations of WawaJVCo's Wawa Bulk Water Supply Project which the Company expects to commence by the fourth quarter of 2022.

The Group, through Trident Water's control of 52.16% of the voting rights for Manila Water as of June 30, 2022, is a regional player in the water supply and wastewater industry. The Manila Water Group covers the entire water supply value chain, from water source development and distribution to wastewater treatment. A key pillar of Manila Water's business is anchored on Manila Water's concession over the East Zone under the Concession Agreement with MWSS. Through the Concession Agreement, Manila Water operates and manages an urban water supply system in the East Zone of Metro Manila which covers 23 cities and municipalities with around seven million people as of June 30, 2022. As of June 30, 2022, Manila Water has three major water sources for Metro Manila.

Furthermore, Manila Water has built a strong presence in prominent regions outside of Metro Manila, including, among others, Laguna, Clark, and Boracay. Manila Water also delivers bulk water to the Metropolitan Cebu Water District, Tagum Water District, and Iligan Water District. As of June 30, 2022, Manila Water's non-East Zone serves approximately 1.8 million people.

WawaJVCo was formed to develop and operate the Wawa Bulk Water Supply Project, which is expected to address the inadequate existing water supply in Metro Manila as the Angat dam, the main water source of Manila Water, does not have sufficient capacity to address the water needs of the East Zone. The Wawa Bulk Water Supply Project is being constructed in two phases: the first phase comprises the Tayabasan Weir, which is expected to provide 80 MLD by the fourth quarter of 2022, and the second phase comprises the Upper Wawa Dam, which is expected to provide at least an additional 438 MLD by the end of 2025. In May 2022, four months ahead of schedule, the weir at Tayabasan Weir was impounded. As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed (and Tayabasan Weir is in the testing and commissioning phase) and the Company expects the Tayabasan Weir to commence commercial operations in the fourth quarter of 2022. As of September 19, 2022, Upper Wawa Dam is approximately 18.61% complete. Upon completion of the Upper Wawa Dam, which is expected in December 2025, the capacity of the Wawa Bulk Supply Project is expected to increase to 518 MLD. In August 2019, WawaJVCo and Manila Water entered into a 30-year offtake arrangement for at least 518 MLD of water, at ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational).

Upon completing the Group's power projects which are currently in development, the Company also expects that its earnings and cash flows will be further strengthened by predictable and stable revenues from offtake agreements. Future offtake agreements of the Group's sustainable fuels business are also expected to be stable and sustainable given the increasing trend of major players in the aviation and marine transportation businesses of making significant and long-lasting commitments to decrease their carbon footprints.

The Group's construction business, through Prime BMD, has been operating since 2017. For the six months ended June 30, 2022, Prime BMD had a construction order book of approximately ₱0.5 billion and as of June 30, 2022, Prime BMD had an order book outstanding of approximately ₱4.6 billion. Prime BMD has various heavy civil and specialized infrastructure contracts across the Philippines, including power plant operation and maintenance. The Company, through the Iraq branch of Menatech, owns 100% of the Umm Qasr Power Plant, a gas-fired power plant located in Basra, Iraq. The first phase of the Umm Qasr Power Plant, comprising 29.34MW of installed capacity, commenced commercial operations in February 2020. The Company, through Menatech, has entered into a 23-year contract of supplying, installation, management and operation of power plant with GCPI, which agreement provides for the sale of power from February 18, 2020 to February 18, 2043. GCPI is the sole offtaker of the Umm Qasr Power Plant.

***Strong pipeline of projects across water, power, waste and sustainable fuels, and construction provide a clear path to growth***

As of the date of this Prospectus, the Company is developing the following pipeline of projects:

*Water*

As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed and is in the testing and commissioning phase. It is expected to begin supplying 80 MLD of raw water for the East Zone at an initial rate of ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational) by the fourth quarter of 2022. As of September 19, 2022, Upper Wawa Dam was approximately 18.61% complete. The Upper Wawa Dam is expected to begin supplying at least an additional 438 MLD for the East Zone by the end of 2025.

Manila Water's significant experience in the East Zone has allowed it to leverage its operational know-how and best practices to other urban areas in the Philippines, Southeast Asia, the Middle East, and the rest of the world. It is able to provide the full range of services in the water industry, including, among others, distribution services, pipeworks, engineering, management services, wastewater services, and metering. For example, a consortium of Manila Water with Saur SAS and Miahona Company signed seven-year management, operations and maintenance contracts with the National Water Company of the KSA for its northwestern cluster in December 2020 and its eastern cluster in October 2021. Notably, the National Water Strategy 2030 of the KSA includes the privatization of water and wastewater operations into long-term concessions.

*Power − Renewable Energy*

SP Tanauan's Tanauan Solar Power Plant is a 140MW solar power plant expected to be completed in the second half of 2023.

Terra Solar's Terra Solar Power Plant, composed of a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system which is expected to provide 850MW of mid merit energy once completed, is at pre-development stage. The first phase of the Terra Solar Power Plant comprising 600MW is expected to commence commercial operations in February 2026 and the second phase of the Terra Solar Power Plant comprising 250MW is expected to be completed in February 2027. The Philippine Department of Energy has also issued several solar energy service contracts to Terra Solar. The Company believes that, upon completion, the Terra Solar Power Plant is expected to be one of the largest solar power plus battery storage systems in the world.

The Ahunan Laguna Power Plant is a 1,400MW (gross) (1,200MW (net)) pumped storage hydropower plant, which is expected to provide 500MW of mid-merit energy to shift underutilized baseload to MERALCO and 700MW to address ancillary requirements of the national grid during peak times or as an additional energy storage solution. The project permits for the integration of variable renewable energy ("**VRE**") as it functions to absorb excess generation and cover lulls in the generation of VRE such as wind, solar and run-of-river hydro. The Company believes that upon completion, the Ahunan Laguna Power Plant will be one of the largest pumped storage hydroelectric power plants in the world. The Ahunan Laguna Power Plant is expected to commence commercial operations in 2027 (500MW in the first half of 2027 and 700MW in the second half of 2027).

The Group's pipeline of energy projects includes the possible expansion of its sales of power to a broader range of customers, including retail customers.

*Waste and Sustainable Fuels*

The business strategy of the Company's waste and sustainable fuels business consists of developing the capability to produce sustainable marine fuel in the initial phases of operations of its biofuel conversion facility and to produce aviation-grade low-carbon fuel at a later phase of its operations, and the development of waste-to-fuel conversion facilities. The Company also believes that there is potential for producing renewable diesel. These are intended to help address the pollution generated by jet fuel and marine fuel (and if renewable diesel is developed, road vehicle fuel) and a potential garbage crisis in the Philippines, which the Company believes are two of the most significant problems globally and in the Philippines. The Company also recognizes synergies inherent in developing the capability to convert solid waste to sustainable fuels, and the Company believes there are significant opportunities in waste management and sustainable fuels.

The Company has a 9.04% equity interest in WasteFuel Global, which is a shareholder of the private aviation company, NetJets Inc. ("**NetJets**"), which is in turn a subsidiary of Berkshire Hathaway Inc. NetJets has set a goal to lower its carbon footprint significantly, and has committed to purchase a minimum of 100 million gallons of sustainable aviation fuel over the next 10 years. Similarly, an affiliate of Maersk has invested in WasteFuel Global, enabling WasteFuel Global's development of scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas and green methanol.

The Company, together with WasteFuel Global, has established WasteFuel Philippines to address the demand for sustainable fuels, among other objectives. WasteFuel Philippines has recently confirmed the technical feasibility of developing a sustainable fuel production plant in the Philippines.

The Company's waste and sustainable fuels business' strategy relies on, among other things, the Company's acquisition of existing suitable waste management companies in the Philippines.

*Construction*

Since Prime BMD was established in 2017, Prime BMD has completed and has also been awarded several major construction projects. These include the following: Montclair Interchange Project and Montclair Access Bridge in Porac, Pampanga, Wawa Bulk Water Supply Project - Tayabasan Weir, Upper Wawa Pumping Station and Cabading 5ML Reservoir in Rizal, Berths 1-5 Wharf Repair Works, Berth 7 Project and Maintenance Dredging Works Project in Manila International Container Terminal, COVID-19 Mass Vaccination Center in Paranaque City, and Solaire North enabling and base build works in Quezon City, Manila.

For the six months ended June 30, 2022, Prime BMD had a construction order book of approximately ₱0.5 billion and as of June 30, 2022, Prime BMD had an order book outstanding of approximately ₱4.6 billion. On December 17, 2021, Prime BMD also established a subsidiary, Prime Metro BMD Industrial Services Corporation, to provide operations and maintenance, and engineering solutions, positioning Prime BMD as a comprehensive solutions provider for heavy and complex construction, engineering, and operations and maintenance requirements.

Prime BMD is a joint venture partnership between Prime Metroline and BMD International Pty Ltd., an Australian civil contractor company and a member of the BMD Group of Australia. Prime BMD benefits from the technical expertise of the BMD Group of Australia in engineering design, construction, and land development, particularly in urban development, transport infrastructure, and energy sectors.

***Well-positioned to capture the Philippine demand growth in key infrastructure across its key segments in the Philippines and internationally***

The Razon Group of Companies has a proven record in expanding their businesses across the globe. For example, ICTSI, one of the largest companies listed on the PSE by market capitalization as of June 30, 2022, in which Mr. Razon, his family, siblings, and their mother, collectively hold a controlling stake and in which Mr. Razon serves as chairman, started with the first port in Manila and as of June 30, 2022, operates more than twenty ports worldwide. The Company's operating model is expandable and is expected to benefit from a wealth of experience from its Board, chairman Mr. Razon, and management team, to not only grow the business domestically but also expand strategically in other countries.

*Water*

The Group, through Manila Water, has significant experience in the East Zone, which has allowed it to leverage its operational know-how to other urban areas in the Philippines, Southeast Asia, the Middle East, and the rest of the world. The Group is engaged in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services. Additionally, the Group provides after-the-meter products and services, including pipe-laying, integrated wastewater services, and the incubation of new sector businesses. Accordingly, the Group is well-positioned to work in whichever segment of the water supply chain is required for a given jurisdiction, giving it flexibility to bid for a large variety of water projects. The Company already has operations in neighboring Southeast Asia markets, such as Indonesia, Vietnam, and Thailand, and has established its presence in the KSA. Furthermore, the Group actively identifies and bids for water project opportunities around the world.

WawaJVCo, engaged in the Wawa Bulk Water Supply Project which is being constructed in two phases: the first phase comprises the Tayabasan Weir, which is expected to provide 80 MLD by the fourth quarter of 2022, and the second phase comprises the Upper Wawa Dam, which is expected to provide at least an additional 438 MLD by the end of 2025, is likewise well situated to capture the growth in the demand for water brought about by Metro Manila. This is in addition to the inadequate existing water supply which does not have sufficient capacity to address the existing water needs of the East Zone.

*Renewable Energy*

The Company believes that the Philippine power sector is underpinned by the attractive demographic qualities of the Philippine population. The Company believes that growth in installed capacity is necessary to support the Philippine population and the Company is supportive of the Philippine Government encouraging the expansion in renewable energy capacity. The Company aims to become one of the largest renewable energy power producers in the Philippines and seeks to contribute to the installed renewable capacity of the Philippines with its existing pipeline of more than 4,000 MW of installed capacity and battery storage capacity of 4,000 MWh which are expected to be completed by 2027. Furthermore, the Company believes it is revolutionizing how renewable energy is harnessed with battery energy storage systems in its Terra Solar Power Plant.

*Waste and Sustainable Fuels*

The Company believes that the waste situation in the Philippines is largely ignored and that there is an urgency to find a solution to manage the Philippines' waste problem.

The Company believes in the provision of "separate but integrated" waste and sustainable fuels solutions in the Philippines: "separate" in the sense that each of the waste management infrastructure business and the sustainable fuels business are stand-alone business, and "integrated" in the sense that there can be synergies between the businesses. This would enable the waste management and sustainable fuel segments of the Company's business to capture separate and distinct, present and future demand growth, and complimentary ability to convert waste into feedstock that produces sustainable fuels. As of June 30, 2022, WasteFuel Global's other shareholders and strategic partners include NetJets and Maersk, and the Company continues to evaluate potential acquisitions of suitable waste management businesses.

*Construction*

Prime BMD, together with the expertise of BMD Group of Australia, brings in technical expertise in engineering design, construction, and land development, particularly in urban development, transport infrastructure, and energy sectors. The Company intends to leverage on its track record and expertise in order to win contracts.

***The ultimate shareholder, who has a proven track record of growing global businesses, is fully committed to delivering the Company's vision of developing sustainable infrastructure***

Razon & Co. is the ultimate shareholder of the Company. Razon & Co., Inc. is the family holding company of Mr. Enrique K. Razon, Jr. and his family. Over the past decade, Mr. Razon, his family, siblings, and their mother have led the growth of ICTSI to become a significant operator in terms of volume throughput and capacity in targeted geographic markets such as the Philippines, Ecuador, the Brazilian state of Pernambuco, Madagascar, Yantai in China, the Honduras, Iraq, DR Congo, and Papua New Guinea. Mr. Razon is also the Chairman of the Board of Bloomberry Resorts Corporation, the developer of Solaire Resort and Casino, and Manila Water Corporation.

The Company enjoys the full support of the Razon Group of Companies. The Company believes it would be able to leverage the existing presence of the ICTSI group in rolling out its own products and services, particularly in the water and renewable energy space.

An example of the Company's focus on sustainability and community partnerships is its planned Wawa Eco-Tourism Project in the areas surrounding the Upper Wawa Dam and the Tayabasan Weir. Conceptualized with ten key destinations and more than twenty ecotourism activities, the park is designed to highlight the culture of the indigenous peoples in the area and promote respect for the environment. The Company plans to employ members of the community to manage the park and its various attractions.

***Led by a reputable and experienced board and management team with decades of industry experience***

The Company's management team comprises accomplished individuals who have spent their careers in growing businesses globally.

The Company is led by Mr. Guillaume Lucci, President and CEO, who has over 20 years' experience in developing and operating infrastructure projects across transportation, power, water, and maritime ports. Mr. Enrique K. Razon, Jr., Chairman of the Board of the Company, has over 30 years' experience in building companies, executing projects, and creating value.

Supporting Mr. Lucci and Mr. Razon is a set of competent and qualified professionals who have spent decades in their respective roles: Mr. Jesus Bernardo Palma, a seasoned CFO with deep knowledge in business planning and risk management; Mr. Janssen dela Cruz, Head of Energy with over 20 years' experience in the industry; Mr. Melvin John M. Tan, Head of Water with over 20 years' experience in the industry; Ms. Carla Angelica Peralta, Head of Waste and Sustainable Fuels with over 13 years' work experience in the fuel industry; Mr. Dave Devilles, Head of ESG with over 20 years' work experience; Ms. Maricel Muzones, Head of HR with over 20 years' experience handling various roles in HR; Mr. Philip Ranada, Chief Legal Officer with over 17 years' work experience; Mr. Amorsolo R. Camara Jr., Chief Risk Officer with over 15 years' work experience; Ms. Amabelle C. Asuncion, Chief Compliance Officer with over 20 years' work experience; Ms. Emma Villa del Rey, Head of

Treasury with over 26 years' experience; Mr. Jose Joel M. Sebastian, Corporate Auditor with over 31 years' experience; and Mr. Edgardo Calantuan, Jr., Head of IT with over 27 years' work experience.

**BUSINESS STRATEGIES**

The Company's mission is to transform developing markets around the world by developing reliable, resilient, and sustainable infrastructure carried out with a holistic-thinking approach and customer-centric mindset. The Company intends to attain this through the following strategies:

***Focus on regulated markets***

The Company and its sister companies have a proven track record working in regulated markets. It has a demonstrated ability to identify opportunities and capitalize on them at scale to generate long term value to shareholders. The Company intends to continue in the energy, water, and waste and sustainable fuel markets by replicating sole source, unique and large projects like Wawa Bulk Water Supply Project, Terra Solar Power Plant, and Ahunan Laguna Power Plant, among others.

***Identify and invest in opportunities guided by the Company's core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity***

The Company is focused on developing, designing, managing and operating key sustainable infrastructure assets that enable the delivery of essential services to communities in emerging markets worldwide.

In conducting its business, the Company is guided by its core values: Value Creation, Integrity, Pioneering, Passion, and Tenacity.

*Value Creation*
The Company seeks to create meaningful value by investing in projects that improve the quality of life of host community stakeholders and its employees, and managing these investments to deliver shareholder and stakeholder value.

*Integrity*
The Company strives to be ethical, fair, and transparent in its business dealings throughout every level of its organization.

*Pioneering*
The Company evolves new approaches and methods to create innovative solutions and deliver lasting impact.

*Passion*
The Company is committed to its purpose, and seeks business partners who share the same level of commitment.

*Tenacity*
The Company has a "Can Do" mentality and strives to use best efforts and persistence to deliver results.

Two testaments to the Company realizing its core values is Manila Water being declared 2022 Water Company of the Year by Global Water Intelligence ("**GWI**") (Manila Water being the first company from an emerging country to receive this award), and the Umm Qasr Power Plant being completed ahead of schedule and employing local workers and engineers in furtherance of the Company's ESG focus on community partnerships. Manila Water has also been recognized as the top seventh (excluding Chinese companies) global water operator by GWI and "Utility of the Future" by the World Bank, and was awarded the Best Sustainability Award in 2020 by Asset Asian Awards.

***Focus on executing critical projects in the pipeline***

The Company is focused on executing its ongoing projects to help address the need for critical infrastructure. The Company defines these to be infrastructure which is economically enduring, environmentally resilient, socially relevant, and which supports a growing economy's key requirements for basic services.

In the Philippines, the Company believes there are few industries as critical as power, water and waste and sustainable fuels - areas which the Company operates in and intends to further develop its presence in.

Driven by the Company's focus on delivery and execution, several of the Company's ongoing projects are on track or ahead of schedule. In May 2022, four months ahead of schedule, the weir at Tayabasan Weir was impounded. As of July 17, 2022, construction of the Tayabasan Weir has been substantially completed despite the construction period being within the most severe COVID-19 lockdowns and is scheduled to commence commercial operations by the fourth quarter of 2022. The second phase, comprising the Upper Wawa Dam, is expected to provide at least an additional 438 MLD by the end of 2025. The completion of the Wawa Bulk Water Supply Project is expected to address the inadequate water supply in the Metro Manila East Zone.

As a result of the foregoing, the Company believes that its development of renewable energy projects with an installed capacity of over 4,000 MW and battery storage capacity of 4,000 MWh which are expected to be completed by 2027, waste and sustainable fuels solutions will allow it to capture present and future demand for these services.

The management team has a strong track record in delivering large complex projects on schedule and within budget, including, for example, the Umm Qasr Power Plant, which was completed ahead of schedule.

***Leverage on the existing global network of the Razon Group of Companies for international expansion***

The Company intends to leverage on the existing global footprint of the Razon Group of Companies. ICTSI's portfolio of port and logistics management and operations in key trade hubs across the globe provides the Company with a unique perspective and access that can help inform investment decisions and projects abroad that are aligned with the Company's mission.

***Continuously manage costs at the parent and operating company levels***

The Company implements comprehensive financial management and continuous cost control efforts to manage costs, minimize capital expenditures and operating expenses, and remain competitive. The Company performs zero-based budgeting year on year to comprehensively review and evaluate all aspects of the Company's budget and expenses against the Company's needs, market performance and the core values of the Company.

***Focus on existing technologies with established partners***

The Company has demonstrated its ability to take on existing technologies and restructure them to generate long term shareholder value. For example, the Terra Solar Power Plant is expected to combine two existing technologies, solar power and battery energy storage and is expected to provide 850MW of mid-merit renewable energy.

## RECENT DEVELOPMENTS

### Capital Structure Changes

On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 common shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine Securities and Exchange Commission (the "**Philippine SEC**") approved such amendments on June 8, 2022.

On September 5, 2022, Prime Strategic Holdings, Inc. ("**Prime Strategic Holdings**") subscribed to an additional 100,866,657 Common Shares of the Issuer at an issue price of ₱6.00 per share or an aggregate issue price of ₱605,199,942.00.

On September 15, 2022, 47,216,664 Common Shares were issued out of the Issuer's unissued authorized capital stock to certain subscribers in recognition of their contributions to the success of the business of the Issuer. The

Common Shares were issued at a subscription price of ₱6.00 per share or an aggregate issue price of ₱283,299,984.00.

As of the date of this Prospectus, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share, of which 6,995,625,301 Common Shares are issued and outstanding. As of the date of this Prospectus, Prime Strategic Holdings owns 99.3% of the Issuer's issued and outstanding Common Shares.

**Acquisition of Interest in Olympia Violago Water & Power, Inc.**

On June 29, 2022, Ahunan Power was granted original proponent status ("**Ahunan OPS**") by the MERALCO Third Party Bids and Awards Committee (the "**MERALCO TPBAC**") to supply MERALCO with 500MW of mid-merit energy using pumped storage hydropower. Discussions between Ahunan Power and MERALCO in relation to the competitive selection process for the right to match are ongoing and are expected to be finalized by the end of 2022 to early 2023. On July 12, 2022, Ahunan Power entered into a share purchase and investment agreement to acquire a 67% equity interest in Olympia Violago Water & Power, Inc. ("**OVWPI**"). OVWPI is the developer of a 500MW pumped storage hydropower plant in Rizal Province ("**Ahunan Rizal Plant**") which currently is in pre-development stage. The total cash consideration for the acquisition, upon full satisfaction of all closing conditions, is ₱289 million. The Ahunan Rizal Plant is one of the two power plants that Ahunan Power nominated for the Ahunan OPS. The other plant nominated by Ahunan Power is the Ahunan Laguna Power Plant.

**Acquisition of Interest in ARN Central Waste Management, Inc.**

On July 20, 2022, Prime Integrated Waste Solutions entered into a share purchase agreement wherein it acquired 20% of the shares and 100% of the voting interest in ARN Central Waste Management, Inc. ("**ACI**"). After satisfaction of certain conditions, Prime Integrated Waste Solutions expects to acquire the remaining 80% of the ACI shares. ACI is the owner and operator of one of the largest operating engineered sanitary private landfills in Cebu City that currently receives approximately 1,000 tons of municipal waste per day, with an expected maximum capacity of 2,000 tons per day. The total cash consideration, upon full satisfaction of all closing requirements under the share purchase agreement, is ₱2.2 billion.

**Potential Acquisition of Malampaya Gas Field**

*The financial and operating information set forth below and elsewhere in this Prospectus with respect to SPEX is based on information available to our management team as of the date of this Prospectus, and has not been audited, reviewed, or compiled by the Group's independent auditors.*

Prime Exploration Pte. Ltd. ("**Prime Exploration**"), an indirect subsidiary of the Issuer, entered into a share purchase agreement dated July 28, 2022 (the "**MEXP SPA**") with Malampaya Holdings Singapore Pte. Ltd. ("**Malampaya Holdings**"), a wholly-owned subsidiary of Udenna Corporation, and acquired all of the outstanding shares of MEXP Holding Pte. Ltd. ("**MHPL**"). MHPL owns all of the issued and outstanding shares of Malampaya Energy XP Pte. Ltd. ("**MEXP**"). MEXP had previously executed a share purchase agreement (the "**SPEX SPA**") where it would acquire 100% of the shares of Shell Philippines Exploration B. V. ("**SPEX**") from Shell Petroleum NV ("**Shell**"), subject to certain conditions precedent (the "**SPEX Sale**"). SPEX is the operator of, and owns a, 45% interest in Service Contract No. 38 ("**SC38**") for the Malampaya project. The SPEX Sale is subject to the consent of PNOC Exploration Corporation ("**PNOC-EC**") and the Department of Energy ("**DOE**"), among other conditions precedent.

Under the terms of the SPEX SPA, MEXP is required to pay a base consideration of U.S.$380,000,000 (subject to purchase price adjustments including dividends paid and contributions), with additional payments of up to U.S.$80,000,000 contingent on certain terms and conditions, including extension of license life, asset performance and commodity prices. MEXP expects to fund the base consideration due under the SPEX SPA from (i) drawdowns of approximately U.S.$35 million under a mezzanine facility entered into by Prime Exploration and MHPL, (ii) cash adjustments from dividends distributed by SPEX in 2021 and 2022 estimated at approximately U.S.$212 million, and (iii) a drawdown of up to U.S.$140 million under a senior bridge settlement facility entered into by Prime Exploration, MHPL, and MEXP, which senior facility will be paid from SPEX's cash at completion of the transaction. The mezzanine facility and senior settlement facility will be secured, among others by share charges over the shares in MEXP and SPEX, and account charges over SPEX's accounts. MEXP expects to pay any contingent payments due under the SPEX SPA and amounts due under the senior bridge settlement facility and mezzanine facility from the cashflows of SPEX.

Under the terms of the MEXP SPA, Prime Exploration will pay Malampaya Holdings, (i) an aggregate of U.S.$42,000,000 (inclusive of the initial deposit of U.S.$5,000,000) upon the completion of the SPEX Sale, (ii) U.S.$42,000,000 on the first anniversary of the SPEX Sale, and (iii) U.S.$36,000,000 on the second anniversary of the SPEX Sale. Subject to the terms of the MEXP SPA, until three business days after the long stop date of the SPEX SPA, Prime Exploration has the right (but not the obligation) to require Malampaya Holdings to buy back all the shares of MEXP. In case Prime Exploration exercises such option, Malampaya Holdings is required to also return the initial deposit of U.S.$5,000,000 to Prime Exploration, subject to certain conditions. Prime Exploration intends to fund the balance of the initial payment under the MEXP SPA on the completion of the SPEX Sale from loans, and the payments to Malampaya Holdings post-completion of the SPEX Sale from the cashflows of SPEX.

None of the payments due under the SPEX SPA and MEXP SPA will be funded by proceeds from the Offer.

The Company considers SPEX, assuming the completion of the SPEX Sale, as part of its energy business. In particular, the Company views the SPEX Sale as its initial foray into the upstream energy market and expects the SPEX Sale to further diversify the Group's energy assets. The consolidation of SPEX as a member of the Group is expected to significantly impact the assets and liabilities, revenues and cash flows of the Group. For example, had the acquisition been completed as of January 1, 2021, the Group's assets would have increased by more than 10% as of December 31, 2021 while its revenues would have approximately doubled for the year ended December 31, 2021. SPEX's revenues are expected to significantly decrease in 2024, which coincides with the expiration of the license of the SC38 Consortium. In the event of any extension of the SC38 Consortium's license, revenues from the existing wells are expected to significantly decrease upon the expected expiration of the useful life of the wells in 2027. Any additional drillings or rejuvenation of existing wells will require significant capital expenditure by the SC38 Consortium, including SPEX. SPEX's revenues and net income also depend on the extension of existing, or the execution of new, gas sale and purchase agreements, and are affected by the fluctuation of natural gas prices, among others. Post-completion of the SPEX Sale, the dividends expected to be received by the Company will be affected by payments to be made under the SPEX SPA and MEXP SPA and related financing, apart from factors affecting SPEX's net income. See "*Risk Factors—Risks Relating to the Potential Acquisition of the Malampaya Gas Field*" for more information.

Because SPEX operates as a separate integral unit, the Group expects SPEX to continue operating consistent with past practice and in the ordinary course of business post-completion of the SPEX Sale.

There can be no assurance that the SPEX Sale will be completed. In particular, the transaction is subject to the consent of PNOC-EC and the DOE, among other conditions precedent. In addition, the Government may attach conditions to such consents, the nature and impact of which is unknown as of the date of this Prospectus. See "*Risk Factors−Risks Relating to the Potential Acquisition of the Malampaya Gas Field−There is no assurance that the SPEX Sale will be completed, or that the transition of SPEX's operations to the Group will be successful.*"

As of the date of this Prospectus, MEXP does not own any shares in SPEX. The shares of SPEX will only be transferred to MEXP after the relevant consents have been obtained. Further, as of the date of this Prospectus, the Group does not intend to acquire the 45% interest of UC38 LLC (a subsidiary of Udenna Corporation) in the SC38 Consortium.

The historical information included in this Prospectus does not give effect to the completion of the SPEX Sale. No pro forma financial statements giving effect to such potential acquisition has been included in this Prospectus.

**IMPACT OF COVID-19**

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, was declared a pandemic in March 2020 and has spread globally over the course of 2020, and continues to persist through 2022 having taken on various mutations that are sometimes more transmissible and resistant to available vaccines. As of the date of this Prospectus and since the beginning of the pandemic, there have been over 500 million confirmed cases worldwide and over 3.6 million confirmed cases in the Philippines. In response, countries have taken measures in varying degrees to contain the spread, including social distancing measures, lockdown, community quarantine, travel restrictions and suspension of operations of non-essential businesses, among others.

The Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine ("**ECQ**") was imposed on the island of Luzon, including Metro Manila. Initially, the ECQ was set to end by April

12, 2020 but was subsequently extended for two-week periods until May 15, 2020 (the period from March 16, 2020 through May 15, 2020, the "**Initial ECQ Period**"). Under the ECQ guidelines, restrictions on movement outside of the residence were implemented (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as power and water were allowed to operate, subject to certain conditions and limitations on operating capacity.

Since the time of the Initial ECQ Period, community quarantines with different levels of restrictions and permitted activities have been implemented across the Philippines by the relevant local governments. These include modified ECQ ("**MECQ**"), general community quarantine ("**GCQ**") or modified GCQ ("**MGCQ**"). The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations. The Government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. Starting September 16, 2021, the new Alert Level and Granular Lockdown System was piloted in Metro Manila. Under this new system, varying mobility restrictions are imposed depending on the Alert Levels, with the local government unit having authority to impose granular lockdowns with respect to the areas under their jurisdiction.

Following the Initial ECQ Period, the day-to-day operations of the Group were not significantly affected by the ECQ or other graduated quarantine measures because the Group's operations, being either essential services or infrastructure development, are largely permitted to continue regardless of the community quarantines scheme in place.

Nevertheless, because the community quarantines significantly limited operations of various industries, there was a reduction in the Manila Water Group's operating revenue in 2021 as compared to 2020, which was driven by lower billed volume across all customer segments and lower average tariffs, the latter of which were due to a shift in consumption from commercial to residential customers. In addition, Prime BMD experienced a construction slowdown in 2021. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for further information on the historical impact of COVID-19 on the Group's results of operations.

As of the date of this Prospectus, the Group continues its full operations.

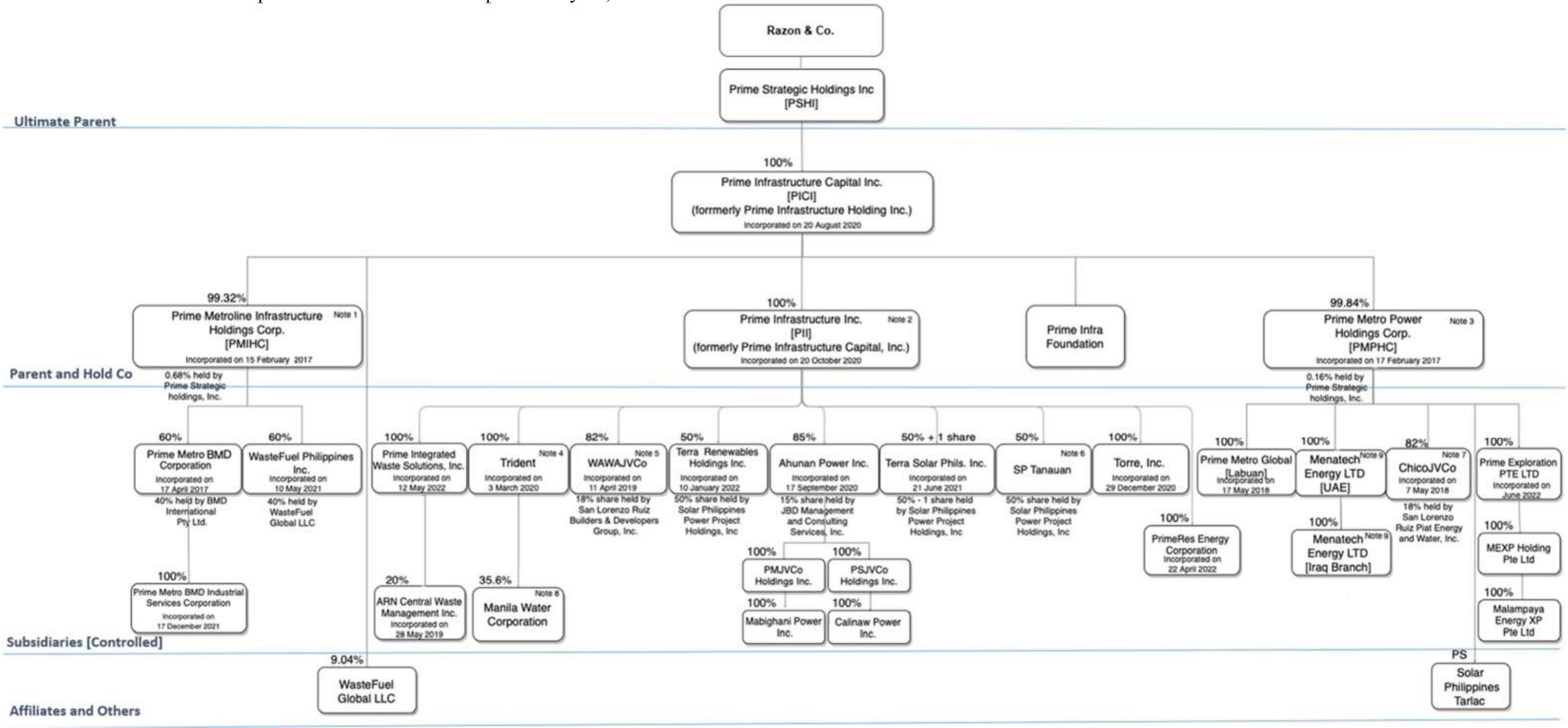
**Measures to Protect and Mitigate Spread of COVID-19**

The Group has implemented various initiatives to protect the workplace, stakeholders, facilities and communities and mitigate the spread of COVID-19. These include the following:

- Prime BMD and WawaJVCo have implemented COVID-19 protocols at construction work sites;
- COVID-19 testing and vaccination (all of the Issuer's employees have been vaccinated); and
- COVID-19 protocols in offices – including wearing of masks and installation of air purifiers.

## CORPORATE AND SHAREHOLDING STRUCTURE

The chart below sets out the corporate structure of the Group as of July 31, 2022.




*Notes:*

(1) Prime Infrastructure Capital, Inc. acquired 99.32% ownership of Prime Metroline on December 17, 2021 through various deeds of assignment for a total consideration of ₱504,491,544 in cash.

(2) On December 4, 2020, Prime Strategic Holdings assigned its 2,500,000 common shares in Prime Infrastructure to the Issuer for a total consideration of ₱2,500,000 in cash. An application for the issuance of the Certificate Authorizing Registration ("**CAR**") covering the assignment of the Prime Infrastructure shares was submitted in January 2021 and is pending issuance by the BIR.

(3) The Issuer acquired 99.86% ownership of Prime Metro Power on December 23, 2021 through various deeds of assignment for a total consideration of ₱3,248,631,302 in cash.

(4) On December 29, 2020, Prime Strategic Holdings assigned its (a) 5,000,000 common shares, and (b) 200,000,000 preferred shares in Trident Water to Prime Infrastructure for a total consideration of ₱6,250,000 in cash and assumption by Prime Infrastructure of the unpaid subscriptions of Prime Strategic Holdings in the amount of ₱18,750,000. An application for the issuance of the CAR was submitted in November 2021 and is pending issuance by the BIR. On December 29, 2020, Prime Infrastructure also acquired (a) 69,999,997 common shares and (b) 50,000,000 preferred shares in Trident Water for a total consideration of ₱74,999,997 in cash. In connection with Trident Water's proposed increase in authorized capital, on December 22, 2021, Prime Infrastructure entered into a subscription agreement for 545,065,113 common shares in Trident Water for a total consideration of ₱1,090,130,226 in cash. As of June 30, 2022, Trident Water has a 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater) voting and economic interest, respectively, in Manila Water.

(5) On November 19, 2021, Prime Metroline assigned its (a) 2,500,000 common shares, and (b) 281,667 preferred shares in WawaJVCo to Prime Infrastructure for consideration of the assignment by Prime Infrastructure of its deposits for future subscriptions with Prime Metroline amounting to ₱284,167,000. An application for the issuance of the CAR covering the assignment of the WawaJVCo shares was submitted in January 2022 and is pending issuance by the BIR. On December 23, 2021, Prime Infrastructure acquired 1,381,951 preferred shares in WawaJVCo for ₱1,381,950,886 in cash.

(6) Prime Infrastructure also holds an irrevocable proxy over one of Solar Philippines Power Project Holdings, Inc.'s shares in SP Tanauan.

(7) As of the date of this Prospectus, the board of directors of ChicoJVCO Inc. intends to wind up ChicoJVCo Inc in due course.

(8) Trident Water's stake in Manila Water includes both common shares and preferred shares. As of June 30, 2022, Trident Water has a 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater) voting and economic interest, respectively, in Manila Water.

(9) Menatech is operating outside of the Philippines.

## HISTORY

The Issuer was incorporated in the Philippines on August 20, 2020. As of the date of this Prospectus, the Issuer is 100% owned by Prime Strategic Holdings.

Set out below are the key milestones in the Issuer's history:

| | |
|---|---|
| 2017 (February) | Prime Metro Power, Prime Metroline and Prime BMD were incorporated. |
| 2018 (May) | Prime Metro Power entered into a joint development agreement with General Company for Ports of Iraq for the Umm Qasr Power Plant |
| 2019 (February) | Start of construction of the Umm Qasr Power Plant |
| 2019 (August) | Signing of the 518 MLD 30-year offtake agreement relating to the Wawa Bulk Water Supply Project with Manila Water and MWSS |
| 2020 (February) | Signing of the subscription agreement to acquire 820 million common shares or a 25% stake at such time, and management control, of Manila Water |
| 2020 (February) | Commencement of commercial operations of Umm Qasr Power Plant |
| 2020 (June) | Signing of the Omnibus Loan and Security Agreement between BDO Unibank, Inc. and WawaJVCo for the ₱20 billion development funding of the Wawa Bulk Water Supply Project |
| 2020 (June) | Signing of the subscription agreement with Solar Philippines Projects Holding to invest ₱1.5 billion for 50% of the preferred shares of Solar Philippines Tarlac Corporation |
| 2020 (November) | Commencement of the construction of Tayabasan Weir |
| 2021 (April) | Awarding of the Upper Wawa Dam contract |
| 2021 (June) | Acquisition by the Group of a controlling interest in Manila Water |
| 2021 (November) | Acquisition by the Group of a 50% stake in Solar Tanauan Corporation |
| 2022 (January) | Awarding of original proponent status to Terra Solar by the MERALCO TPBAC |
| 2022 (March) | Legislative approval of the East Zone Franchise Law for Manila Water |
| 2022 (June) | Approval from the Philippines SEC to the Issuer's amended articles of incorporation to change its corporate name from Prime Infrastructure Holdings, Inc. to Prime Infrastructure Capital, Inc. |

## EMPLOYEES

As of June 30, 2022, the Issuer had 34 employees and the Group had 2,924 employees in total. The table below sets forth a breakdown of the Group's employees by function as of June 30, 2022.

| Corporate (Issuer) | Number of Employees |
|---|---|
| Executives | 3 |
| Directors | 9 |
| Senior Managers | 6 |
| Managers | 9 |
| Supervisors and Staff | 7 |
| **Total*** | **34** |

** The Issuer anticipates increasing the number of its employees to 40 within 12 months of the date of this Prospectus.*

| Group | Number of Employees |
|---|---|
| **Corporate (Issuer)** | 34 |
| **Water** | |
| Manila Water Group | 2,510 |
| WawaJVCo | 14 |
| **Energy** | |
| Menatech | 33 |
| Terra Solar | 14 |
| Ahunan Power | 4 |
| **Construction** | |

| Group | Number of Employees |
|---|---|
| Prime BMD | 314 |
| **Waste Management and Sustainable Fuels** | |
| WasteFuel Philippines | 1 |
| **Total** | 2,924 |

The Issuer believes its employees are critical to its success. It places great importance on attracting, developing and retaining qualified employees through the implementation of various professional and personal development programs. These programs include an online learning platform (also accessible via a mobile application) and partnerships with an external executive coach for selected corporate leaders. In addition, the Issuer invested in the health and safety of its employees during the COVID-19 pandemic by implementing work-from-home arrangements, regular swab-testing, vaccination programs (for employees and all household members) and online virtual team gatherings.

The Issuer believes that the compensation packages and benefits it offers to employees are competitive and on par with the market, and include a medical expense reimbursement plan, gas cards, health card, and car plans depending on rank. The Issuer has also established an online system for payroll management and has extended it to its subsidiaries at minimal cost. As of June 30, 2022, less than 12.5% of the Group's employees belonged to, and were represented by, one trade union, namely the MWEU, and no employees of the Group other than employees of Manila Water belonged to a trade union. Neither the Issuer nor any other member of the Group is involved in any material labor dispute which would have a material effect on the Issuer's business, financial condition and results of operations on a consolidated basis, and the Issuer is not aware of any circumstances that would give rise to such labor disputes. As of the date of this Prospectus, none of the Issuer's employees are on strike, or have been on strike in the past three years, or to the Issuer's knowledge, are threatening to go on a strike.

The Group expects the number of its employees to grow as it completes acquisitions across its various segments. The Issuer also expects to hire investor relations, risk, corporate governance and compliance officers following completion of this Offer.

## INTELLECTUAL PROPERTY

As of June 30, 2022, the Group owns the following trademarks or intellectual property.

***Issuer and Group***

| Trademark/<br>Intellectual Property | Registration No. | Date of application | Registration Date | Expiration Date |
|---|---|---|---|---|
| PRIME INFRA | 4-2021-525629 | October 27, 2021 | February 10, 2022 | February 10, 2032 |
| PRIME INFRA word mark | 4-2021-527216 | November 16, 2021 | Pending | Pending |
| TORRE INC | 4-2021-516062 | July 8, 2021 | October 15, 2021 | October 15, 2031 |
| TORRE, INC. word mark | 4-2021-516061 | July 8, 2021 | October 15, 2021 | October 15, 2031 |

### *Water*

| Trademark/ Intellectual Property | Registration No. | Date of application | Registration Date | Expiration Date |
|---|---|---|---|---|
| WAWA JVCo | 4-2021-516068 | July 8, 2021 | October 3, 2021 | October 3, 2031 |
| WAWAJVCO word mark | 4-2021-516064 | July 8, 2021 | October 3, 2021 | October 3, 2031 |
| MANILA WATER CARE IN EVERY DROP | 4-2013-010427 | September 2, 2013 | April 3, 2014 | April 3, 2014 |
| MANILA WATER | 4-2013-010428 | September 2, 2013 | March 13, 2014 | March 13, 2024 |
| MANILA WATER CARE IN EVERY DROP | 4-2013-010429 | September 2, 2013 | March 13, 2014 | March 13, 2024 |
| LAGUNA WATER | 4-2016-015278 | December 15, 2016 | August 31, 2017 | August 31, 2027 |
| "HEALTHY FAMILY" | 4-2019-014698 | August 8, 2019 | December 22, 2019 | December 22, 2029 |
| "HEALTHY FAMILY PURE AND SURE" | 4-2019-014699 | August 8, 2019 | December 22, 2019 | December 22, 2029 |
| Healthy family Purified Water Pure and Sure | 4-2019-14700 | August 8, 2019 | December 22, 2019 | December 22, 2029 |

### *Energy*

| Trademark/ Intellectual Property | Registration No. | Date of application | Registration Date | Expiration Date |
|---|---|---|---|---|
| AhunanPower | 4-2022-504367 | February 23, 2022 | Pending | Pending |
| AHUNAN POWER word mark | 4-2021-516065 | July 8, 2021 | October 3, 2021 | October 3, 2031 |
| PRIME POWER word mark | 4-2017-014864 | September 15, 2017 | March 1, 2018 | March 1, 2028 |

| Trademark/ Intellectual Property | Registration No. | Date of application | Registration Date | Expiration Date |
|---|---|---|---|---|
| Terra Solar | 4-2021-521510 | September 9, 2021 | April 14, 2022 | April 14, 2032 |
| TERRA SOLAR word mark | 4-2021-521337 | September 9, 2021 | November 22, 2021 | November 22, 2031 |

***Construction***

| Trademark/ Intellectual Property | Registration No. | Date of application | Registration Date | Expiration Date |
|---|---|---|---|---|
| PRIME | 4-2017-009060 | June 13, 2017 | January 11, 2018 | January 11, 2028 |

The Ahunan Power word mark, Ahunan Power logo, and Issuer's word mark are all valid and subsisting but undergoing review in compliance with Philippine intellectual property laws on trademarks.

The Group also owns the following domain names: primeinfra.ph, primepower.ph, primeinfra.com.ph, tridentwater.com.ph, tridentwater.ph, ahunan.com.ph, ahunan.ph, ahunanpower.com, ahunanpower.ph, primeinfra.ph, primeinfracapital.com, primeinfracapital.com.ph, primeinfracapital.ph, primeinfrafoundation.com, primeinfrafoundation.com.ph, primeinfrafoundation.ph, primemetroinfra.com, primemetropower.com, terrarenewables.com.ph, terrarenewables.info, terrarenewables.ph, terrarenewablesinc.com, terrarenewablesinc.com.ph, terrarenewablesinc.info, terrarenewablesinc.net, terrarenewablesinc.ph, terrasolar.com.ph, terrasolar.ph, torre.com.ph, torre.ph, torreinc.com.ph, torreinc.ph, wawajvco.com, wawajvco.com.ph, and awajvco.ph.

**PROPERTIES**

The Issuer's head office is located at 16th Floor, Three E-Com Center, Block 21, Bayshore Drive corner Ocean Drive, Mall of Asia Complex, Pasay City 1300, Philippines. The Issuer does not own any real property.

The Issuer and its subsidiaries generally lease their head office space in Pasay City.

Prime BMD also leases a five-hectare precast yard in Bulacan and a 3,660 sq.m. construction equipment storage yard in Laguna.

The Wawa Dam system is in a protected area (Upper Marikina River Basin) which required WawaJVCo to secure a SAPA from the DENR.

In relation to the Group's energy business, Terra Solar, SP Tanauan, SP Tarlac and Ahunan Power are in the process of purchasing the properties needed for their respective projects. The Ahunan Laguna Power Plant will need approximately 300 hectares of land. The Terra Solar Power Plant will need approximately 3,500 hectares, subject to optimization, and the Tanauan Solar Power Plant, 120 hectares. The Group also intends to acquire 196 hectares of land in Pangasinan for a potential solar power project.

In relation to the Group's water business, Manila Water owns the following properties: (1) Botong Reservoir, (2) Botong WPS, (3) Antipolo Catchment, (4) Cabrera Road, (5) Hinulugang Taktak, (6) Pinugay Compound, (7) Siruna Access Road, (8) Teresa Bypass, (9) Taktak Road, (10) Rizal Business Area, (11) Peñafrancia Reservoir, (12) Kingsville WPS, (13) Lucban Compound, (14) Maguey Compound, (15) Siruna Compound, (16) Cardona WTP, (17) Makati Business Area, (18) Mandaluyong West STP, (19) MakMan STP, (20) Liwasang Kalayaan, (21) Marikina BA Office, (22) Marikina North STP, (23) Imelda WPS, (24) Morong STP, (25) Daang Hari Warehouse, (26) Daang Hari Reservoir, (27) Bagong Ilog SPS Property for Pasig North & South STP, (28) WW Pumping Station – Luis St. San Miguel (CIP), (29) Ilugin STP (Access Road) Pump Station for North and South Pasig Sewerage System, (30) Ilugin STP, (31) Banlat Water System, (32) Luzon 20 ML Reservoir, (33) San Mateo SPS, (34) San Mateo STP, (35) Delos Santos WPS, (36) Modesta WPS and Reservoir, (37) Modesta WPS Access Road, (38) Baybreeze South STP, (39) Taguig Well, (40) Capistrano WPS, (41) Provincial Road Reservoir, (42) Tikling Reservoir, and (43) Silangan Reservoir.

The Group intends to acquire land for solar plants and landfills in the 12 months from the date of this Prospectus. The cost of acquisition of such land is expected to be at fair market value at the time of acquisition.

The Group expects to fund most of its projects through traditional project financing, which will customarily include a security interest over assets of the project, including, but not limited to, a real estate mortgage over land or lease rights. Also, since most of the land to be acquired for the Group's solar power projects are expected to be agricultural land, the Group expects to acquire title to such lands after such lands are reclassified and converted into non-agricultural land. In addition to the Group's energy business, the Group intends to acquire land to support its waste management and sustainable fuels business. Please see "*Description of the Group's Water Business*," "*Description of the Group's Energy Business*," "*Description of the Group's Construction Business*," and "*Description of the Group's Waste and Sustainable Fuels Business*" for details on the Group's projects.

**REGULATORY COMPLIANCE**

As of the date of this Prospectus, the Issuer has obtained, or is in the process of renewing, all governmental approvals, permits and licenses issued by the appropriate Government agencies or authorities, which are necessary to conduct the Issuer's business and operations. As of the date of this Prospectus, the Issuer has applied and paid the necessary fees for the issuance of material licenses, permits and certifications. The Issuer is also awaiting issuance of certain permits from the appropriate government agencies in the ordinary course of renewal. See "*Description of Permits and Licenses*" for more details on the Issuer's material licenses, permits, and certifications.

**RESEARCH AND DEVELOPMENT**

The Group does not expect to conduct product research and development.

**LEGAL PROCEEDINGS**

As of the date of this Prospectus, to the best of the Issuer's knowledge and belief and after due inquiry, no member of the Group is currently involved in any material litigation claims or arbitration, either as plaintiff or defendant, which could be expected to have a material and adverse effect on the Issuer's financial position on a consolidated basis, except as disclosed elsewhere in this Prospectus in the "*Description of the Group's Water Business–Legal Proceedings*" section.

## DESCRIPTION OF THE GROUP'S WATER BUSINESS

### OVERVIEW AND STRUCTURE

As of June 30, 2022, Prime Infrastructure's wholly-owned subsidiary Trident Water Company Holdings, Inc. ("**Trident Water**"), has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater), respectively, in Manila Water. As such, through Trident Water's ownership and control of Manila Water, the Group has interests in the provision of water, integrated wastewater, sewerage and sanitation services, distribution services, pipeworks, engineering, procurement and management services in the Philippines, South East Asia and the KSA. In addition, as of June 30, 2022, Prime Infrastructure also owns 82.0% of WawaJVCo Inc. ("**WawaJVCo**"), a joint venture enterprise with San Lorenzo Ruiz Builders & Developers Group, Inc formed to develop and operate the Tayabasan Weir and Upper Wawa Dam which will capture and divert water from the Tayabasan River and Wawa River for municipal use in Metro Manila (the "**Wawa Bulk Water Supply Project**"). The Wawa Bulk Water Supply Project is expected to increase Manila Water's water capacity by over 30% from about 1,600 MLD in 2021 to over 2,100 MLD upon its completion.

#### Manila Water

The Manila Water Group is principally engaged in the business of providing water, sewerage and sanitation services to approximately seven million people in the East Zone of Metro Manila in the Philippines, covering 23 cities and municipalities, including Makati, Mandaluyong, San Juan, Taguig, Pateros, Marikina, Pasig, most of Quezon City, certain towns in Rizal Province, as well as some parts of Manila. Manila Water was established and incorporated on January 6, 1997. On February 21, 1997, under a 25-year Concession Agreement with the MWSS, Manila Water was given the exclusive right to provide services to the East Zone, as an agent and contractor ofthe MWSS (the "**Manila Concession**" and such agreement, the "**Original Concession Agreement**"). The Manila Concession, originally set to expire in 2022, has been extended to July 31, 2037.

Manila Water and MWSS signed a Revised Concession Agreement (the "**Revised Concession Agreement**") on March 31, 2021 which, upon compliance with certain conditions described therein, amends the Original Concession Agreement. The Revised Concession Agreement confirms the continuation of the concession period until July 31, 2037 and retains the Rate Rebasing mechanism under the Original Concession Agreement pursuant to which, subject to rate caps and adjustment limits, the tariff rates for the provision of water and wastewater services will be set at a level that will allow Manila Water to recover "efficiently and prudently incurred" expenditures and earn a reasonable rate of return (i.e. 12% fixed nominal rate) for the concession period. The Revised Concession Agreement also includes the following rate adjustment provisions: (a) a freeze on increases in tariff rates until December 31, 2022; (b) the removal of income tax and the foreign currency differential adjustment ("**FCDA**") from the category of permissible recoverable expenditures; (c) a cap on the annual inflation factor to 2/3 of the percentage change in the national consumer price index; and (d) rate caps for water and sewerage services to 1.3x and 1.5x, respectively, of the previous standard rate.

Manila Water and MWSS have executed six amendments to the Revised Concession Agreement extending its Effective Date to allow time to complete the remaining condition precedent, being the Undertaking Letter from the Republic. The Sixth Amendment, executed on May 19, 2022, extended the Effective Date to not later than June 30, 2022.

In addition, on December 10, 2021, President Duterte signed the East Zone Franchise Law into law, thereby granting a franchise to Manila Water, its successors or assignees, to establish, operate and maintain a waterworks system to ensure an uninterrupted and adequate supply, and distribution of potable water for domestic, commercial, and other purposes, and for the establishment and maintenance of sewerage system in the East Zone Service Area of Metro Manila and Province of Rizal. The East Zone Franchise Law confirms that the provisions of the Concession Agreement shall govern Manila Water's operations and rate setting regime under the franchise.

Aside from the East Zone, the Manila Water Group holds all its domestic operating subsidiaries through Manila Water Philippine Ventures, Inc. ("**MWPV**"), a wholly-owned subsidiary of Manila Water. Currently under MWPV are (1) bulk water supply businesses; (2) water distribution and wastewater services businesses; and (3) business-to-business water and wastewater service businesses.

Outside of the Philippines, the Manila Water Group operates through its holding company for international ventures, Manila Water Asia Pacific Pte. Ltd. ("**MWAP**"). Through MWAP, Manila Water has (1) 49.00%

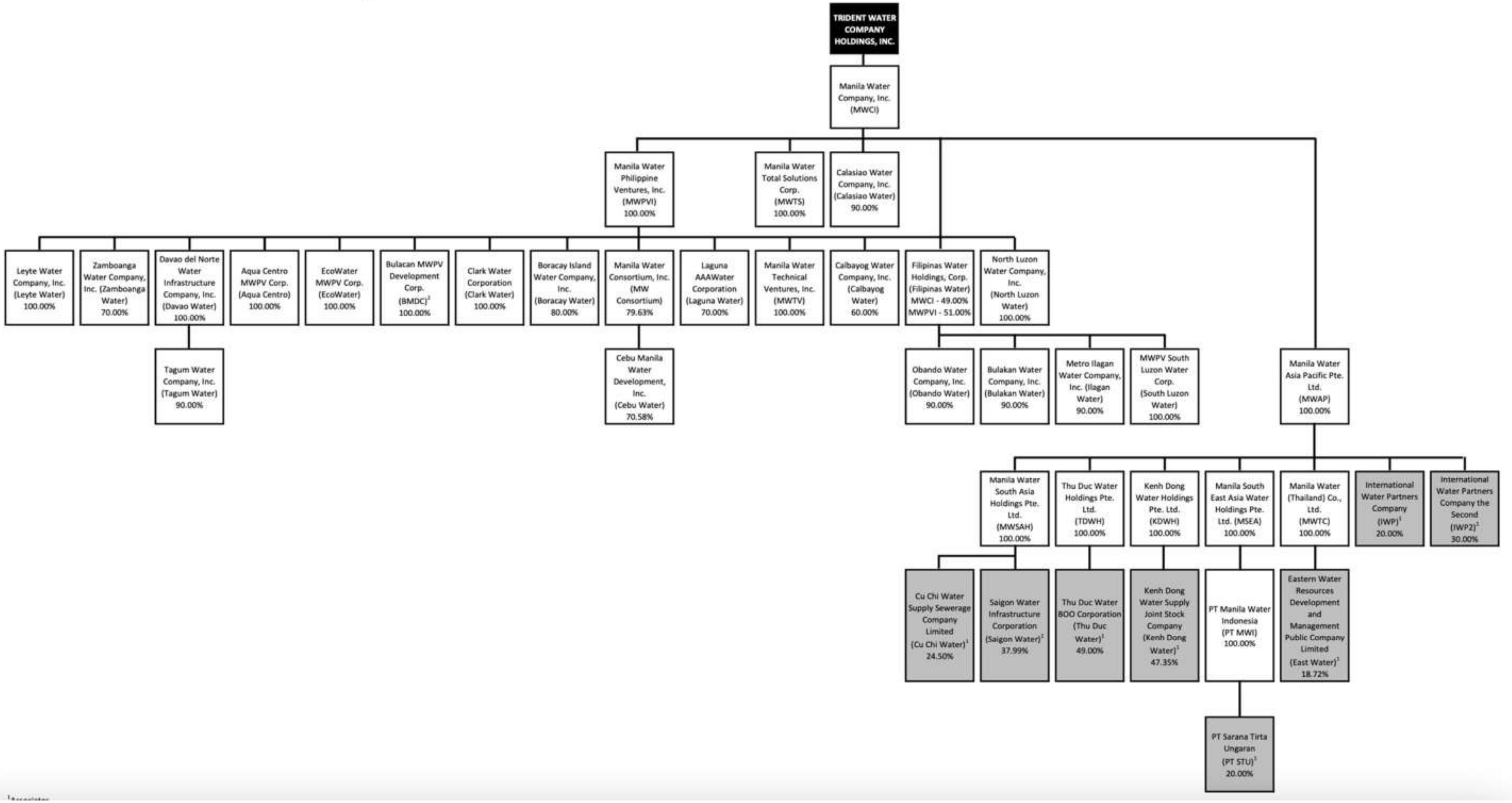
ownership in Thu Duc Water B.O.O. Corporation, the largest private bulk water operator in Ho Chi Minh City, (2) a 47.35% stake in Kenh Dong Water Supply Joint Stock Company, a bulk water supplier in Ho Chi Minh City supplying bulk water to Saigon Water Corporation, (3) holdings in Saigon Water Infrastructure Corporation, a holding company listed in the Ho Chi Minh City Stock Exchange, and (4) holdings in Cu Chi Water Supply Sewerage Company, Ltd.

Apart from its operations in Vietnam, MWAP has associates in Thailand, Indonesia and the KSA through its stakes in the following companies: (1) Eastern Water Resources Development and Management Public Company Limited ("**East Water**"), a fully integrated water supply and distribution companylisted in the Stock Exchange of Thailand; (2) PT Sarana Tirta Ungaran ("**PT STU**"), an industrial water supply operation in Indonesia; (3) International Water Partners Company ("**IWP**"), a consortium between Saur Saudi Arabia Ltd,Miahona Company and MWAP for the execution of the 1,000 MLD management, operation and maintenance contract for KSA National Water Company's North West Cluster; and (4) International Water Partners Company 2, another consortium between Saur Saudi Arabia Ltd., Miahona Company and MWAP for the execution of the 1,800 MLD management, operation and maintenance contract for KSA National Water Company's Eastern Cluster.

Manila Water Total Solutions Corp. ("**MWTS**"), a wholly-owned subsidiary of Manila Water, handles after-the-meter products and services, including pipe-laying, integrated wastewater services and the incubation of new sector businesses.

Manila Water is listed on the PSE.

The chart below sets out Manila Water's corporate structure as of June 30, 2022:




*Notes:*
(1) Associates
(2) Trade Name: Bulacan Acqua Estates

**Prime Metroline's Acquisition of Manila Water**

On February 1, 2020, Manila Water and Prime Metroline, on behalf of its subsidiary, Trident Water, signed a subscription agreement for the acquisition by Prime Metroline of 820.0 million common shares of Manila Water at ₱13.0 per share. On February 7, 2020, Prime Metroline announced its intention to make a mandatory offer for Manila Water's shares at an offer price of ₱13.0 per share. In addition, as part of a shareholder agreement executed among Ayala Corporation, its wholly-owned subsidiary Philwater and Trident Water, Ayala Corporation granted proxy rights by Philwater over its 4 billion preferred shares to Trident Water to enable the latter to achieve a 51.0% voting interest in Manila Water. Furthermore, Philwater and Trident Water entered into a share purchase agreement wherein the former agreed to sell 2,691,268,205 of its preferred shares in Manila Water to the latter. The purchase of the preferred shares reflects a 39.09% voting stake and 8.19% economic stake in Manila Water. The purchase price for the preferred shares was set at ₱1.80 per share, resulting in a total purchase price of ₱4.8 billion. The aforementioned transactions closed on June 3, 2021, as a result of which the Group gained control over Manila Water from Ayala Corporation. As of June 30, 2022, Trident Water has voting and economic interests of 52.16% and 35.6% (comprising the economic interest through the common shares in Manila Water that Trident Water owns and the preferred shares in Manila Water that Trident Water purchased from PhilWater), respectively, in Manila Water.

**The Manila Concession**

The following sets forth certain key terms of Manila Water's Concession Agreement with MWSS relating to the East Zone:

*Term and Service Area of Concession.* The concession took effect on August 1, 1997 (the "**Commencement Date**") and will expire on May 6, 2037 (or on an early termination date as provided by the Concession Agreement). By virtue of the Concession Agreement, MWSS transferred its service obligations (i.e., water supply, sewerage and sanitation and customer service) in the East Zone to Manila Water.

*Ownership of Assets*. While Manila Water has the right to manage, operate, repair, decommission 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 MWSS by Manila Water during the concession period remains with Manila Water until the expiration date (or an early termination date), at which time all rights, titles and interests in such assets will automatically vest in MWSS. The legal title to all movable property acquired by Manila Water during the concession period whose cost of acquisition was covered as a recoverable expenditure shall remain with Manila Water during the concession period, provided that any such particular movable property shall be returned to MWSS, even prior to the termination date, when the cost of such particular movable property has been fully recovered by Manila Water through the tariff-setting regime.

*Ownership of Manila Water.* Under the Concession Agreement, MWSS granted concessions for water distribution to private-sector corporations at least 60.0% of the outstanding capital stock of which is owned and controlled by Philippine nationals. In addition, Manila Water represents and warrants to MWSS that its outstanding voting capital and its total outstanding capital stock, whether or not entitled to vote, are at least 60.0% owned by citizens of the Philippines or by corporations that are themselves at least 60.0% owned by citizens of the Philippines.

*Sponsor Commitment.* Ayala Corporation, as the local sponsor, is required to own, directly or through a subsidiary over which it has 51.0% ownership or control, at least 10.0% of the outstanding capital stock of Manila Water.

*Operations and Performance*. Manila Water has the right, as an agent of MWSS, to bill and collect for water and sewerage services supplied in the East Zone. In return, Manila Water is responsible for the management, operation, repair and refurbishment of MWSS facilities in the East Zone and must provide service in accordance with specific operating and performance targets described in the Concession Agreement.

*Concession Fees*. Under the Original Concession Agreement, Manila Water is required to pay MWSS a concession fee ("**Concession Fees**") equivalent to the sum of:

- 10.00% 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**");

- 10.00% 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;

- 10.00% of the local component costs and cost overruns related to the UATP;
- 100.00% 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 MWCI for continuation; and
- 100.00% of the local component costs and cost overruns related to existing projects.

Upon the Revised Concession Agreement taking effect upon fulfillment of all conditions precedent, Manila Water is required to pay MWSS the following:

- Concession Fees consisting of the Peso equivalent of the amount due under any MWSS loan that was disbursed during the concession period (including MWSS loans for existing projects in the East Zone and any payments due under any MWSS loan designated for the UATP) on the relevant payment date set forth in the Revised Concession Agreement, which shall be agreed with MWSS on a case-by-case basis; and
- a share of the annual operating budget of MWSS amounting to one-half of the annual budget for MWSS for each year, provided that such annual budget shall not, for any year, exceed ₱200,000,000.00, subject to annual CPI adjustments.

MWSS is required to provide Manila Water with a schedule of Concession Fees payable during any year by January 15 of that same year and a written notice of amounts due no later than 14 days prior to the scheduled payment date of principal, interest, fees and other amounts due. As per their customary dealings, MWSS provides Manila Water with monthly invoices.

*Appropriate Discount Rate*. Manila Water is entitled to earn a rate of return equal to a nominal 12% rate on its expenditures prudently and efficiently incurred for the remaining term of the Concession.

*Tariff Adjustments and Rate Regulation*. Water tariff rates are adjusted according to mechanisms that relate to inflation, extraordinary events, and Rate Rebasing exercises.

*Early Termination*. MWSS has a right to terminate the concession under certain circumstances which include insolvency of Manila Water or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS-RO, jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone.

*Termination.* Manila Water also has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents Manila Water from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of Manila Water. Manila Wateralso has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents Manila Water from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of Manila Water.

*Reversion*. On the expiration of the Concession Agreement, all the rights, duties and powers of Manila Water automatically revert to MWSS or its successors or assigns. MWSS shall be solely responsible for any taxes, fees or duties payable in connection with such reversion. MWSS has the option to rebid the concession or renew the agreement with the express written consent of the Government.

*Joint Venture and Interconnection Agreement.* Under the Concession Agreement, Manila Water and the concessionaire of Metro Manila West Zone Concession (the "**West Zone**"), Maynilad Water Services, Inc. ("**MWSI**"), were required to enter into a joint venture or other arrangement that identifies the responsibilities and liabilities of each with regard to the operation, maintenance, renewal and decommissioning of common purpose facilities, as well as an interconnection agreement which governs such matters as water supply transfers between the East Zone and West Zone and boundary definitions and identifies the responsibilities and liabilities of parties with regard to the management, operation and maintenance of certain interconnection facilities. Pursuant to this, the concessionaires entered into a common purpose facilities agreement and an interconnection agreement in July 1997.

The Concession Agreement initially set service targets relating to the delivery of services by Manila Water. As part of the Rate Rebasing exercise that ended on December 31, 2002, Manila Water and MWSS mutually agreed to amend these targets based on Manila Water's business and capital investment plan accepted by the MWSS-RO. In addition, Manila Water and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help MWSS-RO determine prudent and efficient expenditures, utilizes key performance indicators and business efficiency measures to monitor the implementation of Manila Water's business plan and will be the basis for certain rewards and penalties on the 2008 Rate Rebasing exercise.

The Concession Agreement was amended under Amendment No. 1 to the Concession Agreement on October 26, 2001. Amendment No. 1 adjusted water tariffs to permit adjustment for foreign exchange losses and reversal of such losses, which under the original Concession Agreement were recovered only when the concessionaire petitioned for an extraordinary price adjustment. The foreign currency differential adjustment is computed and implemented every quarter.

The Concession Agreement was further amended under the Memorandum of Agreement and Confirmation executed on October 23, 2009 wherein Manila Water and MWSS agreed to renew and extend the Concession Agreement for an additional period of 15 years from 2022 or until 2037, under the same terms and conditions. The extension was on account of the necessary additional investments in wastewater facilities and network towards expanding wastewater coverage in the East Zone, in line with the Supreme Court mandamus for the clean-up of Manila Bay.

On March 31, 2021, Manila Water and the MWSS executed the Revised Concession Agreement ("**Revised Concession Agreement**"). The Revised Concession Agreement confirms the continuation of the concession until July 31, 2037 and maintains the Rate Rebasing mechanism under the Concession Agreement. Thus, rates for water and sewerage services shall still be set at a level that will permit Manila Water to recover over the term of the concession expenditures efficiently and prudently incurred and to earn a reasonable rate of return.

The Revised Concession Agreement removes corporate income taxes from recoverable expenditures as well as the quarterly adjustments for foreign currency differential. To mitigate the impact of tariff increases on customers, the Revised Concession Agreement lowers the inflation factor to 2/3 of the consumer price index adjustment and imposes caps on increases in standard rates for water (1.3x the previous standard rate) and wastewater (1.5x the previous standard rate). Finally, instead of a market-driven appropriate discount rate, Manila Water shall be entitled to a fixed 12% nominal discount rate.

To align with the Government's program to assist the sector and to contribute to the recovery of the Philippine economy post-COVID-19, the Revised Concession Agreement includes a tariff freeze until December 31, 2022. Approved expenditures not recoverable during the tariff freeze period shall be, in part or in its entirety, considered as recoverable expenditures in subsequent Rate Rebasing exercises as determined and approved by the MWSS-RO.

**WawaJVCo**

WawaJVCo was formed to develop and operate the Wawa Bulk Water Supply Project that will capture and divert water from the Wawa River for municipal use in Metro Manila and is expected to increase Manila Water's water capacity by over 30% from about 1,600 MLD in 2021 to over 2,100 MLD upon completion of the Wawa Bulk Water Supply Project. WawaJVCo and Manila Water have entered into a 30-year offtake arrangement for at least 518 MLD of water, at ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational). In the event of a supply shortfall, WawaJVCo will be subject to a shortfall penalty amounting to the difference between the actual delivered volume of water and the guaranteed volume of water, multiplied by the tariff rate. WawaJVCo owns water rights to over 1,000 MLD, almost double WawaJVCo's contractual obligation of 518 MLD, from the Wawa river system, the water source of the Wawa Bulk Water Supply Project, and the Upper Wawa Dam was designed to have a reservoir capacity of over 100 MCM, which WawaJVCo believes is sufficient to ensure the delivery of at least 518 MLD.

The Wawa Bulk Water Supply Project is being constructed in two phases: The first phase comprises the Tayabasan Weir, which is expected to provide 80 MLD by the fourth quarter of 2022, and the second phase comprises the Upper Wawa Dam, which is expected to provide at least an additional 438 MLD by the end of 2025. In May 2022, four months ahead of schedule, the weir at Tayabasan Weir was impounded. As of July 17, 2022, construction of the Tayabasan Weir has been substantially competed and is in the testing and commissioning phase. As of September 19, 2022, the Upper Wawa Dam was approximately 18.61% completed. WawaJVCo is expected to invest a total of ₱26.7 billion for the Wawa Bulk Water Supply Project.

The Group expects the useful life of the Tayabasan Weir system, which was designed to be an interim water supply source, to be 10 years based on its minimum design life. In respect of the other equipment for the Wawa Bulk Water Supply Project, while the design life is over 50 years, such equipment will be depreciated over the offtake term of 30 years.

The Wawa Bulk Water Supply Project is expected to address the inadequate existing water supply in Metro Manila as the Angat dam does not have sufficient capacity to address the water needs of the East Zone. Further, Manila Water has exhausted all short-term options, and the Wawa Bulk Water Supply Project is expected to fill such a gap in the medium-term.

## WATER OPERATIONS

The supply of water by Manila Water to its customers generally involves abstraction from water sources and the subsequent treatment and distribution to customers' premises. In 2021, Manila Water, through its East Zone concession, supplied a billed volume of 488.5 MCM compared to a billed volume of 506 MCM of water in 2020 and 494 MCM billed in 2019, reflecting 1,249,614 water services connection as of December 31, 2021 as compared to 1,017,639 water services connections as of December 31, 2020 and 1,002,380 water services connections as of December 31, 2019. In the six months ended June 30, 2022, Manila Water's East Zone business unit supplied a billed volume of 245.3 MCM of water compared to a billed volume of 245.1 MCM in the six months ended June 30, 2021, with the recovery in commercial and industrial consumption with the easing of quarantine restrictions. Water service connections for the six months ended June 30, 2022 were 1,049,052, compared to 1,026,493 for the same period in 2021.

The contribution to the Group's EBITDA by the Group's water business, comprising of WawaJVCo, Trident Water and Manila Water, was nil, ₱2.8 million, ₱164.1 million, ₱6,734.9 million, ₱1,159.8 million and ₱6,859.3 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Group's water business, comprising of WawaJVCo, Trident Water and Manila Water, to attributable net income (loss) amounted to nil, ₱(4.8) million, ₱3.6 million, ₱9,549.1 million, ₱9,377.1 million and ₱859.2 million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The following table sets out selected key performance indicators of Manila Water (the key operating subsidiary of the Group's water business) as of and for the periods indicated:

| | As of and for the year ended December 31, | | | | As of and for six months ended June 30, |
|---|---|---|---|---|---|
| **Key Operating Data** | **2018[1]** | **2019[1]** | **2020[1]** | **2021[1]** | **2022** |
| Billed volume (in MCM)[2] | 503.3 | 493.9 | 506.4 | 488.5 | 245.3 |
| Non-revenue water[3] | 10.4% | 11.4% | 15.5% | 12.8% | 13.3% |
| Water services connections[4] (in thousands) | 987 | 1,002 | 1,018 | 1,033 | 1,049 |
| Sales (in ₱ millions) | – | – | – | 11,982.9 | 10,735.7 |
| Gross profit (in ₱ millions) | – | – | – | 6,696.3 | 5,894.0 |
| EBITDA (in ₱ millions)[5] | – | – | – | 6,738.1 | 6,809.4 |

*Notes:*

(1) As the Issuer, through Trident Water, acquired the Manila Water Group on June 3, 2021, the Issuer did not have control over Manila Water Group prior to June 3, 2021.

(2) Water sales measured in cubic meters.

(3) Percentage of water loss due to commercial and physical leaks.

(4) Number of water services units connected to the system.

(5) The following table sets forth the computation of Manila Water's EBITDA for the periods presented.

| | As of and for the year ended December 31, | | | | As of and for the six months ended June 30, |
|---|---|---|---|---|---|
| | **2018[1]** | **2019[1]** | **2020[1]** | **2021[1]** | **2022** |
| | | | **(in ₱ millions)** **(Audited)** | | |
| Net income | – | – | – | 2,234.6 | 3,322.5 |
| Net loss from discontinued operations | – | – | – | 12.3 | 0.6 |

| | As of and for the year ended December 31, | | | | As of and for the six months ended June 30, |
|---|---|---|---|---|---|
| | 2018[(1)] | 2019[(1)] | 2020[(1)] | 2021[(1)] | 2022 |
| | | | (in ₱ millions) (Audited) | | |
| Provision for (benefit from) income tax | – | – | – | 611.5 | 817.7 |
| Other income (expense) - net | – | – | – | 69.8 | 12.3 |
| Interest income | – | – | – | (171.6) | (27.6) |
| Foreign exchange losses (gains) - net | – | – | – | 265.9 | (625.2) |
| Interest expense | – | – | – | 1,486.9 | 1,277.5 |
| Depreciation and amortization | – | – | – | 2,228.7 | 2,031.6 |
| **EBITDA** | – | – | – | **6,738.1** | **6,809.4** |

*Note:*

(1) As the Issuer, through Trident Water, acquired the Manila Water Group on June 3, 2021, the Issuer did not have control over Manila Water Group prior to June 3, 2021.

### *Water Resources*

Under the Concession Agreement, MWSS is responsible for the supply of raw water to Manila Water's East Zone distribution system to enable the latter to service its current and future demand. Manila Water has a current allocation from its existing water source, Angat dam, of a maximum of 1,600 MLD. If MWSS fails to supply the required quantity, Manila Water is required to distribute available water equitably to its customers. *See also "–Suppliers" for further information on the water sources of Manila Water and WawaJVCo.*

The Wawa Bulk Water Supply Project is expected to augment the water resources of Manila Water. See "—*Overview and Structure—WawaJVCo.*"

### *Water Treatment*

Manila Water stores raw water at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection prior to treatment in three major treatment plants, two of which are located 7 kms away in Balara and another located at the northeast section of La Mesa dam. Aqueducts enable either intake from three towers at La Mesa reservoir or bypass flow directly from the portal interconnection to Balara.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two separate treatment systems: Balara Treatment Plant 1, which was commissioned in 1935 with a design capacity of 470 MLD and Balara Treatment Plant 2, which was commissioned in 1958 with a design capacity of 1,130 MLD. The East La Mesa Treatment Plant is located in Payatas, Quezon City and was commissioned in June 2012. It has the capacity to treat 150 MLD of water. It supplies water to developing areas in the Province of Rizal. The treatment process in these plants involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of raw water increases, which consequentially leads to increased costs of treatment operations.

In March 2019, Manila Water's water treatment plant in Cardona became operational. The Cardona water treatment plant uses advanced technical processes to treat the raw water from Laguna Lake. 'Raw' water has highly variable qualities like salinity, organic matter and turbidity, making its treatment much more complex than typical surface water. These techniques include pre-ozonation, Actiflo® settlers and Actiflo® CARB, dual media filters, reverse osmosis and post-chlorination. The Cardona water treatment plant has raw water intake structures, a raw water pump station, a waste treatment facility, a process optimization research facility, as well as a storage reservoir and distribution pipelines.

The Luzon water treatment plant was commissioned in June 2019 to supply the parts of Quezon City affected by water shortage earlier in 2019. This plant draws water from AQ2, one of the aqueducts from La Mesa dam going to the Balara treatment plants. The treatment process used is an ultrafiltration system, which is different from the conventional systems found at the Balara and East La Mesa treatment plants. Ultrafiltration is a type of membrane filtration process wherein pressure-driven raw water passes through a semi-permeable membrane, of very small pore size, enough to separate suspended solids, endotoxins, bacteria, viruses, and other pathogens. The filtered water has most turbidity removed; thus, it has high purity and low silt density.

### *Water Distribution*

After treatment, water is distributed through Manila Water's pipeline network, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers at set pressure standards. As of December 31, 2021, 99.3% of served areas have water supply with pressure of at least 7 psi.

As of December 31, 2021, Manila Water's pipeline network consisted of 5,282 km of pipelines, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene, polyvinyl chloride and other materials.

Pumping stations also play a critical part in water distribution. As of December 31, 2021, approximately 65% of the treated water supplied by Manila Water was pumped to ensure pressure compliance, especially for highly elevated areas. Manila Water operates 21 pumping stations with a combined maximum pumping capacity of 3,100 MLD and an average plant output of around 1,364 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 550 MLD.

Manila Water operates 30 line boosters to reach the fringe areas, which are quite distant from the treatment plants and pumping stations. At the height of the water supply shortage in 2019, a total of 64 line boosters were operated by Manila Water. Line boosters are small facilities aimed at augmenting water supply in areas which are not sufficiently supplied by the regular operations of the pump stations.

### *Sewerage Operations*

Manila Water is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a program of regular de-sludging of household septic tanks in the East Zone. Areas with sewer access are principally located in Quezon City and Makati; however, parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the "Sanitasyon Para Sa Barangay" program. Through cooperation with the barangays, the "Sanitasyon Para Sa Barangay" program aims to de-sludge all septic tanks in a barangay without charge over a specified, set schedule. In 2021, the Company provided the service to 513,088 people, equivalent to emptying 78,307 septic tanks.

As of December 31, 2021, the Company was operating 41 wastewater facilities and sewage treatment plants, with a total capacity of 410 MLD. In addition, Manila Water maintained its service levels on its sewer services with 336,659 sewer connections as of December 31, 2021 as compared to 320,465 sewer connections as of December 31, 2020.

### *New Business Initiatives*

Although the bulk of the Manila Water Group's business is focused on its core East Zone operations, it operates water utility projects outside of the East Zone through joint venture agreements and brings its expertise in water and wastewater services outside of the East Zone through partnerships with private companies, local water districts and local government units of major cities and municipalities in the Philippines, and emerging cities in Southeast Asia and other key regions.

Manila Water executes several contracts related to the water business, such as performance-based contracts bulk water supply arrangements, property management and operation models, lease agreements, and operations and maintenance contracts. Manila Water has also signed joint venture agreements and investment agreements with local and international partners in recent years.

## SUPPLIERS

Manila Water substantially relies on surface waters coming from the Angat River as its primary source of raw water. The surface waters from the source are collected and impounded through the Angat dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and aqueducts to La Mesa. Only a very small amount of Manila Water's water supply is ground-sourced through deep wells, which serve as Manila Water's contingency plan to address water storage. See "*Risk Factors – Risks relating to the Group's water business – Manila Water has limited sources of raw water and the volume of raw water available to Manila*

*Water may be constricted or limited by various factors beyond Manila Water's control and may not increase with expected increases in water demand*."

In March 2019, the La Mesa dam breached the critical level of 69 meters which prevented Manila Water from getting its 150 MLD per day from the said dam. This additional 150 MLD is important to augment the1,600 MLD contractual allocation Manila Water gets from the Angat dam. Without the additional 150 MLD of raw water from the La Mesa dam, Manila Water was unable to fully serve peak demand at sufficient pressure.Consequently, from 100% service, Manila Water's service degraded to almost 70% at its lowest point during thisperiod.

In April 2019, the MWSS imposed a financial penalty to Manila Water amounting to ₱534.1 million for its inability to meet its service obligations to provide around-the-clock water supply to its consumers in accordance with the Concession Agreement. This inability to provide continuous water supply was primarily because Manila Water's allocated water supply from the Angat dam was no longer sufficient for the total demand of East Zone consumers. Manila Water's raw water allocation has remained unchanged at 1,600 MLD since the Manila Concession began in 1997 and when the East Zone had a population of only three million. Today, Manila Water serves a population of approximately seven million people. For many years, Manila Water has strongly advocated for the development of new water sources beyond Angat dam, both to ensure sufficiency of water supply as well as for resiliency in the face of calamities. However, the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS.

Manila Water undertook its own initiatives to address prevailing challenges and restore water service to customers. First, Manila Water voluntarily implemented a one-time Bill Waiver Program in March 2019 to help alleviate the inconvenience of all customers and assist severely affected areas. Second, Manila Water energized the Cardona water treatment plant which is producing well over its original committed capacity of 50 MLD, currently with a total production capacity of 100 MLD. Third, Manila Water undertook the recommissioning and development of new deep wells with a total current yield of over 50 MLD. These initiatives, along with a more deliberate and proactive network management and optimization program, have restored water availability to regulatory levels for 99% of Manila Water customers. From a 26% water availability and 63% NRW (system loss) prior to the entry of Manila Water in the East Zone in 1997, Manila Water has achieved 100% water availability and 13% NRW (system loss) as of December 31, 2021. Manila Water's volume capacity has increased from 300 MLD since Manila Water acquired TDWH to a maximum potential capacity of 5,100 MLD as of June 30, 2022 through international associates in which Manila Water has an investment stake.

Further, to ensure adequate raw water supply especially during the dry season, Manila Water continues to implement MWSS-approved short and medium-term water source development projects such as rehabilitated and new deep wells, rehabilitation of the Alat source, and the Wawa-Calawis and Laguna Lake East Bay sources.

Manila Water has also entered into a 30-year offtake arrangement with WawaJVCo to augment its medium-term sources of raw water. *See "—Overview and Structure—WawaJVCo.*"

## CUSTOMERS

Due to the nature of its business, Manila Water has a fixed customer base for its principal areas of operation which is in the eastern side of Metro Manila, comprising a broad range of residential, commercial and industrial customers. The Manila Concession encompasses 23 cities and municipalities spanning a 1,400- square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most partsof Quezon City, portions of Manila, as well as the towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta,Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay and Teresa. From a customer base of 310,682 water service connections in 1997, the Manila Concession maintains over 1,000,000 water service connections, serving approximately seven million people.

The Issuer estimates that the Manila Water Group serves approximately 11.8 million people worldwide as of December 31, 2021.

## COMPETITION

Neither the Manila Water Group nor WawaJVCo face direct competition within their principal areas of operation as they operate in a highly regulated industry.

## INSURANCE

Manila Water maintains operational all risk insurance, commercial liability insurance and business interruption insurance in line with the industry standards. Other members of the Manila Water Group maintain operational all risk insurance, commercial liability insurance and, for certain members, business interruption insurance, in line with the industry standards.

## REGULATORY COMPLIANCE

As of the date of the Prospectus, the Group has obtained, or is in the process of renewing, all governmental approvals, permits and licenses issued by the appropriate Government agencies or authorities, which are necessary to conduct the Group's water business and operations. As of the date of this Prospectus, the Group has applied and paid the necessary fees for the issuance of material licenses, permits and certifications for such business and operations. The Group is also awaiting issuance of certain permits from the appropriate government agencies in the ordinary course of renewal. See "*Description of Permits and Licenses*" for more details on the material licenses, permits, and certifications related to the Group's water business and operations.

## BRIEF DESCRIPTION OF THE ISSUER'S PARENT ENTITIES

Razon & Co., Inc. is the family holding company of Mr. Enrique K. Razon, Jr. and his family. Prime Strategic Holdings, Inc. is a holding company that owns majority interests in Bloomberry Resorts Corporation, Apex Mining Company, Inc., MORE Electric and Power Corporation, and the Issuer.

## DESCRIPTION OF OTHER SUBSIDIARIES

Prime Infrastructure Foundation, Inc. is a non-stock, non-profit corporation formed primarily for charitable, educational, environmental, livelihood and other purposes. Its focus are programs and services relating to the well-being of local communities, indigenous peoples and other stakeholders effected by the projects of the Company and its related companies, and the preservation and promotion of the environment and biodiversity.

## RELATED PARTY TRANSACTIONS

Manila Water and the Issuer have a consultancy agreement wherein the Issuer provides strategic advice and assistance to Manila Water in exchange for a quarterly fee equivalent to 2.7% of Manila Water's net revenues for the quarter. The consultancy agreement obtained approval from the Related Party Transaction Committee and Board of Directors of Manila Water.

WawaJVCo and Manila Water have entered into a 30-year offtake arrangement for at least 518 MLD of water, at ₱19.5 per cubic meter (subject to annual adjustments based on the consumer price index starting after Tayabasan Weir is operational) to address water shortages during the summer months. The offtake agreement was actually entered into when Manila Water and WawaJVCo were not yet related parties.

WawaJVCo and Prime BMD have an Engineering, Procurement, and Construction Contract wherein Prime BMD was engaged as contractor for a lumpsum price in relation to the development and construction of Tayabasan Weir and the Upper Wawa Dam pumping station. Prime BMD was awarded the contract after a competitive tender process, and the contract was approved by both shareholders of Prime BMD, including BMD.

## ENVIRONMENT

The site of the Wawa Bulk Water Supply Project is envisioned to become an eco-tourism development, with several eco-tourism activities, key destinations and themed trails. As of June 30, 2022, WawaJVCo has spent approximately ₱277.9 million to comply with environmental regulations, including with respect to the Protected Area Management Board ("**PAMB**") Clearance for the project and the SAPA issued by the DENR, tree planting activities, waste storage and recovery facilities, water and air testing, noise and turbidity monitoring, erosion controls, septic tanks, ablution tanks and spillkits and bund walls for chemical storage. The Group is in the process of amending the Wawa Bulk Water Supply Project's ECC to cover modifications to the project involving the integration of the spillway to the main body of the dam, the change from a water conveyance pipeline to a water conveyance tunnel, the change from a diversion tunnel to a diversion culvert, and the relocation of the project site's temporary office.

Manila Water endeavors to comply with environmental standards and requirements of the DOE, DOH, DENR, NWRB and LLDA. In 2021, Manila Water disposed of 32,440 tons of non-hazardous waste, and stored or disposed of 63.18 tons of hazardous waste. Manila Water also hires pollution control officers for each facility to ensure compliance with all environmental regulatory requirements. For the six months ended June 30, 2022, Manila Water incurred regulatory costs, water treatment chemical costs, and wastewater costs of approximately, ₱164.7 million, ₱150.4 million, and ₱107.2 million, respectively.

***Environmental, Social and Governance***

Manila Water is an industry pioneer in sustainability practices and reporting in the Philippines, and is set to develop climate and decarbonization strategies aligned to the Science Based Target initiative (SBTi) framework for net zero transition.

Manila Water supports and contributes to various United Nations Sustainable Development Goals ("**UN SDGs**") with a primary focus on the achievement of UN SDG 6 – Universal Access to Water and Sanitation by maintaining universal and equitable access to safe, affordable, and reliable water services and sanitation for the communities it serves.

Manila Water has the following 2025 ESG targets aligned to its business unit forward plans in order to provide water and wastewater services while reducing and avoiding greenhouse gas emissions:

1. 60% carbon reduction and avoidance of Scope 1 and 2 emissions through renewable energy and wastewater treatment;

2. at least 15% supply buffer through expansion and addition of raw water sources, and preservation of existing assets; and

3. building sufficient infrastructure to satisfy Manila Water's service commitments and improvements.

Manila Water has started using renewable energy to reduce greenhouse gas emissions, including registering a combined rate of approximately 300 kilowatts peak (kWp) of solar power generated from solar panels installed in five of its treatment plants, purchasing 20% renewable energy of its open access electricity requirements in June 2021, and piloting the use of electric vehicles. Watershed protection is also a key component of Manila Water's initiatives to develop, rehabilitate, and enhance water sources. In 2021, Manila Water protected 171,872 hectares of watershed and in 2022, Manila Water has planted over 3,000 trees as part of its watershed protection efforts. Manila Water is also exploring waste-to-value possibilities for biosolid management.

Manila Water is a vital partner in the communities it serves, committed to helping uplift the quality of life of communities by addressing their basic need for clean water and sanitation. Manila Water is able to further engage with and empower communities through the programs of the Manila Water Foundation.

Manila Water has also established a board level ESG committee that oversees its sustainability framework and agenda. In addition, Manila Water has diversity, equity, and inclusion policies and training programs, and develops and invests in its employees through "Project Phoenix," Manila Water's corporate change management and transformation program.

In July 2022, Manila Water received an improved overall ESG Risk Rating

**AWARDS**

In May 2022, Manila Water won Company of the Year in the 2022 Global Water Awards, one of the most prestigious international awards in the water industry. The award was a first for a Philippine company and a company from a developing country.

**LEGAL PROCEEDINGS**

As of the date of this Prospectus, to the best of the Issuer's knowledge and belief and after due inquiry, except for Manila Water, no member of the Group involved in the Group's water business is currently involved in any material litigation claims or arbitration, either as plaintiff or defendant, which could be expected to have a material and adverse effect on the Group's financial position on a consolidated basis. Manila Water is a party to various legal proceedings arising in the ordinary course of its operations. Set forth below is a brief description of certain legal proceedings, which, if resolved unfavorably against Manila Water, could have a material and adverse impact on Manila Water's operations and financial results, which in turn may have a material and adverse effect on the Group's financial position on a consolidated basis.

***Manila Water and MWSI v. Hon. Borbe, et al. (CBAA Case No. L-69)***

This is an appeal from the denial by the Local Board of Assessment Appeals ("**LBAA**") of the Bulacan Province of Manila Water's (and MWSI) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of ₱357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. Manila Water is being assessed for half of the amount.

In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed Manila Water and MWSI (collectively, the "**Concessionaires**") that their total real property tax accountabilities have reached ₱648,777,944.60 as of December 31, 2007. This amount, if paid by the Concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The Concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by MWSS, which is both a government-owned and controlled corporation and an instrumentality of the National Government exempt from taxation under the Local Government Code.

The Central Board of Assessment Appeals ("**CBAA**") conducted a hearing on June 25, 2009. In the said hearing, the parties were given the opportunity and time to exchange pleadings regarding a motion for reconsideration filed by the Municipality of Norzagaray, Bulacan to have the case remanded to and heard by the LBAA rather than by the CBAA.

Manila Water and MWSI have already concluded presentation of their respective evidence and witnesses, while MWSS waived its right to present evidence.

On August 12, 2015, the newly-constituted members of the CBAA's Panel conducted an ocular inspection of the subject properties. On September 17, 2015, the Province of Bulacan presented its first witness, Ms. Gloria P. Sta. Maria, the former Municipal Assessor of Norzagaray, Bulacan. Manila Water, MWSI and MWSS have completed their cross-examination of Ms. Sta. Maria.

In an Order dated July 15, 2016, the CBAA denied the motion for reconsideration of the Municipality of Norzagaray, Bulacan for which it filed a Petition for Certiorari with the Court of Tax Appeals on August 24, 2016. In compliance with the directive of the CTA, Manila Water filed a Comment dated January 3, 2017. MWSS and MWSI have likewise filed their respective Comments.

On January 31, 2017, the Court of Tax Appeals requested the parties to file their respective memoranda. Manila Water filed its Memorandum on March 27, 2017. MWSI filed its Memorandum dated March 16, 2017 while the Office of the Solicitor General ("**OSG**") filed its Memorandum last March 29, 2017.

On May 10, 2018, the Court of Tax Appeals rendered a Decision denying the Petition for Certiorari finding that there was no grave abuse of discretion on the part of the CBAA.

In an Order dated June 17, 2021, the Court of Tax Appeals ordered the remand of the records back to the CBAA for trial to resume.

This case remains pending as of the date of this Prospectus.

***Manila Water vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al. (G.R. No. 206823)***

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau (the "**EMB**") - NCR before the Pollution Adjudication Board ("**PAB**") against Manila Water, MWSI and the MWSS for alleged violation of the Philippine Clean Water Act, particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two similar complaints against MWSI and MWSS were consolidated with this case.

On April 22, 2009, the PAB, through the DENR Secretary and Chair Jose L. Atienza, Jr., issued a Noticeof Violation finding Manila Water, MWSI and MWSS to have committed the aforesaid violation of the Philippine Clean Water Act. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical Conference, Manila Water, MWSS and MWSI explained to the PAB their respective positions and it was established that DENR has a great role to play to compel people to connect to existing sewage lines and those that are yet to be established by Manila Water and MWSI.

In addition to the explanations made by Manila Water during the Technical Conference, Manila Water together with MWSS and MWSI wrote a letter dated May 25, 2009 and addressed to the respondent DENR Secretary where they outlined their position on the matter.

In response to the May 25, 2009 letter, the OIC Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective Comments. Manila Water thereafter submitted its letter dated July 13, 2009 to the PAB where it detailed its compliance with the provisions of the Philippine Clean Water Act and reiterated its position that the continuing compliance should be within thecontext of Manila Water's Concession Agreement with MWSS. Despite the explanations of Manila Water, PAB issued an Order dated October 7, 2009 which found Manila Water, MWSI and MWSS to have violated the Philippine Clean Water Act and imposed fines in the amount of ₱29,400,000.00 jointly and solidarily against Manila Water, MWSI, and MWSS covering the period starting from May 7, 2009, the lapse of the 5th year from effectivity of the Philippine Clean Water Act, to September 30, 2009. Manila Water filed its Motion for Reconsideration dated October 22, 2009 which the PAB denied in an Order dated December 2, 2009. Hence, Manila Water filed its Petition for Review dated December 21, 2009 with the Court of Appeals. Manila Water thereafter filed an amended Petition for Review dated January 25, 2010.

In a Decision dated August 14, 2012, the Court of Appeals denied Manila Water's Petition for Review and on September 26, 2012, Manila Water filed a Motion for Reconsideration of the Court of Appeals' Decision.

On April 29, 2013, Manila Water received the Resolution dated April 11, 2013 of the Court of Appeals, denying its Motion for Reconsideration.

Manila Water has filed its appeal from the Decision and Resolution of the Court of Appeals in the formof a Petition for Review on Certiorari with the Supreme Court on May 29, 2013. In this Petition, Manila Water reinforced its argument that it did not violate Section 8 of the Philippine Clean Water Act as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the Court of Appeals. This case was consolidated with other cases of similar nature that involved the MWSS and MWSS. In compliance with the resolution of the Supreme Court dated April 4, 2017, Manila Water filed on June 5, 2017 a report on the status of its compliance with the Philippine Clean Water Act and its implementing regulations.

On September 18, 2019, Manila Water received the Supreme Court decision dated August 6, 2019 whichordered Manila Water, jointly and severally with MWSS, to pay ₱921.46 million (as of August 6, 2019) in fines for its non-compliance with the Philippine Clean Water Act. In addition to said amount, MWSS and Manila Water are jointly and severally liable to pay a fine in the amount of ₱322,102.00 per day, subject to a further 10% increase every two (2) years until full compliance with Section 8 of the Philippine Clean Water Act has been made. On October 2, 2019, Manila Water timely filed a Motion for Reconsideration with the Supreme Court, raising, among others, the following arguments: (a) Manila Water is compliant with its obligations and responsibilities under Section 8 of the Philippine Clean Water Act; (b) in MMDA vs. Concerned Citizens of Manila Bay (2011), the Supreme Court ruled that Manila Water haduntil 2037 to complete the obligations imposed by Manila Water's Concession Agreement; (c) Section 8 of the Philippine Clean Water Act cannot be interpreted as requiring MWSS and its concessionaires to install a complete centralized sewerage system within five (5) years; and (d) providing a complete centralized sewerage system within the 5-year timeframe would entail a substantial amount of time and money to complete, not to mention thatit would monumentally exacerbate an already burdensome vehicular traffic situation in Metro Manila.

On December 18, 2019, Manila Water received a copy of the Resolution dated November 5, 2019, whichrequired the adverse parties to comment on the (a) Motion for Reconsideration filed by Manila Water; (b) Motion for Reconsideration dated October 2, 2019 filed by MWSI; and (c) Motion for Reconsideration dated October 1, 2019 filed by MWSS.

On July 1, 2020, Manila Water received a copy of the Consolidated Comment (*On the separate Motionsfor Reconsideration filed by petitioners Metropolitan Waterworks and Sewerage System, Maynilad WaterServices, Inc., and Manila Water Company, Inc.*) dated June 24, 2020 ("**Consolidated Comment**") filed by the OSG in behalf of the adverse parties. In response thereto, Manila Water filed a *Motion for Leave to File and Admit Attached Reply* dated August 17, 2017 ("**Motion for Leave and Admit Attached Reply**") with an attached *Reply[Re: Consolidated Comment (On the separate Motions for Reconsideration filed by petitioners Metropolitan Waterworks and Sewerage System, Maynilad Water Services, Inc., and Manila Water Company, Inc.) dated June 24, 2020]* dated August 17, 2020 ("**Reply**").

On November 3, 2020, Manila Water received a Resolution dated September 8, 2020 issued by the Supreme Court, which relevantly: (a) noted the Consolidated Comment; (b) granted the Motion for Leave and Admit Attached Reply; and (3) noted the Reply filed by Manila Water.

This case remains pending as of the date of this Prospectus.

***The Consolidated Cases in relation to the Concession Agreements***

In 2013, several petitions for Certiorari and Mandamus with Prayer for the Issuance of a were filed before the Supreme Court by the Waterwatch Coalition, Inc. ("**Waterwatch**"), Water for All Refund Movement ("**WARM**") and Virginia S. Javier, et al. ("**Javier**" or consumers/customers of Manila Water). Subsequently, petitions for Certiorari and Prohibition were filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. and the Bayan Muna Party list, represented by Neri Colmenares and Carlos Isagani Zarate. Due to similarities in issues raised, these petitions were consolidated. The issues raised in these petitions are as follows:

- The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires without the benefit of legislation or at the very least, a franchise for such purpose;
- The Concessionaires are public utilities not mere agents or contractors of the MWSS;
- Concessionaires performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
- The Concession Agreements are State Contracts and cannot invoke the non-impairment clausein the Constitution;
- Public utility or not, Concessionaires may not, pass on their income taxes to the water consumersas expenditures; and
- Respondents should be enjoined from proceeding with arbitration between MWSS, Manila Water and MWSI.

In its Comment to the petitions, Manila Water argued that:

- The Concession Agreements are valid, legal and constitutional as these have statutory basis anddo not involve any grant or delegation of the "inherent sovereign powers of police power, eminent domain and taxation."
- The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (i.e., MWSS).
- The Concession Agreements are protected by the non-impairment clause. Petitioners cannot invoke police power for courts to nullify, modify, alter or supplant the Concession Agreements.Police power is exercised by Congress, through the enactment of laws for the general welfare. No such law or enactment is involved in this case.
- The rates set under the Concession Agreements are compliant with the 12% rate of return cap in the MWSS Charter.
- Not being public utilities but mere agents of the MWSS, the Concessionaires are not subject toaudit by Commission on Audit.

- The Concessionaires are authorized to pass on corporate income taxes to water consumers.

On March 10, 2016, Manila Water received the Manifestation of the OSG requesting that the DOF and the OSG be excused from filing a Comment on the petitions in view of the pendency of the arbitration proceedingsrelated to the Undertaking Letters.

In its Resolution dated March 15, 2016, the Supreme Court granted the Manifestation of the OSG and excused it from filing a Comment. On July 25, 2016, Manila Water filed its Manifestation and Motion, where Manila Water joined MWSI in seeking a reconsideration of the Supreme Court's Resolution dated March 15, 2016 and moved to set the consolidated cases for oral arguments.

In a Resolution dated September 19, 2017, the Supreme Court denied MWSI's Motion for Reconsideration. MWSI again filed another Motion for Reconsideration dated November 6, 2017 to apprise the Supreme Court that in the interim, the arbitration between the Government and MWSI had been resolved by the issuance of an award in favor of MWSI. Thus, according to MWSI, the OSG can no longer use said arbitration proceeding as an excuse from filing its comment. Last December 12, 2017, Manila Water filed a Manifestation and Comment in support of MWSI's Motion.

In a Resolution dated March 6, 2018, the Supreme Court granted the Motion for Reconsideration dated November 6, 2017 filed by MWSI and the Motion for Leave to File Manifestation and Comment dated December 12, 2017 by Manila Water.

On July 31, 2018, Manila Water received MWSS' Comment dated July 18, 2018 on the Petition.

On February 10, 2020, Manila Water received a Very Urgent Motion (to Set Case for Oral Arguments) dated January 30, 2020 filed by the OSG on behalf of the Department of Finance, praying that the cases be set for oral arguments. On the same date, Manila Water received a Notice dated January 7, 2020 from the Supreme Court requiring the parties to move in the premises "in view of the dropping by the concessionaires of their claims against the government arising from arbitration decisions."

On February 17, 2020, Manila Water filed its Omnibus Motion and Motion for Extension to the Supreme Court's Notice dated January 7, 2020. Thereafter, on February 26, 2020, Manila Water filed its Compliance/Manifestation and Compliance with Comment of even date clarifying that Manila Water's waiver of the Arbitral Award is limited to the enforcement and collection of the monetary claims thereon; and informing the Supreme Court of the ongoing review and renegotiation of the Concession Agreement with the Government.

In a Resolution dated March 3, 2020, the Supreme Court directed the concessionaires to: (i) furnish the Secretary of Finance with copies of the documents subject of the resolution dated January 7, 2020; and (ii) submit proof of compliance. Hence, on July 27, 2020, Manila Water furnished the Secretary of Finance, through the OSG, with copies of the relevant documents requested.

In a Resolution dated September 8, 2020, the Supreme Court directed the parties to file their respective comments on the OSG's Very Urgent Motion dated January 20, 2020. On October 26, 2020, Manila Water filed its Manifestation that it had already filed its comment on February 26, 2020. In a Manifestation dated November 16, 2020, MWSS joined the OSG's motion to set the consolidated Petitions for oral arguments.

The foregoing cases remain pending as of the date of this Prospectus.

***Allan Mendoza et al. vs. Manila Water Company, Inc. Special Civil Action No. R-QZN-14-04863-SC, Regional Trial Court QC Branch 77***

On May 23, 2014, Allan Mendoza, et al. filed a Petition for Mandamus under Rule 65 of the Rules of Court praying that Manila Water and its President, Mr. Gerardo C. Ablaza, Jr. be commanded to: (a) reinstitute the Welfare Fund, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan; to make an accounting, and reimburse and/or return to the Manila Water Welfare Fund the employer's share as of December 2005 which was diverted to the Manila Water Retirement Plan; and to implement the progressive employer share from the time the Welfare Fund was dissolved in 2005 up to the time when the Welfare Fund is finally reinstituted for the petitioners who are still employed, and up to the end of employment for those who are already separated on account of resignation, retirement, termination, among others; (b) implement correctly the benefits of petitioners which are guaranteed against non-diminution, as indicated in Exhibit "F" of the Concession Agreement; (c) allow petitioners to accumulate their paid leaves of fifteen (15) days of vacation leave and fifteen (15) days of sick leave annually; and (d) pay interest on the foregoing at 12% per annum.

In an Order dated June 11, 2014, Manila Water and Mr. Ablaza were directed to file their Comment. On June 27, 2014, Manila Water and Mr. Ablaza filed their Comment and argued as follows: (a) the court has no jurisdiction over the subject matter of the instant Petition; being essentially an action for payment of employee benefits, the Labor Arbiters under the National Labor Relations Commission have original and exclusive jurisdiction over this case; (b) petitioners have resorted to mandamus in order to avoid payment of filing fees for a collection case; thus, the court has not acquired jurisdiction over the case for failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) petitioners are not entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) the case should not be treated as a class suit; (f) the claims of petitioners have prescribed; (g) the Complaint should be dismissed because petitioners' alleged cause of action is barred by laches; and (h) petitioners have received benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS.

In an Order dated July 28, 2014, the court set the presentation of petitioners' evidence on September 10, 2014 and October 8, 2014. However, the September 10, 2014 hearing was cancelled because the branch clerk of court, the clerk-in-charge of civil cases, the court interpreter and the court aide of the branch were attending a seminar for the e-Court system.

Thereafter, petitioners filed a Motion to Cancel Hearing and to Allow Parties to Submit Memoranda. In their Motion, petitioners claimed that the issues for resolution in the instant case are legal questions and prayed that the parties be required to submit Memoranda in lieu of presentation of evidence.

On October 1, 2014, Manila Water and Mr. Ablaza filed a Comment on the Motion and stated that they do not entirely agree with petitioners' statement as they have made factual allegations in their Petition that would need to be proven in a full-blown trial. These allegations include, among others, that the employees have suffered diminution of benefits and that Manila Water had allegedly used part of the Manila Water Welfare Fund as seed money for the Retirement Fund.

However, Manila Water and Mr. Ablaza proposed that the following legal issues be initially disposed of by way of simultaneous Memoranda to be submitted by the parties, namely, whether or not: (a) the court has jurisdiction over the subject matter of the Petition being essentially an action for payment of employee benefits; (b) the court has acquired jurisdiction over the case considering the failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) the petitioners are entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) this case should be treated as a class suit; (f) the claims of petitioners have prescribed; and (g) the Petition should be dismissed because petitioners' alleged cause of action is barred by laches.

On October 8, 2014, the scheduled hearing for the initial presentation of petitioners' evidence was cancelled and reset to March 5, 2015 due to the absence of the presiding judge. At the March 5, 2015 hearing, petitioners reiterated their prayer that the parties be required to submit Memoranda in lieu of presentation of evidence considering that only legal questions are involved. Manila Water and Mr. Ablaza again countered that petitioners have made factual allegations in their Petition that would need to be proven in a full-blown trial.

The presiding judge stated that the proceedings for a petition for mandamus are summary in nature. Thus, he directed the parties to simultaneously submit their respective Memoranda within sixty days, or by May 5, 2015. He directed the parties to address all legal issues and if there are factual issues, to attach judicial affidavits of witnesses. Upon submission of the Memoranda, he will determine if a party would be allowed to cross-examine the other's witnesses or if he would still conduct oral arguments.

The parties subsequently filed their respective Memoranda.

In an Order dated September 14, 2015, the parties were directed to manifest whether they would be submitting the case on the basis of their respective Memoranda or if they would request for a trial on the merits. At the October 12, 2015 hearing before the clerk of court, Manila Water and Mr. Ablaza, through counsel, reiterated that they would prefer if the issues on jurisdiction and other grounds for dismissal be resolved first before deciding whether or not the case should go to trial. The clerk of court noted this manifestation for discussion with the presiding judge.

The trial court thereafter set the case for initial trial on March 30, 2016. During the hearing, both parties stated that their respective positions are already set forth in the Memorandum each submitted. The issues on jurisdiction and other grounds for dismissal were submitted for resolution. In an Order dated April 1, 2016, the trial court dismissed the case, without prejudice, on the ground that the Petition filed by Mr. Mendoza failed to state a cause of action for mandamus. In an Order dated July 14, 2016, the trial court denied the Motion for Reconsideration of the petitioners.

Mr. Allan M. Mendoza proceeded to file a Petition for Certiorari with the Court of Appeals. On October 24, 2016, the Court of Appeals ordered the counsel of Mr. Mendoza to submit an Amended Petition, this time impleading the names of the other petitioners, stating their actual addresses, and appending copies of their Special Powers of Attorney. On December 1, 2016, the Amended Petition was filed.

In a Resolution dated January 19, 2017, the Court of Appeals directed the counsel for the petitioners to submit the addresses of some of the co-petitioners and to implead one additional petitioner. On February 21, 2017, Manila Water received a Second Amended Petition filed by petitioners supposedly to comply with the directive of the court.

In a Resolution dated September 8, 2017, the Court of Appeals directed Manila Water to comment on the Amended Petition. Manila Water filed its Comment on October 30, 2017.

The Court of Appeals thereafter referred the parties to compulsory mediation, which however failed. In a Resolution dated March 6, 2018, the parties were directed to file their respective Memoranda. Manila Water filed its Memorandum on May 24, 2018.

In a Resolution dated July 31, 2018, the Court of Appeals admitted the Memorandum filed by Manila Water. However, the Memorandum filed by the petitioners was deemed not filed, as their Motion for Extension of Time to file the same was unsigned. The petitioners were directed to show cause why their Memorandum should be admitted despite being filed late. In a Compliance with Manifestation and Motion to Admit, petitioners' counsel explained that late filing was an oversight caused by counsel's recent surgery and the medications prescribed, and prayed that petitioners' Memorandum be admitted.

In a Decision dated November 24, 2020, the Court of Appeals denied the Petition for Certiorari for lack of merit. On January 7, 2021, Manila Water received Petitioners' Motion for Single Extension of Time requesting for 30 days to file a Petition for Review on Certiorari before the Supreme Court. On February 17, 2021, Manila Water Received Petitioners' Petition for Review on Certiorari dated February 1, 2021.

This case remains pending as of the date of this Prospectus.

***WARM vs. MWSS, et al. (G.R. No. 212581)***

This is a Petition for the Issuance of Writ of Kalikasan with prayer for issuance of Temporary Restraining Order against the operation of the current sewerage and sanitation system operated by respondents. Petitioners alleged that the current sewerage and sanitation system is currently causing environmental damage of such magnitude as to cause prejudice to life, health or property of the inhabitants of Metro Manila. According to petitioners, the current sewer system is dumping highly toxic raw sewerage into the neutral body of water.

In its July 26, 2013 Resolution, the Court of Appeals denied the Petition on the ground that it is not sufficient in form and substance. The dismissal, however, was "without prejudice to the filing of any appropriate civil, criminal or administrative remedies warranted by the relevant circumstance." Subsequently, petitioners filed a Motion for Reconsideration dated August 22, 2013 and a Supplemental Motion for Reconsideration dated October 1, 2013. On October 17, 2013, Manila Water filed its Comment/ Opposition Ad Cautelam (Re: Motion for Reconsideration dated August 22, 2013). On November 13, 2013, Manila Water filed its Motion to Expunge with Comment Ad Cautelam (Re: Supplemental Motion for Reconsideration dated October 1, 2013). On May 12, 2014, the Court of Appeals denied the Motion for Reconsideration and Supplemental Motion for Reconsideration.

Subsequently, on June 4, 2014, WARM filed a Petition for Review on Certiorari with the Supreme Court assailing the Decision and Resolution of the Court of Appeals. Manila Water has filed its Comment on the Petition, arguing that (a) the petitioner failed to show how the installation of a combined sewerage-drainage system could cause environmental damage of such magnitude as to prejudice the life, health or property of inhabitants in two or more cities or provinces; (b) the petitioner misapplied the precautionary principle; (c) the petitioner failed to show how the installation of a combined sewerage-drainage system is unlawful; (d) the petitioner failed to allege how the Manila Water could have violated the Supreme Court's Writ of Continuing Mandamus; (e) the petitioner did not implead indispensable government agencies' neither did petitioner comply with the rule on exhaustion of administrative remedies; and (f) the relief sought by petitioner would do more harm than good to the environment.

The Supreme Court has directed the respondents to file their respective comments on the Petition. Manila Water has filed its Comment on the Petition. The Petition remains pending.

In a Resolution dated July 11, 2017, the Supreme Court resolved to consolidate this case with the following cases (as discussed in the item above on "*The Consolidated Cases in relation to the Concession Agreements*" under this section):

(a) G.R. No. 202897 (Maynilad Water Services, Inc. vs. Secretary of the Department ofEnvironmental and Natural Resources, et. al.);

(b) G.R. No. 206823 (Manila Water Company, Inc. vs. The Regional Director-Environmental Management Bureau-National Capital Region, et al.); and

(c) G.R. No. 207969 (Metropolitan Waterworks and Sewerage System vs. Pollution AdjudicationBoard and Environmental Management Bureau).

In a Resolution dated January 22, 2019, the Supreme Court required the DENR, DILG and National Sewerage and Septage Management Program Office to comply with its show cause Resolution dated January 10, 2018.

In a Resolution dated February 26, 2019, the Supreme Court resolved to deconsolidate this case from the above-listed cases.

This case remains pending at the Supreme Court as of the date of this Prospectus.

## DESCRIPTION OF THE GROUP'S ENERGY BUSINESS

### OVERVIEW AND STRUCTURE

Through certain subsidiaries and affiliates of Prime Infrastructure and Prime Metro Power (such subsidiaries and affiliates, the "**Energy Companies**") and Prime Metro Power's ownership of preferred shares in SP Tarlac, the Group operates and invests in energy generation projects, including hydro, solar, and gas, in the Philippines and Iraq. These projects include the 1,400MW (gross) (1,200MW (net)) hydropower project expected to be located and constructed in Laguna, Philippines (the "**Ahunan Laguna Power Plant**"); the 100MW (150MW upon completion) solar power plant in Tarlac, Philippines (the "**Tarlac Solar Power Plant**"); the 140MW solar power plant under construction in Tanauan and Maragondon in the Philippines (the "**Tanauan Solar Power Plant**"); the 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system expected to be located and constructed in Bulacan and Nueva Ecija, Philippines (the "**Terra Solar Power Plant**"); and the 29.3MW (67.8MW upon completion) gas-fired power plant located in the Umm Qasr Port, Basra, Iraq (the "**Umm Qasr Power Plant**") (collectively, the "**Power Projects**").

As of June 30, 2022, the Group has 100MW of attributable installed generation capacity in the Philippines due to the operations of the Tarlac Solar Power Plant and 29.3MW of attributable installed generation capacity in Iraq by virtue of the operations of the Umm Qasr Power Plant under Menatech. As of the date of this Prospectus, the Group has a pipeline of 2,690MW (minimum) in solar power generation capacity, 4,000MWh (minimum) in battery energy storage system capacity, 1,400MW (gross) (1,200MW (net)) in hydropower generation capacity and 38.5MW in gas power generation capacity all in various stages of development. The Group expects that the useful life of its energy assets will be approximately 30 years.

The table below sets out the status of each of the Power Projects as of June 30, 2022:

| Project | Capacity | Expected Completion Date | Status | % completion |
|---|---|---|---|---|
| Ahunan Laguna Power Plant | Phase I (500MW) | First half of 2027 | Pre-development | Not applicable |
| | Phase II (700MW) | Second half of 2027 | Pre-development; offtake pending | Not applicable |
| Tarlac Solar Power Plant | Phase I (100MW) | Completed in June 2020 | Operational | 100% |
| | Phase II (15MW) | Second half of 2022 | Pre-development | Not applicable |
| | Phase II (35MW) | First half of 2023 | Pre-development | Not applicable |
| Tanauan Solar Power Plant | 140MW | Second half of 2023 | Pre-development | Not applicable |
| Terra Solar Power Plant | Phase I (600MW) | February 2026 | Pre-development | Not applicable |
| | Phase II (250MW) | February 2027 | Pre-development | Not applicable |
| Umm Qasr Power Plant | Phase I (29.34MW) | Completed in February 2020 | Operational | 100% |
| | Phase II (38.46MW) | – | Expected to commence development after the requisite notifications from GCPI | Not applicable |

The contribution to the Group's EBITDA by the Energy Companies was ₱(16.4) million, ₱(70.5) million, ₱350.2 million, ₱309.1 million, ₱155.0 million and ₱(166.3) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Energy Companies to attributable net income (loss) amounted to ₱(9.5) million, ₱(74.3) million, ₱346.8 million, ₱287.2 million, ₱142.8 million and ₱(79.1) million for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The following table sets out selected key performance indicators of Menatech (the key currently operational subsidiary of the Group's energy business) as of and for the periods indicated:

| | As of and for the year ended December 31, | | | As of and for the six months ended June 30, |
|---|---|---|---|---|
| **Key Operating Data** | **2019** | **2020** | **2021** | **2022** |
| Electricity sold (in GWh)[1] | – | 35.8 | 37.6 | 16.0 |
| Plant capacity (in MW) | – | 29.3 | 29.3 | 29.3 |
| Plant availability (in %)[2] | – | 95.7 | 99.6 | 99.8 |
| Sales (in ₱ millions) | – | 377.2 | 493.8 | 233.1 |

| Key Operating Data | As of and for the year ended December 31, 2019 | 2020 | 2021 | As of and for the six months ended June 30, 2022 |
|---|---|---|---|---|
| Gross profit (in ₱ millions) | – | 252.7 | 379.4 | 187.4 |
| EBITDA (in ₱ millions)[(3)] | (67.2) | 351.2 | 330.8 | 132.7 |

*Notes:*

(1) All electricity during the period presented was sold on a bilateral generation basis.

(2) Total time duration in hours (excluding plant outages (scheduled and forced)) divided by the number of hours in the period.

(3) The following table sets forth the computation of Menatech's EBITDA for the periods presented.

| | As of and for the year ended December 31, 2019 | 2020 | 2021 | As of and for the six months ended June 30, 2022 |
|---|---|---|---|---|
| | | (in ₱ millions) (Audited) | | |
| Net income (loss) | (67.8) | 347.6 | 300.4 | 122.9 |
| Net loss from discontinued operations | – | – | – | – |
| Gain on bargain purchase | – | – | – | – |
| Provision for (benefit from) income tax | – | – | 29.8 | 9.8 |
| Other income (expense) - net | – | – | – | – |
| Interest income | – | – | (0.1) | – |
| Foreign exchange losses (gains) - net | 0.6 | 3.6 | 0.6 | – |
| Interest expense | – | – | – | – |
| Depreciation and amortization | – | – | 0.1 | – |
| **EBITDA** | **(67.2)** | **351.2** | **330.8** | **132.7** |

## Recent Developments

### *Potential Acquisition of Malampaya Gas Field*

*The financial and operating information set forth below and elsewhere in this Prospectus with respect to SPEX is based on information available to our management team as of the date of this Prospectus, and has not been audited, reviewed, or compiled by the Group's independent auditors.*

Prime Exploration Pte. Ltd. ("**Prime Exploration**"), an indirect subsidiary of the Issuer, entered into a share purchase agreement dated July 28, 2022 (the "**MEXP SPA**") with Malampaya Holdings Singapore Pte. Ltd. ("**Malampaya Holdings**"), a wholly-owned subsidiary of Udenna Corporation, and acquired all of the outstanding shares of MEXP Holding Pte. Ltd. ("**MHPL**"). MHPL owns all of the issued and outstanding shares of Malampaya Energy XP Pte. Ltd. ("**MEXP**"). MEXP had previously executed a share purchase agreement (the "**SPEX SPA**") where it would acquire 100% of the shares of Shell Philippines Exploration B. V. ("**SPEX**") from Shell Petroleum NV ("**Shell**"), subject to certain conditions precedent (the "**SPEX Sale**"). SPEX is the operator of, and owns a, 45% interest in Service Contract No. 38 ("**SC38**") for the Malampaya project. The SPEX Sale is subject to the consent of PNOC Exploration Corporation ("**PNOC-EC**") and the Department of Energy ("**DOE**"), among other conditions precedent.

Under the terms of the SPEX SPA, MEXP is required to pay a base consideration of U.S.$380,000,000 (subject to purchase price adjustments including dividends paid and contributions), with additional payments of up to U.S.$80,000,000 contingent on certain terms and conditions, including extension of license life, asset performance and commodity prices. MEXP expects to fund the base consideration due under the SPEX SPA from (i) drawdowns of approximately U.S.$35 million under a mezzanine facility entered into by Prime Exploration and MHPL, (ii) cash adjustments from dividends distributed by SPEX in 2021 and 2022 estimated at approximately U.S.$212 million, and (iii) a drawdown of up to U.S.$140 million under a senior bridge settlement facility entered into by Prime Exploration, MHPL, and MEXP, which senior facility will be paid from SPEX's cash at completion of the transaction. The mezzanine facility and senior settlement facility will be secured, among others by share charges over the shares in MEXP and SPEX, and account charges over SPEX's accounts. MEXP expects to pay any contingent payments due under the SPEX SPA and amounts due under the senior bridge settlement facility and mezzanine facility from the cashflows of SPEX.

Under the terms of the MEXP SPA, Prime Exploration will pay Malampaya Holdings, (i) an aggregate of U.S.$42,000,000 (inclusive of the initial deposit of U.S.$5,000,000) upon the completion of the SPEX Sale, (ii) U.S.$42,000,000 on the first anniversary of the SPEX Sale, and (iii) U.S.$36,000,000 on the second anniversary of the SPEX Sale. Subject to the terms of the MEXP SPA, until three business days after the long stop date of the

SPEX SPA, Prime Exploration has the right (but not the obligation) to require Malampaya Holdings to buy back all the shares of MEXP. In case Prime Exploration exercises such option, Malampaya Holdings is required to also return the initial deposit of U.S.$5,000,000 to Prime Exploration, subject to certain conditions. Prime Exploration intends to fund the balance of the initial payment under the MEXP SPA on the completion of the SPEX Sale from loans, and the payments to Malampaya Holdings post-completion of the SPEX Sale from the cashflows of SPEX.

None of the payments due under the SPEX SPA and MEXP SPA will be funded by proceeds from the Offer.

The Company considers SPEX, assuming the completion of the SPEX Sale, as part of its energy business. In particular, the Company views the SPEX Sale as its initial foray into the upstream energy market and expects the SPEX Sale to further diversify the Group's energy assets. The consolidation of SPEX as a member of the Group is expected to significantly impact the assets and liabilities, revenues and cash flows of the Group. For example, had the acquisition been completed as of January 1, 2021, the Group's assets would have increased by more than 10% as of December 31, 2021 while its revenues would have approximately doubled for the year ended December 31, 2021. SPEX's revenues are expected to significantly decrease in 2024, which coincides with the expiration of the license of the SC38 Consortium. In the event of any extension of the SC38 Consortium's license, revenues from the existing wells are expected to significantly decrease upon the expected expiration of the useful life of the wells in 2027. Any additional drillings or rejuvenation of existing wells will require significant capital expenditure by the SC38 Consortium, including SPEX. SPEX's revenues and net income also depend on the extension of existing, or the execution of, new gas sale and purchase agreements, and are affected by the fluctuation of natural gas prices, among others. Post-completion of the SPEX Sale, the dividends expected to be received by the Company will be affected by payments to be made under the SPEX SPA and MEXP SPA and related financing, apart from factors affecting SPEX's net income. See "*Risk Factors—Risks Relating to the Potential Acquisition of the Malampaya Gas Field*" for more information.

Because SPEX operates as a separate integral unit, the Group expects SPEX to continue operating consistent with past practice and in the ordinary course of business post-completion of the SPEX Sale.

There can be no assurance that the SPEX Sale will be completed. In particular, the transaction is subject to the consent of PNOC-EC and the DOE, among other conditions precedent. In addition, the Government may attach conditions to such consents, the nature and impact of which is unknown as of the date of this Prospectus. See "*Risk Factors−Risks Relating to the Potential Acquisition of the Malampaya Gas Field−There is no assurance that the SPEX Sale will be completed, or that the transition of SPEX's operations to the Group will be successful.*"

As of the date of this Prospectus, MEXP does not own any shares in SPEX. The shares of SPEX will only be transferred to MEXP after the relevant consents have been obtained. Further, as of the date of this Prospectus, the Group does not intend to acquire the 45% interest of UC38 LLC (a subsidiary of Udenna Corporation) in the SC38 Consortium.

The historical information included in this Prospectus does not give effect to the completion of the SPEX Sale. No pro forma financial statements giving effect to such potential acquisition has been included in this Prospectus.

**POWER PROJECTS**

The Power Projects in the Philippines under the Energy Companies are at various stages of planning and development. As of June 30, 2022, the following are the Power Projects under the Energy Companies:

***Philippines***

Tarlac Solar Power Plant

The Tarlac Solar Power Plant is owned by SP Tarlac. SP Tarlac was incorporated on July 15, 2015. The Issuer, through Prime Metro Power, invested ₱1.5 billion for 1.5 billion preferred shares of SP Tarlac on July 6, 2020 and August 14, 2020. The preferred shares, in aggregate, are convertible into common shares equivalent to 50% of ownership in SP Tarlac. The preferred shares have an annual fixed dividend rate of 12% of the issue price and may be redeemed by SP Tarlac on or after July 6, 2025 if such preferred shares are not converted into common stock by Prime Metro Power on or before August 19, 2025. As of June 30, 2022, the Group had no plans to convert any preferred shares into common shares.

The Tarlac Solar Power Plant is a 100MW solar power plant, including 300,839 pieces of photovoltaic modules, located on approximately 112 hectares of land in Tarlac, Philippines. The first phase of the Tarlac Solar Power Plant comprising 100MW was completed in June 2020. The second phase of the Tarlac Solar Power Plant comprising an aggregate of 50MW is expected to be completed by 2023, with 15MW being completed by the second half of 2022 and 35MW being completed by the first half of 2023. The Issuer also estimates that the total capital expenditure for the Tarlac Solar Power Plant for 2018 to 2023 will be approximately ₱7.0 billion.

SP Tarlac has entered into an 20-year power supply agreement with MERALCO for the sale of 75MW to 85MW at a rate of ₱2.99 per kWh with an annual escalation of 2% starting after the first phase is operational. The commencement date for the agreement was August 20, 2018 and the agreement will be effective for 20 years after the commercial operations date. The Issuer believes that Tarlac Solar Power Plant has one of the most competitive tariff rates for solar power plants due to the low cost of panels during the construction of the project.

As of June 30, 2022, the estimated annual generating capacity of the Tarlac Solar Power Plant was 156GWh.

Tanauan Solar Power Plant

The Tanauan Solar Power Plant is owned by SP Tanauan. The Issuer, through Prime Infrastructure, owns 50% of the issued and outstanding capital stock of SP Tanauan and controls a majority of the voting capital stock of SP Tanauan (one share proxy in addition to its 50% ownership).

The Tanauan Solar Power Plant is a 140MW solar power plant to be located on approximately 120 hectares of land in Tanauan and Maragondon in the Philippines. The Issuer estimates the annual generating capacity of the Tanauan Solar Power Plant to be approximately 190GWh. The Issuer expects to commence construction of the Tanauan Solar Power Plant by the fourth quarter of 2022 and start operations by the second half of 2023. The Issuer estimates that the total capital expenditure for the Tanauan Solar Power Plant for 2021 to 2023 will be approximately ₱9.2 billion, a total capital expenditure per MWp of ₱65.7 million per MWp.

On December 22, 2016, SP Tanauan entered into a 50$MW_{AC}$ 20-year power supply agreement with MERALCO at a rate of ₱5.39 per kWh with an annual escalation of 2% starting after the first phase is operational. The commencement date for the agreement was September 11, 2020, and the agreement will be effective for 20 years after the commercial operations date. As of the date of this Prospectus, SP Tanauan is incurring, and will continue to incur until the Tanauan Solar Power Plant commences operations, costs for replacement energy. Such replacement energy costs are computed as the positive difference between the WESM price and the tariff rate under the power supply agreement, which SP Tanauan believes is relatively high.

Terra Solar Power Plant

The Terra Solar Power Plant, which is currently at pre-development stages, will be owned by Terra Solar, which is 50.01% owned by Prime Infrastructure, and 49.99% owned by Solar Philippines Power Project Holdings, Inc. The Terra Solar Power Plant is expected to be developed on approximately 3,500 hectares of land in Bulacan and Nueva Ecija, which the Group intends to acquire. Terra Solar expects to have options or contracts to obtain most of the project land by the first quarter of 2023. The pre-development stages include the acquisition of the aforementioned land in Bulacan and Nueva Ecija, the securing of necessary permits from the relevant government agencies and regulators, and the conduct of a system impact study.

The Terra Solar Power Plant is expected to comprise a 2,500MW (minimum) solar power plant and 4,000MWh (minimum) battery energy storage system which is expected to provide 850MW of mid-merit energy for 13 hours per day once completed. The first phase of the Terra Solar Power Plant comprising 600MW is expected to commence commercial operations in February 2026, and the second phase of the Terra Solar Power Plant comprising 250MW is expected to be completed in February 2027. The Issuer expects to commence construction of the Terra Solar Power Plant by the third quarter of 2023.

Terra Solar has proposed a 20-year offtake agreement with MERALCO, with a tariff rate of ₱5.70 per kWh. As of the date of this Prospectus, Terra Solar has been notified that it has cleared the requirements of the competitive selection process in compliance with the DOE's policy on renewable portfolio standards and can enter into a negotiated contract with MERALCO.

The Issuer estimates that the power expected to be provided by Terra Solar may be capable of displacing fossil fuel utilization equivalent to approximately 1.4 million tons of coal per year. The Issuer also estimates that the total capital expenditure for the Terra Solar Power Plant for 2022 to 2027 will be approximately ₱200.1 billion assuming a 3,500MW (maximum) solar power plant and 4,500MWh (maximum) battery energy storage system. The Issuer believes that as the solar industry recovers and improves in the long term, the capital expenditure per megawatt peak for the Terra Solar Power Plant will decrease.

Terra Renewables Holdings, Inc.

As of June 30, 2022, the Company and Solar Philippines directly own their shares in Terra Solar and SP Tanauan. The Company and Solar Philippines intend, however, to restructure these investments such that the Company and Solar Philippines will own shares in TRHI, and TRHI will directly own Terra Solar and SP Tanauan. As such, Terra Solar and SP Tanauan will become direct subsidiaries of TRHI.

Ahunan Laguna Power Plant

The Ahunan Laguna Power Plant is owned by Ahunan Power, which is 85% owned by Prime Metro Power, and 15% owned by JBD Water Power, Inc. (formerly JBD Management and Consulting Services, Inc.).[1] The Ahunan Laguna Power Plant is expected to be developed across 300 hectares of land in Laguna and land acquisition activities and geotechnical investigations are being undertaken. Ahunan Power has also been undertaking social acceptability programs in the community in relation to its environmental permits, and it has received a certificate of non-overlap from the NCIP and condition water permits. The Ahunan Laguna Power Plant is also in the process of obtaining an ECC. As of date of this Prospectus, the Ahunan Laguna Power Plant has completed an EIS, which, under the rules and regulations of the DENR, is a prerequisite for the issuance of an ECC.

The Ahunan Laguna Power Plant is a 1,400MW (gross) (1,200MW (net)) pumped storage hydropower plant, which is expected to provide 500MW of mid-merit energy for 12 hours per day, with a tariff rate of ₱3.6711 per kWh (computed as ₱4.0511 per kWh less (i) line rental cap of ₱0.1000 per kWh, and (ii) ancillary services cost recovery cap of ₱0.2800 per kWh, which, together with pumping costs, are not borne by Ahunan Power), to shift underutilized baseload to MERALCO and 700MW to address ancillary requirements of the national grid during peak times or as an additional energy storage solution. The project permits for the integration of VRE as it functions to absorb excess generation and cover lulls in the generation of VRE such as wind, solar and run-of-river hydro. The Issuer expects to commence physical works on the Ahunan Laguna Power Plant by the second quarter of 2023. The Ahunan Laguna Power Plant is expected to commence commercial operations in 2027 (500MW in the first half of 2027 and 700MW in the second half of 2027). The Issuer also estimates that the total capital expenditure for the Ahunan Laguna Power Plant for 2022 to 2027 will be approximately ₱75.1 billion.

The servicing of the contract for the supply of 500MW of mid-merit energy to MERALCO will be undertaken by Mabighani Power Inc., the operating subsidiary of PMJVCo Holdings, Inc. The servicing of the remaining 700MW will be undertaken by Calinaw Power, Inc., the operating subsidiary of PSJVCo Holdings, Inc.

Ahunan Power intends to enter into a power supply agreement with distribution utilities and ancillary services with the system grid operator.

Ahunan Rizal Plant

On June 29, 2022, Ahunan Power was granted original proponent status ("**Ahunan OPS**") by the MERALCO Third Party Bids and Awards Committee to supply MERALCO with 500MW of mid-merit energy using pumped storage hydropower. Discussions between Ahunan Power and MERALCO in relation to the competitive selection process for the right to match are ongoing and are expected to be finalized by the end of 2022 to early 2023. On July 12, 2022, Ahunan Power entered into a share purchase and investment agreement to acquire a 67% equity interest in Olympia Violago Water & Power, Inc. ("**OVWPI**"). OVWPI is the developer of a 500MW pumped storage hydropower plant in Rizal Province ("**Ahunan Rizal Plant**") which currently is in pre-development stage. The total cash consideration for the acquisition, upon full satisfaction of all closing conditions, is ₱289 million. The Ahunan Rizal Plant is one of the two power plants that Ahunan Power nominated for the Ahunan OPS. The other plant nominated by Ahunan Power is the Ahunan Laguna Power Plant. Based on the terms of reference with MERALCO, Ahunan Power has the flexibility to select between the Ahunan Rizal Plant and the Ahunan Laguna

[1] Prime Metro Power's stake in Ahunan Power will increase to 89%, and JBD Water Power, Inc.'s stake in Ahunan Power will proportionally decrease to 11%, upon the first drawdown by Ahunan Power or a related subsidiary of funds relating to contemplated project financing for either the 500MW intended to be supplied to MERALCO or the 700MW intended to be supplied to the national grid, whichever comes later.

Power Plant to service the contract for 500MW of mid-merit energy, which Ahunan Power believes will enable it to increase its hydropower pumped storage generating capacity without extensive pre-development works.

PrimeRES Energy Corporation

PrimeRES Energy Corporation was incorporated on April 13, 2022 with the aim of adding diversification to the Company's energy business through participation in the retail market. Its goals include the optimization of power procurement for contestable customers that are affiliates of the Company, ICTSI and Bloomberry, and to completement the power generation projects of the Company by providing a market mechanism to sell power under the RCOA. PrimeRES Energy Corporation was granted a Certificate of Registration as Renewable Energy Supplier on September 7, 2022.

ChicoJVCO Inc.

ChicoJVCO Inc. was incorporated on May 7, 2018 to engage in the hydropower business, namely, the Chico Hydropower Project in the Cordillera Administrative Region. Prime Metro Power holds 82% of ChicoJVCO Inc. Prime Metro Power and San Lorenzo Ruiz Piat Energy and Water, Inc. ("**SLRPEWI**") entered into a joint venture agreement for the assignment to ChicoJVCO Inc of the Chico Hydropower Service Contract and development of the Chico Hydropower Project. As of June 30, 2022, the board of directors of ChicoJVCO Inc. has recognized the non-viability of the Chico Hydropower Project due to the termination of the joint venture agreement with SLRPEWI when the irrevocable option to study, consider and pursue the commercial development of the Chico Hydropower Project expired, and intends to wind up ChicoJVCO Inc. For the six months ended June 30, 2022, the Group recognized an impairment loss amounting to ₱104.6 million for the project development costs associated with the Chico Hydropower Project. For further details, see Notes 1, 3 and 14 to the Group's audited consolidated financial statements as of and for the six months ended June 30, 2022.

***Iraq***

Umm Qasr Power Plant

The Umm Qasr Power Plant is 100% owned by the Issuer through the Iraq branch of Menatech, a wholly-owned U.A.E.-incorporated subsidiary of Prime Metro Power. The Umm Qasr Power Plant is a gas-fired power plant located in Basra, Iraq and is designed to deliver 24/7 baseload power to the Umm Qasr Ports Authority zone operated by the General Company for Ports of Iraq ("**GCPI**").

The Umm Qasr Power Plant is being developed in two phases. The first phase comprising 29.34MW of installed capacity commenced commercial operations in February 2020. The second phase is expected to commence development after the requisite notifications from GCPI, and once completed, Umm Qasr Power Plant's installed capacity will comprise 67.8MW. Menatech expects demand to increase in the short-term and in particular, once the Umm Qasr Port is further developed in the next two to three years. The Umm Qasr Power Plant has sufficient land to increase its installed capacity to up to 150MW. The annual energy capacity of the first phase of the Umm Qasr Power Plant is approximately 235,000 MWh per year.

Menatech has entered into a 23-year contract of supplying, installation, management and operation of power plant with GCPI, which agreement provides for the sale of power from February 18, 2020 to February 18, 2043. The tariff rates under the contract are Iraqi Dinar 112 per kWh for the first ten years, Iraqi Dinar 105 per kWh for the next seven years, and Iraqi Dinar 100 per kWh for the last five years.

**OTHER ENERGY BUSINESSES**

The Group's pipeline of energy projects includes the possible expansion of its sales of power to a broader range of customers, including retail customers. The Group established an entity to explore the retail electricity supply business through Prime Infrastructure's wholly-owned subsidiary, PrimeRES Corporation, which was incorporated in April 13, 2022.

**SUPPLIERS**

Both Menatech and SP Tarlac have a broad base of suppliers for third-party services, who are located both in Iraq and the Philippines, respectively, and in other countries and use such suppliers for a variety of services at the Umm

Qasr Power Plant and the Tarlac Solar Power Plant, including engineering, construction and security services. Neither Menatech nor SP Tarlac are dependent on one or a limited number of suppliers for such third-party services.

*Fuel Supply for the Umm Qasr Power Plant*

Menatech sources natural gas for the Umm Qasr Power Plant via a specifically dedicated 15 km pipeline that it owns. GCPI has entered into a fuel supply agreement for the power plant with the Basrah Gas Company, a joint venture between the government of Iraq, Shell and Mitsubishi, and, subject to regulatory approval, Menatech is able to pass on the fuel cost of the natural gas and any oil used in the power plant to GCPI under its contract for supplying, installation, management and operation of power plant. The price of the natural gas under GCPI's fuel supply agreement with the Basrah Gas Company is U.S.$1.1/MMBTU.

**CUSTOMERS**

As of the date of this Prospectus, Menatech sells all the electricity generated by the Umm Qasr Power Plant to GCPI pursuant to a 23-year contract for supplying, installation, management and operation of power plant and SP Tarlac sells all the electricity generated by the Tarlac Solar Power Plant to MERALCO pursuant to a 20-year power supply agreement for the sale of 75MW to 85MW. The main customers of the Group's energy projects in the Philippines are primarily intended to be distribution utilities such as MERALCO under PSAs. After having been given original proponent status by the MERALCO TPBAC, Terra Solar and Ahunan Power are currently negotiating with MERALCO for their PSAs. SP Tanauan and SP Tarlac have existing PSAs with MERALCO.

**DISTRIBUTION**

Generally, in respect of the distribution of electricity from a power plant to the customer in the Philippines, the governing law is EPIRA which segregates and privatized generation, transmission and distribution. The generator declares its available capacity and bids "blocks" of energy generation to the grid which is operated by NGCP as transmission system operator. The WESM, through a price stacking mechanism, determines the required energy volume (by stacking demand from distribution utilities and directly connected loads) and gives a dispatch signal to all plants. The energy is transmitted via high voltage lines of the NGCP to the distribution utilities and electric cooperatives which, through lower voltage lines and transformers, transmit electricity to consumers. As of the date of this Prospectus, the Group's power plants will primarily supply energy to MERALCO who, in turn, is responsible for the transmission of electricity to its customers.

**COMPETITION**

The Group believes that it will face competition in both the development of new power generation facilities, the acquisition of existing power plants, and competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of various electric power generation projects within the Philippines. Accordingly, competition for and from new power projects, and in retail electricity supply may increase in line with the long-term economic growth in the Philippines.

In the Philippines, the Group competes with domestic energy companies for supply contracts under the Competitive Selection Processes, as well as for retail and contestable customers. These include AC Energy, Aboitiz Power Corporation, Energy Development Corporation, First Gen Corporation, SMC Global Power Holdings Corporation, Meralco PowerGen Corporation, and Semirara Mining and Power Corporation.

**INSURANCE**

The Energy Companies generally maintain operational all risk insurance, commercial liability insurance and (except for Menatech) business interruption insurance in line with the industry standards. However, please see "*Risk Factors—Risks Relating to the Group's Energy Business—Damage to or other potential losses involving SP Tarlac's or the Group's power plants may not be covered by insurance or the Group's insurance policies may be insufficient*."

**ENVIRONMENTAL**

The Group aspires to become a leader in the renewable energy industry. The Group is also committed to exploring innovations in power. To keep environmental impact at a minimum, renewable energy technologies account for

77.3% of the Group's operational energy asset portfolio as of June 30, 2022. The Group has also invested in peaking engines and in battery energy storage projects that are meant to provide ancillary services and reserves to the grid. Environmental compliance costs for the Group's energy business form part of its operational expenses.

## RELATED PARTY TRANSACTIONS

There are no related party transactions in the Group's energy business.

## REGULATORY COMPLIANCE

As of the date of this Prospectus, the Energy Companies have obtained, or are in the process of renewing, all governmental approvals, permits and licenses issued by the appropriate Government agencies or authorities, which are necessary to conduct the Group's energy business and operations. As of the date of this Prospectus, the Energy Companies have applied and paid the necessary fees for the issuance of material licenses, permits, and certifications. The Energy Companies are also awaiting issuance of certain permits from the appropriate government agencies in the ordinary course of renewal. See "*Description of Permits and Licenses*" for more details on the material licenses, permits, and certifications of the Energy Companies.

## LEGAL PROCEEDINGS

As of the date of this Prospectus, to the best of the Issuer's knowledge and belief and after due inquiry, no member of the Group involved in the Group's energy business is currently involved in any material litigation claims or arbitration, either as plaintiff or defendant, which could be expected to have a material and adverse effect on the Group's financial position on a consolidated basis.

# DESCRIPTION OF THE GROUP'S CONSTRUCTION BUSINESS

## OVERVIEW AND STRUCTURE

Through Prime BMD, a joint venture partnership between Prime Metroline and BMD International Pty Ltd., an Australian civil contractor company, the Group constructs major infrastructure projects in the Philippines. Prime BMD holds a AAA contractor's license from the PCAB, and specializes in roads and bridges, marine infrastructure and dredging services, airport infrastructure, building works, water and wastewater infrastructure, rail infrastructure, and commercial and residential land subdivision projects. As of June 30, 2022, the Issuer's wholly-owned subsidiary Prime Metroline owned 60.0% and BMD International Pty Ltd. owned 40.0% of Prime BMD. As of June 30, 2022, Prime BMD had over 1,500 workers consisting of employees, contract workers and project-based consultants. The Group expects Prime BMD to be a niche player in the construction industry through its ownership of specialized assets and ability to provide value to specialized construction projects such as marine projects, bulk water, and government and general infrastructure. The Group also expects Prime BMD to focus on and participate in heavy civil specialized projects such as those with an underground component in the scope of work.

For the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the Group's revenue from its construction business was ₱1,179.5 million, ₱2,294.6 million, ₱2,857.2 million, ₱2,673.8 million (U.S.$48.6 million), ₱1,357.2 million and ₱1,633.0 million (U.S.$29.7 million), respectively.

The contribution to the Group's EBITDA by the Group's construction business was ₱(64.6) million, ₱292.1 million, ₱368.4 million, ₱371.2 million (U.S.$6.8 million), ₱129.5 million and ₱250.1 million (U.S.$3.9 million) for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. The contribution of the Group's construction business to attributable net income (loss) amounted to ₱(38.8) million, ₱89.7 million, ₱168.4 million, ₱87.6 million (U.S.$1.6 million), ₱10.3 million and ₱104.2 million (U.S.$1.9 million) for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively.

The following table sets out selected key performance indicators of Prime BMD's business (representing the Group's construction business segment) as of and for the periods indicated:

| Key Operating Data | As of and for the year ended December 31, | | | | As of and for the six months ended June 30, |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| Construction order book outstanding[1] (in ₱ millions) | 3,874 | 4,887 | 3,967 | 4,894 | 4,553 |
| Sales (in ₱ millions) | 1,179.5 | 2,294.6 | 2,857.2 | 2,673.8 | 1,633.0 |
| Gross profit (in ₱ millions) | 128.6 | 472.3 | 503.6 | 508.7 | 377.5 |
| EBITDA (in ₱ millions)[2] | (64.6) | 292.1 | 368.4 | 371.2 | 250.1 |

*Notes:*

(1) Calculated based on the total value of uncompleted contract works as of the reporting date. This includes the balance of the total value of works carried forward from the previous year, plus the value of all newly secured contracts, minus the revenue recognized from such works.

(2) The following table sets forth the computation of Prime BMD's EBITDA for the periods presented.

| | As of and for the year ended December 31, | | | As of and for the six months ended June 30, |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | | (in ₱ millions) (Audited) | | |
| Net income | 149.6 | 158.0 | 146.0 | 173.7 |
| Net loss from discontinued operations | – | – | – | – |
| Gain on bargain purchase | – | – | – | – |
| Provision for (benefit from) income tax | 62.2 | 84.2 | 72.5 | 57.9 |
| Other income (expense) - net | (0.1) | (0.6) | – | (34.4) |
| Interest income | (6.7) | (2.5) | (1.6) | (0.4) |
| Foreign exchange losses (gains) - net | (0.4) | 2.7 | – | 1.1 |
| Interest expense | 7.7 | 14.9 | 14.4 | 10.1 |
| Depreciation and amortization | 79.8 | 111.7 | 139.9 | 42.1 |
| **EBITDA** | **292.1** | **368.4** | **371.2** | **250.1** |

**PROJECTS**

Some of Prime BMD's representative projects are described in the table below. Unless otherwise stated, the projects are all located in the Philippines.

| Types of Works | Representative Projects |
|---|---|
| Water and Wastewater Infrastructure | Wawa Bulk Water Supply Project - Tayabasan Weir and Upper Wawa Dam Pumping Station and Conveyance Pipeline[1]; and Solaire Resort and Casino – Sewage Treatment Plan Upgrade[2] |
| Marine Infrastructure and Dredging Services | MICT Berth 7 Expansion, MICT Berth 1-5 Wharf Repairs, MICT Maintenance Dredging Work, and Cavite Gateway Terminal[3] |
| Building Works | Solaire North Base Build[2] |
| COVID-19 Facilities | Quarantine Centers and Testing Facilities, Mass Vaccination Center |
| Land Development | National Government Administrative Center; Solaire North[3]; and MICT CFS1 and CFS2 Container Yard Construction and MICT Reefer Pack Expansion[2] |
| Roads and Transportation | Montclair Interchange and Montclair Access Bridge; MICT East Access Road[2]; and Wawa Access Road[1] |

*Notes*:
1. These are projects of WawaJVCo, an affiliate of Prime BMD, and a member of the Group.
2. These are projects of Sureste Properties, Inc., an affiliate of Prime BMD.
3. These are projects of ICTSI, an affiliate of Prime BMD.

The table below sets forth details of some of Prime BMD's major completed construction projects as of June 30, 2022:

| Project | Scope of Works | Client | Commencement Date | Completion Date | Contracted Value (₱ million) |
|---|---|---|---|---|---|
| MICT Berth 1-5 Wharf Repairs | Wharf repair works; remediation works for top side, soffit, and concrete; installation of cathodic protection; construction of new tie down | ICTSI* | March 2019 | September 2021 | 627 |
| Mass Vaccination Center | Installation of temporary facilities for ICTSI's COVID-19 response measures | ICTSI* | May 2021 | July 2021 | 204 |
| MICT Berth 7 Expansion | Design and construction of extension and the reclamation of the South Yard at MICT: the project involved the reclamation of 28,500 sq.m. of land and the construction of a 150-meter-long wharf in Manila Bay to support the handling of a growing volume of container van shipments | ICTSI* | August 2018 | April 2021 | 3,000 |
| MICT East Access Road | Concreting of pavement at MICT East Access Road and construction of a new drainage system at MICT to improve traffic conditions for increasing container van shipments at Major Access Road | ICTSI* | September 2020 | March 2021 | 287 |
| Solaire-PAGCOR Mega Quarantine Center | Construction of COVID-19 quarantine facility in Parañaque, Metro Manila | Sureste Properties, Inc.* | July 2020 | October 2020 | 203 (inc. VAT) |

| Project | Scope of Works | Client | Commencement Date | Completion Date | Contracted Value (₱ million) |
|---|---|---|---|---|---|
| MICT Maintenance and Capital Dredging Work (Berth 7) | Dredging and maintenance works | ICTSI* | October 2018 | January 2020 | 95 |
| MICT Maintenance and Capital Dredging Work (Berth 3, 5 and 6) | Dredging and maintenance works | ICTSI* | July 2019 | December 2019 | 162 |
| Demolition of MICT CFS2 Container Yard and Concreting of Pavement | Construction of enclosure fence, lateral drainage, drainage pipes and manholes, concrete pavement, high mast lighting; electrical works; provision of concrete barriers and bollards; expansion joint cutting and sealing; raise up concrete drainage cover and electrical manhole cover | ICTSI* | June 2019 | December 2019 | 58 |
| Montclair Interchange Project | Earthworks; roadworks; bridge construction including bored piling, drainage, railings and utilities; slope protection | Robinsons Land Corporation | October 2019 | June 2022 | 402 |

*Notes*:
* An affiliate of Prime BMD.

The table below sets forth details of some of Prime BMD's major ongoing construction projects as of June 30, 2022:

| Project | Scope of Works | Client | Commencement Date | Estimated Completion Date | Contracted Value (₱ million)[1] | Percentage Completion |
|---|---|---|---|---|---|---|
| Wawa Bulk Water Supply Project - Upper Wawa Dam (Pumping Station and Conveyance Pipeline) | Excavation; constructing access road; structural steel works; water treatment; pipelines; tunneling | WawaJVCo* | October 2021 | December 2025 | 3,211 | 18.2%[2] |
| Cabading Booster Station with 3MLD Reservoir | Earthworks; access Road; slope protection; drainage; reservoir (23m x 23m x 8.7m for 3ML); pumping station; substation | Manila Water* | January 2022 | January 2023 | 1,265 | 25.8%[3] |
| MICT Expansion of Reefer Rack | Fabrication and installation of new reefer racks; construction of new container stacking pads, RTG lanes, truck lanes and rehabilitation of exiting storm drainage | ICTSI* | March 2022 | October 31, 2022 | 121 | 33.9% |
| Wawa Bulk Water Supply Project - Tayabasan Weir | Access road, earthworks, culvert, pump station structure, pipelines, cofferdam | WawaJVCo* | June 2020 | Fourth quarter of 2022 | 1,234 | 98.4%[4] |
| Montclair Access Bridge in Porac, Pampanga | Earthworks; roadworks; bridge construction including bored piling, drainage, | Robinsons Land Corporation | May 2021 | August 2022 | 289 | 84.6%[5] |

| Project | Scope of Works | Client | Commencement Date | Estimated Completion Date | Contracted Value (₱ million)(1) | Percentage Completion |
|---|---|---|---|---|---|---|
| | railings and utilities; slope protection | | | | | |
| Solaire North (Base build) in Quezon City, Manila | Concreting works, masonry works, metal works, and architectural finishes | Sureste Properties, Inc.* | November 2019 | July 2022 | 4,200 (Prime BMD – 50% share) | 96.9%(6) |

*Notes*:

* An affiliate of Prime BMD.

(1) Exclusive of VAT, unless otherwise stated. These figures include agreed variations as of June 30, 2022.

(2) 18.3% as of July 16, 2022.

(3) 27.5% as of July 16, 2022.

(4) 98.4% as of July 16, 2022.

(5) 85.9% as of July 16, 2022.

(6) 100% as of July 21, 2022.

## CONSTRUCTION CONTRACTS

Most of Prime BMD's construction contracts are awarded and carried out on a fixed-price or fixed-unit-price basis with a fixed timetable for project completion. Some contracts contain price adjustment clauses to cover any increases in the costs of raw materials exceeding a pre-agreed level, any change of design or work scope, or other specific factors causing the interruption of construction such as the lack of water and electricity supplies. For construction contracts that do not include price adjustment clauses, Prime BMD typically builds a contingency amount into its bid price to cover any potential increases in costs.

Prime BMD generally offers the same set of contract terms to its customers. Its infrastructure construction contracts generally contain provisions relating to the following features:

- Project bonds – Prime BMD is usually required to provide a performance bond in an amount between 10% and 30% of the total contract value to its customers prior to commencement of the project. Prime BMD's customer may present the performance bond for payment to the issuing financial institution in accordance with the relevant contract and bond terms if Prime BMD defaults on its performance obligations. The performance bond is typically released by the customer on the date it issues the notice of acceptance of the last section of works as specified in the agreement.

- Progress payments - For large-scale construction projects, Prime BMD typically receives payment in stages based on the amount of work that it has completed. Prime BMD's construction contracts usually require its customers to pay between 10% and 30% of the total contract value in advance and within a specified period after the execution of the contract. Subsequent progress payments are made in stages upon the achievement of certain milestones set out in the relevant contract. Upon reaching such milestones, Prime BMD will notify its customers, who then send a third party compliance engineer to certify the construction progress. Prime BMD usually receives its progress payments within a specified period after certification.

- Retention monies – As is common practice in the construction industry in the Philippines, Prime BMD's customers usually withhold a percentage of the total contract value as retention monies for any defects in the quality of Prime BMD's work for the length of the maintenance period. Some of Prime BMD's customers are also willing to accept contractual bank guarantees in lieu of the whole or part of the retention monies. Such retention monies and/or bank guarantees are held for the duration of the contractual maintenance period, and are returned to Prime BMD after the issue of a completion certificate.

## CAPABILITIES AND PROCESSES

### *Contracting Process*

The process of identifying and negotiating infrastructure construction projects generally involves the following steps:

- Information Collection – Prime BMD collects timely and reliable information to assist it in identifying potential projects. The information sources that Prime BMD uses to identify potential projects include its business and governmental contacts, government public tender notices, professionals in the infrastructure construction industry and ongoing communication with Prime BMD's existing customers.

- Project Evaluation – In relation to identified potential projects, Prime BMD will conduct an initial evaluation to assess, among others: (a) whether it meets the qualification criteria specified for the project; (b) the sufficiency of its resources; and (c) the costs and potential profitability of the project, prior to deciding whether or not to pursue such project. If the initial evaluation of a potential project is favorable, Prime BMD will then conduct a detailed assessment of the technical and commercial characteristics of the project, which may involve on-site inspections to allow it to accurately estimate timing and resource requirements in order to prepare a competitive and profitable bid. Such an assessment usually involves: cost analysis on raw material costs, labor costs, equipment and machinery costs and the like; site analysis with respect to water supply, electricity supply, transportation and other infrastructure; capital expenditure analysis on the equipment needed and the projected length of use; and credit analysis on its customers and the terms of payment.

- Pre-qualification (or Post-qualification) Procedures - For large-scale projects, Prime BMD is generally required to undergo pre-qualification assessment procedures prior to being allowed to bid on a project. Such customers generally require that Prime BMD meets certain minimum requirements with regard to financial position, level of construction qualifications and scale of operation before accepting Prime BMD's bid on a project. Prime BMD is therefore typically required to submit pre-qualification information concerning its financial position, operational history (including past and ongoing projects) and the availability of our resources such as manpower and equipment.

- Tendering - Large-scale infrastructure construction projects in the Philippines are often put out to tender in sections. If Prime BMD decides to pursue a particular project after its assessment and evaluation, and if it meets the prequalification criteria, Prime BMD is generally required to prepare and deliver bidding documents to its potential customers. Estimating the costs involved in a project is important in covering all of Prime BMD's costs and ensuring profitability. Prime BMD carefully estimates the costs of each project before the submission of a bid. Prime BMD relies on its own experience in estimating project costs and takes into account factors such as the difference in site and environmental conditions as compared to those assumed in the previous bids, the geographical location of the project, the availability and pricing of raw materials, machinery and local labor and the tax expenses involved.

- Engagement Negotiation - After Prime BMD is selected as a contractor on a project, it will often be served with a written notice from its customers to engage in further but limited negotiation to finalize and formalize the key contractual terms.

### *Construction Management*

In carrying out different infrastructure construction projects, Prime BMD acts in varying capacities, such as the main contractor, a member of a consortium or joint venture, or a sub-contractor, depending on the requirements of the project, the scale of the projects and the preferences of its customers.

Prime BMD implements and maintains a comprehensive management and supervision system to enable its management to exercise appropriate oversight and control over every stage of a project's lifecycle, including project implementation, labor management, raw materials monitoring, quality control and compliance or certification. Prime BMD carries out its work in accordance with the agreed timeline and scope of work that are set out in the tender documents and contracts. However, Prime BMD's customers may modify the agreed work scope of a project during the construction phase due to changes in plans or correction of errors. In such cases, Prime BMD negotiates adjustments in payment or construction timetables to account for any work scope modification.

Prime BMD starts its involvement in the project process from the pre-construction stage at which it discusses and agrees important project details such as the specifications, permits and licenses required, schedule of operation, communication plan, safety procures progress reporting and invoicing procedures. A site visit will be scheduled so that Prime BMD's construction and engineering teams can do a re-survey and make any necessary adjustments to the original project estimates. A detailed budget and resource allocation plan must be formulated and approved by senior management before project implementation.

Subsequently, Prime BMD commences mobilization efforts, including assigning on-site personnel and relocating equipment, and setting up temporary offices and other facilities at the project site. Prime BMD's team makeup for each project usually comprises a project manager and a project engineer, who are fully supported by a technical team from our engineering department, including civil engineers, mechanical engineers, material engineers and surveyors. The project team also coordinates with centralized functions such as procurement, accounting, and human resources to ensure that sufficient resources are deployed for each project throughout the entire construction process. The project manager is primarily responsible for the monitoring of construction works and meets with Prime BMD's construction department head on a weekly basis to discuss project progress, issues and necessary action plans. Each project's technical support team of engineers are required to be completely familiar with the contract documents and overall construction plan, so that they can effectively track key indicators during the project process, including material usage, labor usage, equipment usage and project expenses.

The Group believes that Prime BMD's systematic approach to project monitoring is one of the key reasons for Prime BMD's consistent record in completing and delivering our construction projects on schedule. Prime BMD usually utilizes its internal labor resources for our construction projects. However, given the labor intensive nature of the construction industry, particularly during certain stages of a project, Prime BMD regularly needs a large amount of manpower and may engage external labor service companies to meet the labor demands of its projects.

Prime BMD only engages high quality labor service companies which meet its specific standards and with whom we have established long-term working relationships. Prime BMD requires its service providers to comply with all relevant labor laws and regulations. As of June 30, 2022, Prime BMD has not experienced any material labor disputes in the past three years.

***Equipment and Technology***

Prime BMD owns and uses a large variety of heavy machinery and other equipment, including dredgers, tugs and split hopper barges, lifting equipment, trailers, dozers, graders, batching plants and hydraulic excavating machines. Prime BMD purchases its equipment both domestically and overseas. Except for certain large-scale machinery, Prime BMD usually evaluates its equipment requirements on a project-by-project basis, and the costs of purchasing, leasing or replacing any machinery are taken into account when it formulates its costing analysis for the project. Prime BMD places significant emphasis on the improvement of its construction efficiency, and therefore it upgrades the equipment, machinery and facilities used for its projects on a regular basis.

The Group believes that Prime BMD's technological capabilities in infrastructure construction have reached international standards and are highly competitive against other national industry players.

***Partnerships and Joint Ventures***

Prime BMD also enters into partnerships or joint ventures with international or local players with specific construction expertise in order to undertake projects. These include:

- <u>Marine and Dredging</u> – Prime BMD maintains close relations with Royal Boskalis Westminster N.V. which is a Dutch company operating for more than 112 years in the maritime infrastructure sector.

- <u>Tunneling</u> – Prime BMD maintains close relations and partners with Seli Overseas, a company which specializes in underground works and in TBM tunneling for the execution of metro, railway, highway, aqueducts, sewage and hydropower projects. Seli Overseas was recently acquired by Webuild SpA, a leading global construction company, and was previously owned by Seli SpA, an Italian TBM and tunneling company founded in 1950.

- <u>Water</u> – Prime BMD has partnered with Suez International, a French specialist, which provides a complete range of solutions for designing, building and managing water treatment facilities to the highest international standards. Prime BMD also maintains close relations with Acciona, S.A, a Spanish multinational conglomerate with broad expertise in developing water works around the world, including hydroelectric plants and dams.

- Concrete Specialists – Prime BMD maintains close relations with Freyssinet International, the inventor of prestressing with 79 years of innovation heritage in civil engineering concrete restoration, structural strengthening, and maintenance.

- Power and General Contracting – Prime BMD maintains close relations with Acciona, S.A, a Spanish multinational conglomerate dedicated to the development and management of infrastructure and renewable energy.

- General Contracting – Prime BMD also maintains relationships with general contractors in the Philippines with AAA and AAAA PCAB certifications.

**RAW MATERIALS AND SUPPLIERS**

Prime BMD requires substantial amounts of construction and raw materials in its business. The raw materials used mainly consist of steel, cement, sand, concrete and timber.

Prime BMD typically enters into raw material supply contracts on a project-by-project basis. Prime BMD's raw material supply contracts are typically on a fixed-price or cost-plus basis, depending on the type of product supplied, and with varying durations depending on the life cycle and nature of the underlying project. Some of Prime BMD's contracts, including most of its construction projects, contain price adjustment clauses. Such clauses allow us to reclaim a portion of any additional costs incurred due to an increase in raw material costs. However, to the extent that such clauses do not cover additional raw material costs, or if Prime BMD's contracts do not include price adjustment clauses, Prime BMD will bear the risk of raw material price fluctuations. Nonetheless, for such contracts, Prime BMD typically builds a contingency amount into its bid price to mitigate any potential increases in costs. Prime BMD has experienced fluctuations in the price of certain key raw materials in recent years.

Prime BMD conducts a competitive selection process to select suppliers based on, amongst other factors, the quality of their products and services and the competitiveness of the prices. Prime BMD also maintains a shortlist of accredited preferred suppliers. Prime BMD has maintained long-term relationships with most of its major suppliers and does not believe that it is dependent on one or a limited number of suppliers. See "*—Partnerships and Joint Ventures*."

**CUSTOMERS**

Prime BMD's principal customers are related parties and affiliates, including WawaJVCo, ICTSI, Sureste Properties, Inc. and Manila Water. However, for the year 2021, Robinsons Land Corporation was one of Prime BMD's top five principal customers by revenue and Prime BMD intends to expand its revenue streams from non-related parties. Agreements between Prime BMD and related parties and affiliates are entered into on an arm's length basis. See "*—Projects*."

**QUALITY CONTROL**

Prime BMD places great emphasis on quality control of its services, and has established an ISO 9001 certified quality management system to ensure that its services and properties meet national and industry standards. Prime BMD's construction operations and project management teams are responsible for overall quality control and construction supervision of all its projects. Prime BMD also typically contracts with reputable design firms and sub-contractors, and procures materials from highly regarded suppliers.

Prime BMD has quality control procedures in place for every stage of its project cycle from the initial planning, to completion of construction, to post-completion operations. Prime BMD has also established stringent internal guidelines which apply to the quality of materials used in our property projects. All materials undergo the procedures of submission, sampling and testing before they are used in Prime BMD's projects. Prior to the commencement of any major individual construction work, Prime BMD's internal construction personnel and sub-contractors are required to submit a full proposal including details such as construction progress timetable, safety measures, water and electricity planning and financing costing, for inspection and approval. Full scale construction may only begin once the submitted samples have been examined and approved.

During construction, every work phase, including foundations, structures and interiors must undergo regular and frequent inspection. Prime BMD's sub-contractors are required to ensure that their construction work satisfies construction specifications and the guidelines laid down by Prime BMD. Prime BMD also conducts quality and safety control checks on project sites to ensure that the construction is undertaken in strict accordance with Prime BMD's requirements and in compliance with all applicable rules and regulations. When the project is completed, Prime BMD will review the inspection reports prepared by the respective departments at each stage of construction followed by a thorough final property check before concluding that the property is ready for handover. Prime BMD maintains strict and fully documented guidelines in respect of all procedures involved in the construction process, to which all external contractors are required to adhere. As of June 30, 2022, Prime BMD has not experienced any material disputes or accidents relating to quality issues in the past three years.

## HEALTH AND SAFETY

Prime BMD regards occupational health and safety as one of its important social responsibilities and has established an ISO 45001 certified occupational health and safety management system to ensure it meets national and industry standards for health and safety.

Prime BMD's business operations involve significant risk or hazards which could result in damage or destruction of properties, death and personal injury, business interruption and possible legal liabilities. Prime BMD's business operations may, in the future, be subject to accidents resulting in employee fatalities and injuries caused by falls from height, toxic gas, tunnel collapses, typhoons and mudslides. As of the date of this Prospectus, Prime BMD has not experienced any such instances.

Prime BMD has a "Zero Harm" goal to ensure that every person who comes into contact with its business remains safe and in good health. As such, Prime BMD requires all its employees, contractors, suppliers and their workers to (i) comply with relevant occupational health and safety and legislation, regulations and codes of practice mandated by the Government, (ii) work safely, (iii) comply with Prime BMD's procedures and requirements including but not limited to health and safety management plans or integrated project management plans, and (iv) report any unsafe conditions or situations as soon as they arise.

To meet and continuously improve on its occupational health and safety obligations, Prime BMD intends to, among others, (i) assess and mitigate risks that may occur as a result of health or safety hazards, (ii) promote a proactive approach from its employees in identifying, reporting and correcting potential health and safety hazards (iii) ensure that only proper safety equipment is obtained and made available to all staff, (iv) provide training and supervision to ensure a safe work environment, (v) develop a culture of health and safety awareness, with participation of, and in consultation with, workers, (vi) consider occupational health and safety performance when selecting contractors, subcontractors, consultants and suppliers, (vii) support all workers in the implementation of safe work procedures and practices, and (viii) keep relevant records.

## INSURANCE

Prime BMD purchases construction all-risk and third-party liability insurance for the projects it undertakes. Such policies generally extend for the entire contract period, including the maintenance period following completion of the project. In addition, Prime BMD generally purchases insurance for its fixed assets, such as its key equipment, vessels, stock and office buildings, and employer's liability insurance/worker's compensation insurance. Prime BMD maintains insurance coverage in amounts that it believes are consistent with its risk of loss and industry practice. Consistent with what Prime BMD believes to be customary practice in the Philippines, Prime BMD does not carry any business interruption insurance, key-man insurance or insurance covering potential environmental damage claims.

## RELATED PARTY TRANSACTIONS

Prime BMD has entered into transactions with members of the Group. For example, WawaJVCo and Prime BMD entered into an engineering, procurement, and construction contract in relation to Prime BMD's construction of the Tayabasan Weir and Upper Wawa Dam pumping station. Also, Prime Metro BMD Industrial Services Corporation, a subsidiary of Prime BMD, has an operation and maintenance contract with MORE Electric and

Power Corporation ("**MORE Power**"), a subsidiary of Prime Strategic Holdings, Inc. and an electric distribution utility in Iloilo City, in relation to a power barge owned by MORE Power.

Prime BMD has served or also serves as contractor for several projects of affiliates, such as ICTSI (including dredging and expansion works for MICT) and Bloomberry (including Solaire North in Quezon City).

**ENVIRONMENTAL COMPLIANCE AND PROTECTION**

Prime BMD regards environmental compliance and protection as one of its important social responsibilities and has established an ISO 14001 certified environmental management system to ensure it meets national and industry standards for environmental compliance.

Prime BMD believes that its business complies with currently applicable national and local environmental laws and regulations in all material aspects. As of June 30, 2022, Prime BMD was not aware of any penalties assessed in connection with the breach of environment laws and regulations.

In accordance with Prime BMD's values and commitment to "Zero Harm," Prime BMD aims to provide engineering solutions based on best practices and sustainable environmental management principles. Prime BMD is dedicated to preventing environmental harm and pollution to the ecosystems and communities in which it operates. Prime BMD intends to continue to:

- comply with relevant environmental legislation, regulations and codes of practice mandated within the jurisdictions in which it operates;
- develop and sustain a culture of environmental awareness within its workforce;
- comply with project specifications, client and other interested parties' environmental requirements;
- identify all environmental aspects and impact relating to its operations and use a risk-based approach to implement appropriate mitigation measures;
- undertake continuous monitoring, measurement and improvement of environmental controls across the organization;
- undertake reporting of all environmental incidents;
- develop and implement environmental management systems that meet the ISO14001 standards;
- support all workers in the implementation of environmental procedures and processes; and
- increase the environmental awareness of workers and subcontractors through training and other programs.

The environmental compliance costs incurred by Prime BMD form part of its operational expenses.

**COMPETITION**

Prime BMD believes that its infrastructure projects focused construction business is capital intensive in nature and requires significant technical expertise, operational and management know-how and financial resources, which all represent substantial barriers to entry. Prime BMD primarily competes in terms of its flexibility on its target profit margin for the project, which affects its overall project pricing, and the amount of down payment required from the customer.

Prime BMD faces strong competition from major domestic, Asian and international players who may have greater financial, human and other resources, larger sales networks and greater name recognition. The Philippines construction industry is expected to be driven by rising infrastructure demand from various industries such as transportation, energy, BPOs and tourism, among others, and, given the positive economic outlook for the Philippines, Prime BMD expects greater focus on this sector from existing competitors such as: for water and sewage infrastructure, JV Angeles Construction Corp., Megawide Construction Corporation, and Sta. Clara International Corporation; for hydro and solar power infrastructure, Aboitiz & Co., Inc., Power Construction

Corporation of China; for road contractors, San Miguel Corp., EEI Corp., and potentially new entrants into the market.

**REGULATORY COMPLIANCE**

As of the date of this Prospectus, Prime BMD has obtained, or is in the process of renewing, all governmental approvals, permits and licenses issued by the appropriate Government agencies or authorities, which are necessary to conduct Prime BMD's business and operations. As of the date of this Prospectus, Prime BMD has applied and paid the necessary fees for the issuance of material licenses, permits, and certifications. Prime BMD is also awaiting issuance of certain permits from the appropriate government agencies in the ordinary course of renewal. See "*Description of Permits and Licenses*" for more details on the material licenses, permits, and certifications related to the Group's construction business.

**LEGAL PROCEEDINGS**

As of the date of this Prospectus, to the best of the Issuer's knowledge and belief and after due inquiry, no member of the Group involved in the Group's construction business is currently involved in any material litigation claims or arbitration, either as plaintiff or defendant, which could be expected to have a material and adverse effect on the Group's financial position on a consolidated basis.

# DESCRIPTION OF THE GROUP'S WASTE AND SUSTAINABLE FUELS BUSINESS

## OVERVIEW AND STRUCTURE

The Issuer holds 9.04% of the issued share capital of WasteFuel Global, a California-based company founded to utilize scalable technologies to convert municipal trash and agricultural waste into low-carbon fuels, renewable natural gas and green methanol. These technologies are the backbone of a waste management solution that aims to reduce carbon emissions by producing sustainable fuels for different modes of transportation. As of June 30, 2022, WasteFuel Global's other shareholders and strategic partners include NetJets and Maersk.

Through Prime Integrated Waste Solutions, a wholly-owned direct subsidiary of Prime Infrastructure, and WasteFuel Philippines, a subsidiary of Prime Metroline and a joint venture partnership with WasteFuel Global, the Group plans to develop an integrated waste and sustainable fuels solution business in the Philippines.

The Group together with WasteFuel Global, established WasteFuel Philippines to develop a facility in the Philippines to convert municipal waste into aviation-grade low-carbon fuel for sale to customers like NetJets. WasteFuel Philippines is 60.0% owned by the Issuer, and 40.0% owned by WasteFuel Global. WasteFuel Philippines was incorporated on May 10, 2021.

Prime Infrastructure established Prime Integrated Waste Solutions to implement waste management and landfill solutions for municipal waste and to supply waste to WasteFuel Philippines. These solutions include a waste facility optimized to handle waste (including recycling, treatment and processing). Prime Integrated Waste Solutions was incorporated on May 12, 2022.

Through Prime Integrated Waste Solutions and WasteFuel Philippines, the Group aims to (1) develop and implement an integrated waste and sustainable fuels solution in the Philippines, (2) build infrastructure that will provide Philippine residents with long-term access to proper waste facilities, (3) turn solid, industrial, agricultural and hazardous waste into feedstock that will produce sustainable fuels, and (4) become the Philippines' key enabler in developing a sustainable waste ecosystem that has a direct positive impact on the environment and the community. As of the date of this Prospectus, the Issuer believes that there are potential opportunities in waste management and sustainable fuels in Luzon and Visayas, including (i) solid waste pre-processing (with 4,000 to 5,000 tons per day of solid waste in North Luzon, 3,000 to 4,000 tons per day of solid waste in South Luzon, and 2,000 to 3,000 tons per day of solid waste in Visayas), (ii) bio-refineries, and (iii) storage facilities and methanol plants.

## PROJECTS

As of the date of this Prospectus, WasteFuel Philippines has not commenced operations.

On July 20, 2022, Prime Integrated Waste Solutions entered into a share purchase agreement wherein it acquired 20% of the shares and 100% of the voting interest in ARN Central Waste Management, Inc. ("**ACI**"). After satisfaction of certain conditions, Prime Integrated Waste Solutions expects to acquire the remaining 80% of the ACI shares. ACI is the owner and operator of one of the largest private sanitary landfills in Cebu City, which includes a 17 hectare facility that currently receives approximately 1,000 tons of municipal waste per day, with an expected maximum capacity of 2,000 tons per day, a wastewater recycling facility that treats up to 260 cubic meters of wastewater a day, a 4,140 square meter material recovery facility that can sort up to 70 metric tons of recyclables per day, and uses a comprehensive leachate system to ensure compliance with applicable environmental standards; the facilities are also able to produce refuse-derived fuel for energy generation. Prime Integrated Waste Solutions intends to expand the facility into a 24 hectare facility to further increase expected capacity, to sort up to 3,000 metric tons of recyclables per day, and better handle excess volumes of waste.

Prime Integrated Waste Solutions' business strategy relies on entering into waste management contracts with LGUs to provide segregation, collection, transport and storage services for municipal waste, the acquisition of existing waste management businesses that provide the foregoing services, the acquisition of landfill sites and the supply of waste materials to WasteFuel Philippines for conversion into sustainable marine fuel and aviation-grade low-carbon fuel.

Prime Integrated Waste Solutions is expected to be just one of many sources of waste to WasteFuel Philippines for its waste-to-fuel production operations. WasteFuel Philippines has recently confirmed the technical feasibility of developing a sustainable fuel production plant in the Philippines and, as of the date of this Prospectus, is in the front end engineering design phase, which includes conducting pre-development studies to finalize groundbreaking activities, and the parameters, timelines, and integration of feedstock supply from various waste management sites for the biorefinery are still being finalized. As of the date of this Prospectus, WasteFuel Philippines is also in the process of identifying several landfill, waste processing sites and storage sites for potential acquisition or development and its business strategy consists of developing the capability to produce sustainable marine fuel in the initial phases of operations of its biofuel conversion facility and to produce aviation-grade low-carbon fuel at a later phase of its operations. WasteFuel Philippines expects to commence construction activities relating to the biorefinery from middle to late 2023. The Group expects the commercial operations date of WasteFuel Philippines to be between the end of 2025 to early 2026.

**PLAN OF OPERATION**

The Issuer's waste and sustainable fuels business operation plan for the next twelve (12) months includes Prime Integrated Waste Solutions potentially acquiring suitable landfill or waste management companies.

**CAPABILITIES AND PROCESSES**

Once its waste-to-fuel conversion facility is developed, WasteFuel Philippines intends to convert waste into sustainable fuel through the following processes:

- <u>Sustainable Marine Fuel</u> – WasteFuel Philippines intends to convert municipal solid waste and agricultural feed and waste into methanol through the following process: (1) waste is pre-processed through segregation, drying and resource recovery, (2) the waste then goes through anaerobic digestion, (3) the waste is then subjected to syngas treatment and conversion and passed through a steam methane reformer, and (4) methanol is produced from such waste and feed.

- <u>Sustainable Aviation Fuel</u> - WasteFuel Philippines intends to convert agricultural feedstock into sustainable aviation fuel through the following process: (1) feedstock is prepared through fermentation, distillation and dehydration, (2) as a result, feedstock is converted into ethanol, and (3) ethanol is covered to jet fuel to produce sustainable jet fuel.

The Company also believes that there is potential for producing renewable diesel for road vehicles.

**SUPPLIERS**

As of the date of this Prospectus, neither Prime Integrated Waste Solutions nor WasteFuel Philippines have commenced operations and do not have any suppliers.

**CUSTOMERS**

As of the date of this Prospectus, neither Prime Integrated Waste Solutions nor WasteFuel Philippines have commenced operations and do not have any customers; however, WasteFuel Philippines expects NetJets to become a customer for aviation fuel upon completion of the waste-to-fuel facility in the Philippines.

**COMPETITION**

The Group believes that waste management services across the Philippines are currently fragmented, as there are several landfills, garbage collection and processing centers at the local government unit level. The Group also believes that solid waste management is a major concern in the Philippines. According to GlobalData, there is no standard waste disposal mechanism in the country, and some of the major concerns in solid waste management are inefficient collection routes and lack of disposal facilities. The DENR estimates that the Philippines requires a total of 1,700 sanitary landfills across all the municipalities and cities for effective solid waste management. As such, the Group believes that there is significant opportunity to expand and grow this business segment in the Philippines. The Group expects to compete with existing landfills and waste management facilities, a significant majority of which are owned by local government units.

For sustainable fuels, the Group expects to compete with both traditional fossil fuels and imported aviation fuel.

**ENVIRONMENTAL**

The environmental compliance costs of the Group's waste and sustainable fuels business form part of its operational expenses.

## REGULATORY COMPLIANCE

As of the date of this Prospectus, the Group has obtained, or is in the process of obtaining, all governmental approvals, permits and licenses issued by the appropriate Government agencies or authorities, which are necessary to conduct Prime Integrated Waste Solutions' and WasteFuel Philippines' respective businesses at their current pre-operational stage. See "*Description of Permits and Licenses*" for more details on the material licenses, permits, and certifications related to the Group's waste and sustainable fuels business.

## LEGAL PROCEEDINGS

As of the date of this Prospectus, to the best of the Issuer's knowledge and belief and after due inquiry, no member of the Group involved in the Group's waste and sustainable fuels business is currently involved in any material litigation claims or arbitration, either as plaintiff or defendant, which could be expected to have a material and adverse effect on the Group's financial position on a consolidated basis.

## DESCRIPTION OF PERMITS AND LICENSES

The Issuer and its Subsidiaries have obtained or are in the process of obtaining all material permits and licenses from the relevant government agencies in relation to their respective businesses, as confirmed by Adarlo Caoile and Associates Law Firm, in a legal opinion dated June 14, 2022.

Set out below are the material permits and licenses necessary for the Issuer and its Subsidiaries to operate their respective businesses, the failure to possess any of which would have significant adverse effects on the Group's business, financial condition, prospects, and operations. The Issuer and its Subsidiaries believe that they have all the permits and licenses necessary to operate their respective businesses as currently conducted and that such permits and licenses are valid, subsisting, or pending renewal. With respect to permits which are pending renewal, the Issuer and its Subsidiaries expect to obtain such renewal in due course.

**The Issuer**

### A. The Issuer

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04991 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22396 | January 26, 2022 | December 31, 2022 |
| 3. | NPC Registration | NPC | PIC-001-243-2021 | | March 2023 |
| 4. | DOLE Registration | Department of Labor and Employment | NCR-ERS-2022-6666807 | | N/A |
| 5. | Certificate of Incorporation | Securities and Exchange Commission (**"SEC"**) | 2020080001562-00 | August 20, 2020 | N/A |
| 6. | Certificate of Registration | Bureau of Internal Revenue (**"BIR"**) | 502-161-511 | September 2, 2020 | N/A |

**The Holding Companies**

### B. Prime Metroline Infrastructure Holdings Corporation

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04988 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22393 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | CS201705353 | February 15, 2017 | N/A |
| 4. | Certificate of Registration | BIR | 009-564-606 | February 15, 2017 | N/A |

**C. Prime Infrastructure**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04990 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22395 | January 26, 2022 | December 31, 2022 |
| 3. | NPC Registration | NPC | PIC-000-996-2021 | | March 2023 |
| 4. | Certificate of Incorporation | SEC | 2020100002989-06 | October 20, 2020 | N/A |
| 5. | Certificate of Registration | BIR | 502-271-631 | November 3, 2020 | N/A |

**D. Prime Metro Power**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04985 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22390 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | CS2017705352 | February 15, 2017 | N/A |
| 4. | Certificate of Registration | BIR | 009-564-592 | February 27, 2017 | N/A |

**E. Trident Water**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Makati City | 48613 | February 7, 2022 | December 31, 2022 |
| 2. | Certificate of Incorporation | SEC | CS20200000859 | March 3, 2020 | N/A |
| 3. | Certificate of Registration | BIR | 766-555-808 | June 3, 2020 | N/A |

**The Group's Water Business**

**F. WawaJVCo**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04987 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22392 | January 26, 2022 | December 31, 2022 |
| 3. | Barangay Construction Certification | Barangay Calawis, Antipolo City | N/A | July 30, 2020 | N/A |
| 4. | Clearance to Cut | City Environment and Waste Management Office, Antipolo City | 128-2020 | November 6, 2020 | N/A |

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 5. | Building Permit | Office of the Building Official, Antipolo City | BP21091085 | September 9, 2021 | N/A |
| 6. | Excavation and Ground Preparation Permit | Office of the Building Official, Rodriguez | 21-09432 | September 7, 2021 | N/A |
| 7. | Barangay Clearance to Cut | Barangay San Rafael, Rodriguez | | July 30, 2021 | N/A |
| 8. | MENRO Certification to Cut | Municipal Environment and Resources Office, Montalban | | November 9, 2021 | N/A |
| 9. | Water Permit | NWRB | 12-19-243 | August 24, 2020 | N/A |
| 10. | Environmental Compliance Certificate | DENR | ECC-OL-R4A-2019-0559 | November 4, 2019 | N/A |
| 11. | PAMB Clearance | DENR | | June 17, 2020 | N/A |
| 12. | PAMB Clearance | DENR | | November 1, 2021 | N/A |
| 13. | Special Use Agreement in Protected Areas | DENR | SAPA No. 2020-001 | November 16, 2020 | N/A |
| 14. | Environmental Compliance Certificate | DENR | ECC-CO-2101-0003 | May 25, 2021 | N/A |
| 15. | PAMB Clearance | DENR | UMRBPL-04232021-003 | April 23, 2021 | N/A |
| 16. | PAMB Clearance | DENR | UMRBPL-10252021-011 | November 1, 2021 | N/A |
| 17. | Special Use Agreement in Protected Areas | DENR | UMRBPL SAPA No. 2021-02 | August 16, 2021 | August 16, 2046 |
| 18. | Special Tree Cutting Permit | DENR | DENR-RIV A11032021-22R | November 3, 2021 | November 2, 2071 |
| 19. | Certificate of Registration | BOI | 2021-015 | January 22, 2021 | N/A |
| 20. | Certificate of Registration | BOI | 2021-016 | January 22, 2021 | N/A |
| 21. | Environmental Compliance Certificate | DENR | ECC-R4A-2021-07-0146 | July 23, 2021 | N/A |
| 22. | Memorandum of Agreement between the Dumagat/Remontado Indigenous Peoples of Antipolo, WawaJVCo., and the NCIP | NCIP | | July 29, 2020 | N/A |
| 23. | Memorandum of Agreement between the Dumagat/Remontado Indigenous Peoples of Rodriguez, Rizal, WawaJVCo, and the NCIP | NCIP | | January 29, 2021 | N/A |
| 24. | Certificate of Incorporation | SEC | CS201951873 | April 11, 2019 | N/A |

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 25. | Certificate of Registration | BIR | 741-481-146 | April 16, 2019 | N/A |
| 26. | Certification Precondition | NCIP | CP-R4A-2022-443 | June 23, 2022 | N/A |

**G. Manila Water Corporation**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Concession Agreement | MWSS | | February 21, 1997 | May 6, 2022 |
| 2. | Manila Water Corporation Franchise (Republic Act No. 11601) | Philippine Congress | | | N/A |
| 3. | Amended Articles of Incorporation | SEC | A199611593 | July 2, 2020 | N/A |
| 4. | Amended By-Laws | SEC | | March 16, 2021 | N/A |

The certificate of public convenience and necessity of Manila Water is its Concession Agreement as defined under and provided by Republic Act No. 11601. Manila Water maintains customary permits, such as mayor's permits, for itself and its subsidiaries. Manila Water holds permits that allow water withdrawal of more than 843 MCM from a combination of surface water and ground water. Manila Water holds permits that allow it to collect and treat more than 64 MCM of wastewater in compliance with affluent and other standards. Manila Water also holds permits relating to the standard of the DOH on drinking water standards and permits relating to the accounting and disposal of non-hazardous and hazardous wastes, given that it generates at least 27 tons of hazardous waste per year.

**<u>The Group's Energy Business</u>**

**H. Terra Solar**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04992 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22397 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2021060017109-03 | June 21, 2021 | N/A |
| 4. | Certificate of Registration | BIR | 601-312-844 | September 6, 2021 | N/A |
| 5. | Solar Energy Service Contract | DOE | SESC No. 2017-02-365 | February 9, 2017 | February 8, 2042 |
| 6. | Solar Energy Service Contract | DOE | SESC No. 2017-06-405 | August 22, 2017 | August 21, 2042 |
| 7. | Solar Energy Service Contract | DOE | SESC No. 2017-06-407 | August 22, 2017 | August 21, 2042 |
| 8. | Solar Energy Service Contract | DOE | SESC No. 2017-06-421 | August 22, 2017 | August 21, 2042 |
| 9. | Solar Energy Service Contract | DOE | SESC No. 2017-07-434 | April 11, 2019 | April 10, 2044 |
| 10. | Distribution Impact Study for Solar Philippines Commercial Rooftop Project | | | January 2017 | N/A |

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 11. | System Impact Study ("**SIS**") for 1200 MW Sta. Rosa Nueva Ecija 1 Solar Power Plant | | | April 2019 | N/A |
| 12. | SIS for 300 MW San Ildefonso Solar Power Plant | | | February 2020 | N/A |
| 13. | SIS for 300 MW San Rafael Solar Power Plant | | | November 2019 | N/A |
| 14. | Environmental Compliance Certificate | DENR | ECC-OL-R03-2019-0177 | March 19, 2019 | N/A |
| 15. | Environmental Compliance Certificate | DENR | | September 8, 2021 | N/A |
| 16. | Environmental Compliance Certificate | DENR | ECC-OL-R03-2021-0417 | July 12, 2021 | N/A |
| 17. | Certificate of Registration | DOE | SESC 2017-07-434 | April 10, 2019 | N/A |

## I. SP Tanauan

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Registration | BOC | IM0007765630 | December 3, 2021 | December 3, 2022 |
| 2. | Business Permit | Makati City | 13037 | May 4, 2022 | December 31, 2022 |
| 3. | Sanitary Permit | Makati City | 002310 | May 4, 2022 | December 31, 2022 |
| 4. | Locational Clearance | Makati City | COC-BUS10251619163-102716-C4E | October 28, 2016 | N/A |
| 5. | Certification of Non-Coverage | DENR | CNC-OL-R4A-2020-10-06700 | October 9, 2020 | N/A |
| 6. | Environmental Compliance Certificate | DENR | ECC-R4A-1803-0063 | March 27, 2018 | N/A |
| 7. | Certificate of Non-CARP Coverage | Department of Agrarian Reform | | August 24, 2021 | N/A |
| 8. | Certificate of Non-Overlap | NCIP | CNO RIV-CAV-2017-11-27 | November 28, 2017 | N/A |
| 9. | Certificate of Registration | BOI | 2021-128 | August 4, 2021 | N/A |
| 10. | Environmental Compliance Certificate | DENR | ECC-R4A-1802-0027 | February 6, 2018 | N/A |
| 11. | Environmental Compliance Certificate | DENR | ECC-R4A-2021-02-0021 | March 25, 2021 | N/A |
| 12. | Certificate of Registration | BOI | 2017-128 | May 23, 2017 | N/A |
| 13. | Certificate of Incorporation | SEC | CS201620740 | September 7, 2016 | N/A |
| 14. | Certificate of Registration | BIR | 009-403-211 | September 7, 2016 | N/A |

### J. Ahunan Power

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04986 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22391 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2020090002127-02 | September 17, 2020 | N/A |
| 4. | Certificate of Registration | BIR | 502-252-279 | October 22, 2020 | N/A |
| 5. | Hydropower Service Contract | DOE | HSC No. 2021-07-892 | September 3, 2021 | December 20, 2044 |
| 6. | Certificate of Registration | DOE | HSC No. 2021-07-892-A | November 22, 2021 | N/A |
| 7. | Certificate of Confirmation of Commerciality | DOE | HCC 2021-07-258 | November 22, 2021 | N/A |
| 8. | Conditional Surface Water Permit | Laguna Lake Development Authority | SWP-2022-02-001 | May 11, 2022 | May 10, 2023 |
| 9. | Certificate of Non-Overlap | NCIP | CNO-IVA-2022-022 | May 3, 2022 | N/A |
| 10. | Environmental Impact Statement (“**EIS**”) | N/A | N/A | N/A | N/A |

### K. Mabighani Power Inc.

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 12364 | March 8, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-28976 | March 8, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2021120036178-04 | December 16, 2021 | N/A |
| 4. | Certificate of Registration | BIR | 604-224-989 | January 5, 2022 | N/A |

### L. Calinaw Power Inc.

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certification of Incorporation | SEC | 2022060057168-00 | June 23, 2022 | N/A |
| 2. | Certificate of Registration | BIR | 611-063-864 | July 6, 2022 | N/A |
| 3. | Business Permit | Pasay City | 14683 | August 9, 2022 | December 31, 2022 |

### M. Terra Renewables Holdings Inc.

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation | SEC | 2022010037746-08 | January 10, 2022 | N/A |
| 2. | Certificate of Registration | BIR | 604-779-663 | January 27, 2022 | N/A |

**N. Solar Philippines Tarlac Corporation**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Registration | DOE | SESC 2017-07-442-AFI | October 6, 2017 | N/A |
| 2. | Certificate of Registration | SEC | CS201513988 | July 15, 2015 | N/A |
| 3. | Certificate of Registration | DOE | SESC-2017-02-364 | February 9, 2017 | N/A |
| 4. | Certificate of Registration | DOE | SESC-2017-07-442-AFI | October 6, 2017 | N/A |
| 5. | Certificate of Registration | BOI | 2018-029 | February 20, 2018 | N/A |

**O. Prime Metro Power Global Holdings Ltd.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation of a Labuan Company | Labuan Financial Services Authority | LL14759 | May 21, 2018 | N/A |
| 2. | Memorandum of Association | Labuan Financial Services Authority | | May 21, 2018 | N/A |

**P. ChicoJVCo, Inc.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Makati City | 48612 | February 7, 2022 | December 31, 2022 |
| 2. | Certificate of Incorporation | SEC | CS201806741 | May 7, 2018 | N/A |
| 3. | Certificate of Registration | BIR | 009-999-391 | May 7, 2018 | N/A |

**Q. Menatech Energy Ltd.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Incorporation Certificate | Government of Dubai | 184064 | October 31, 2016 | N/A |

## The Group's Construction Business

### R. Prime BMD

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Contractor's License | CIAP | 42523 | July 1, 2022 | June 30, 2023 |
| 2. | Business Permit | Pasay City | 06151 | January 27, 2022 | December 31, 2022 |
| 3. | Certificate of Registration | Social Security System | 03-9567134-8-000 | June 29, 2017 | N/A |
| 4. | Certificate of Incorporation | SEC | CS201712551 | April 17, 2017 | N/A |
| 5. | Certificate of Registration | BIR | 009-634-392 | May 29, 2017 | N/A |

### S. Prime Metro BMD Industrial Services Corporation

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Registration | BIR | 604-161-105 | January 3, 2022 | N/A |
| 2. | Business Permit | Pasay City | 11080 | February 15, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2021120035296-12 | December 17, 2012 | N/A |

## The Group's Waste and Sustainable Fuels Business

### T. WasteFuel Philippines

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04994 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22399 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2021040010055-49 | May 10, 2021 | N/A |
| 4. | Certificate of Registration | BIR | 600-238-768 | May 27, 2021 | N/A |

### U. ARN Central Waste Management Inc.

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation | SEC | CS201962023 | May 28, 2019 | N/A |
| 2. | Certificate of Registration | BIR | 746-538-107-000 | July 8, 2019 | N/A |
| 3. | Business Permit | Cebu City | 166753 | March 4, 2022 | March 3, 2023 |
| 4. | Environmental Compliance Certificate | DENR | 1st Amendment to ECC-R07-1711-0010 | June 3, 2020 | N/A |
| 5. | Wastewater Discharge Permit | DENR | DP-R07-19-00386 | February 11, 2019 | February 11, 2023 |
| 6. | TSD Registration Certificate | DENR | OL-TR-R7-22-000465 | March 29, 2022 | N/A |

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 7. | Locational Clearance | Cebu City | LC18-08-24-02 | August 24, 2018 | N/A |
| 8. | Operating Permit | DOH | OP-RCSRDAF-001-Y21 | September 30, 2021 | N/A |

**Others**

**V. Prime Infrastructure Foundation**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation | SEC | 2021070020963-02 | July 28, 2021 | N/A |
| 2. . | Certificate of Registration | BIR | 601-558-392 | September 15, 2021 | N/A |

**W. Torre, Inc.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 04993 | January 26, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-22398 | January 26, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2020120004549-01 | December 29, 2020 | N/A |
| 4. | Certificate of Registration | BIR | 600-001-058 | January 5, 2021 | N/A |

**X. PMJVCo Holdings Inc.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Business Permit | Pasay City | 12363 | March 8, 2022 | December 31, 2022 |
| 2. | Barangay Business Clearance | Barangay 76, Pasay City | 2022-076-28975 | March 8, 2022 | December 31, 2022 |
| 3. | Certificate of Incorporation | SEC | 2021120036181-04 | December 16, 2021 | N/A |
| 4. | Certificate of Registration | BIR | 604-225-876 | January 5, 2022 | N/A |

**Y. PSJVCo Holdings, Inc.**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation | SEC | 2021120037016-03 | December 29, 2021 | N/A |
| 2. | Certificate of Registration | BIR | 604-225-500 | January 5, 2022 | N/A |

**Z. PrimeRES Energy Corporation**

| No. | Permit or License | Issuing Agency | Permit/License No. | Issue Date | Expiration |
|---|---|---|---|---|---|
| 1. | Certificate of Incorporation | SEC | 2021120037016-03 | December 29, 2021 | N/A |
| 2. | Certificate of Registration | ERC | ER No. 2022-0762-3 | September 7, 2022 | N/A |

## INDUSTRY OVERVIEW

Certain industry information in this Prospectus has been extracted or quoted from the commissioned industry reports prepared by GlobalData and LMC International attached to this Prospectus as Annex 1 and Annex 2, respectively, and such information reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and was prepared primarily as a material research tool. References to GlobalData and LMC International should not be considered as the opinion of GlobalData or LMC International, as the case may be, as to the value of any security or the advisability of investing in the Issuer.

The information prepared by GlobalData and LMC International in the attached commissioned industry reports and elsewhere in this Prospectus has not been independently verified by the Issuer and the Joint Bookrunners, and none of them gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

The commissioned industry reports includes forecasts and other forward-looking estimates. These forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to various risks and uncertainties relating to possible invalidity of the underlying assumptions and estimates and possible changes or development of social, economic, business, industry, market, legal, government, and regulatory circumstances and conditions and actions taken or omitted to be taken by others. Actual results and future events could differ materially from such forecasts. Investors should not place undue reliance on such statements, or on the ability of any party to accurately predict future industry trends or performance. Unless otherwise indicated, certain forward- looking statements contained herein were made prior to the outbreak of the COVID-19 pandemic and have not been updated to account for the impact of such outbreak. There can be no assurance that such forward-looking statements would not have been materially different if the COVID-19 pandemic had been taken into account.

## REGULATORY AND ENVIRONMENTAL MATTERS

*The following description is a summary of certain laws and regulations in the Philippines that are generally applicable or relevant to companies such as the Group's, operating in the water, energy, construction, and waste and sustainable fuels industries. The regulations set out below may not be exhaustive, and are only intended to provide general information to investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

### LAWS ON PUBLIC UTILITIES

#### Philippine Constitution

Section 11, Article XII of the 1987 Philippine Constitution (the "**Philippine Constitution**") provides that a franchise, certificate, or any other form of authorization for the operation of a public utility must be granted only to corporations organized under the laws of the Philippines, at least 60% of the capital of which is owned by Filipino citizens. Furthermore, the participation of foreign investors in the governing body of the public utility enterprise is to be limited to their proportionate share in its capital, and all the executive and managing officers of the corporation must be Philippine citizens.

#### Public Service Act

R.A. 11650, enacted in 2022, amended CA 146 is the law regulating public services. The salient change in the Public Service Act is the rationalization of foreign equity restrictions by providing a clear definition of "public utilities." The law provides an exhaustive list of public utilities, which includes:

(1) Distribution of Electricity;

(2) Transmission of Electricity;

(3) Petroleum and Petroleum Products Pipeline Transmission Systems;

(4) Water Pipeline Distribution Systems and Wastewater Pipeline Systems, including sewerage pipeline systems;

(5) Seaports; and

(6) Public Utility Vehicles.

Apart from the above-mentioned public services, no other person shall be deemed a public utility unless otherwise subsequently provided by law.

The effect of this is significant, in that industries that are not classified as public utilities are no longer subject to the Constitutional restrictions on foreign ownership. Thus, these industries may be 100% foreign owned under the new legal regime, subject to restriction on ownership of critical infrastructure such as telecommunications.

An entity controlled by or acting on behalf of the foreign government or foreign state-owned enterprises shall be prohibited from owning capital in critical infrastructure. Notwithstanding this restriction, the sovereign wealth funds and independent pension funds of each state may collectively own up to thirty percent (30%) of the capital of such public services.

#### Manila Water Legislative Franchise

Republic Act No. 11601 or the legislative franchise of Manila Water requires Manila Water within five years from the effectivity of its franchise on January 22, 2022 or until early 2027 to publicly offer thirty percent (30%) of its outstanding capital stock to Filipino citizens in any securities exchange. Noncompliance shall render the franchise ipso facto revoked.

## ENERGY LAWS

### Electrical Power Industry Reform Act

Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act ("**EPIRA**") established a framework for the organization and operation of the electric power industry in connection with its restructuring, with the industry divided into four sectors: generation, transmission, distribution and supply. The structural reforms resulted among others in the creation of two government-owned and controlled corporations, the Power Sector Assets and Liabilities Management Corporation ("**PSALM**") and the TransCo.

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone, and continues to undergo, significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The major aspects of the reforms include the (1) restructuring of the entire power industry to introduce competition in the generation sector, (2) change from government to private ownership, and (3) introduction of a stable regulatory framework for the electricity sector. Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

*The Generation Sector*

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, consists of the following: (i) National Power Corporation ("**NPC**")-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by Independent Power Producers ("**IPPs**"), as well as IPP-owned and -operated plants; and (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms. Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the WESM Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review and regulation by the ERC to determine reasonableness of the cost that are passed on to consumers. With the implementation of Retail Competition and Open Access ("**RCOA**"), generation rates, except those intended for the "Captive Market" (i.e., a market of electricity end-users who may not choose their supplier of electricity), ceased to be regulated to a certain extent.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750kW and certified by the ERC to be such ("**Contestable Market**"). No generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of the EPIRA.

The EPIRA provides that power generation is not a public utility operation and thus, not required to secure national franchises and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, in order to operate, generation companies must obtain a Certificate of Compliance from the ERC, as well as health, safety and environmental clearances from appropriate government agencies under existing laws.

Upon implementation of RCOA, the prices charged by a generation company for the supply of electricity shall not be subject to regulation by the ERC except as otherwise provided under the EPIRA.

The ERC may impose fines and penalties for violations by generation companies of the EPIRA and the EPIRA IRR policies as well as the ERC's rule and regulations on market power abuse, cross-ownership and anti-competitive behavior.

*The Transmission Sector*

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("**Grid Code**"). TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations. The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Since the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets while the subtransmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of U.S.$3.95 billion. NGCP was officially granted the authority to manage and operate the country's sole transmission system on January 15, 2009. Ownership of all transmission assets, however, remained with TransCo.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

*The Distribution Sector*

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the National Electrification Administration until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("**Distribution Code**"), the Distribution Services and Open Access Rules and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine Government's policy of promoting free competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines.

The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

*The Supply Sector*

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken solely by franchised distribution utilities. However, with the implementation of RCOA, the supply function has become competitive. The business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to the "Contestable Market" (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

With the implementation of the RCOA, a RES is allowed to enter into retail electricity supply agreements with Contestable Customers. This set-up encourages competition at the retail level. It has been planned that the threshold for retail competition will gradually increase over time, provided that retail electricity suppliers are sufficiently creditworthy to be suitable offtakers for generation companies.

**Competitive Market Devices under EPIRA**

*Wholesale Electricity Spot Market*

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The establishment of the WESM facilitates a transparent and competitive electricity market for the country.

All generation companies, distribution utilities, suppliers, bulk consumers/end-users and other similar entities authorized by the ERC are eligible to become WESM members subject to compliance with membership requirements.

On June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly trading period). These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the Philippine Electricity Market Corporation ("**PEMC**") was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The PEMC and the Independent Electricity Market Operator of the Philippines Inc. ("**IEMOP**"), have executed the Operating Agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from PEMC to the IEMOP effective on September 26, 2018. IEMOP is poised to take over the WESM, a function that is currently performed by PEMC. Republic Act No. 9136 requires PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. On February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. IEMOP, a nonstock, non-profit corporation, led by a Board of Directors, all of whom are independents and do not have any interest or connection to the WESM participants, was incorporated and organized to implement the transition plan. Starting on September 26, 2018, the IEMOP runs the electricity market and manages the registration of market participants, receive generation offers, come out with market prices and dispatches schedules of the generation plants, and handle billing, settlement, and collections, among other things. Under the policy and regulatory oversight of the DOE and the ERC, PEMC remains the governing body for WESM to monitor compliance of the market participants with the market rules.

*Retail Competition and Open Access*

The EPIRA likewise provides for a system of RCOA on transmission and distribution wires, whereby TRANSCO/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the open access system are as follows:

1. establishment of the WESM;

2. approval of unbundled transmission and distribution wheeling charges;

3. initial implementation of the cross-subsidy removal scheme;

4. privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and

5. transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPPAs.

Prior to the implementation of the RCOA, the distribution utility exclusively procures energy on behalf of its customers, and delivers the energy through its distribution wires. With RCOA, competing Retail Electricity Suppliers will do the buying and selling of electricity, and have the distribution utility deliver the energy for them through the distribution utility's existing distribution wires. The Contestable Customers will have more choices in pricing and power supply contracting, thereby getting the best deal in terms of price and value for money.

The implementation of retail competition and open access is mandated by the EPIRA, subject to the fulfilment of certain conditions including, but not limited to, the establishment of the WESM, the unbundling of transmission and distribution wheeling charges, and privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas.

*Unbundling of Rates and Removal of Cross Subsidies*

The EPIRA mandates that transmission and distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for RCOA.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of 10 years, unless extended by law. Its application was extended for another 10 years by Republic Act No. 10150, which was approved in June 2011.

*Implementation of Performance Based Regulation*

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation ("**PBR**") for the fourth entry points, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies' customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines.

The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

**Government Approval Process**

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and the Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements for the two most recent 12-months periods, if available, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for Power Supply Agreement ("**PSA**") between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures for Applications for Approval of Power Supply Contract other than those covered by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, Series of 2005). Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake, fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90-day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances.

Upon the introduction of RCOA, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

Retail rates charged by RES to Contestable Customers will not require ERC approval. Only the retail rates charged by Distribution Utilities to their Captive Customers will be subject to the approval of the ERC.

**The Renewable Energy Act**

The Renewable Energy Act of 2008 or Republic Act No. 9513 was enacted to promote the development, utilization, and commercialization of renewable energy resources. The DOE is the lead agency mandated to implement R.A. No. 9513.

R.A. No. 9513 aims to:

(a) Accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy;

(b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and nonfiscal incentives;

(c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and the environment; and

(d) establish the necessary infrastructure and mechanism to carry out the mandates specified in this Act and other existing laws.

Renewable energy developers and local manufacturers, fabricators and suppliers of locally-produced renewable energy equipment shall register with the DOE, through the Renewable Energy Management Bureau. Upon registration, a certification shall be issued to each developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to incentives under R.A. No. 9513.

Under R.A. No. 9513, renewable energy developers, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, including:

(a) income tax holiday for the first seven years of its commercial operations;

(b) duty-free importation of renewable energy machinery, equipment, and materials within the first ten years upon issuance of a certification of a renewable energy developer;

(c) special realty tax rates on equipment and machinery;

(d) net operating loss carry-over;

(e) corporate tax rate on net taxable income;

(f) accelerated depreciation of plant, machinery, and equipment;

(g) zero percent value-added tax rate for the sale of fuel or power generated from renewable sources of energy;

(h) cash incentive on renewable energy developers for missionary electrification;

(i) tax exemption of carbon credits; and

(j) tax credit on domestic capital equipment and services.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass was created under R.A. No. 9513. The feed-in tariff system rules shall include, but not limited to the following:

(a) Priority connections to the grid for electricity generated from emerging renewable energy resources such as wind, solar, ocean, run-of-river hydropower and biomass power plants within the territory of the Philippines;

(b) The priority purchase and transmission of, and payment for, such electricity by the grid system operators;

(c) Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years; and

(d) The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in this Act and in accordance with the RPS rules that will be established by the DOE.

**The Energy Efficiency and Conservation Act**

The Energy Efficiency and Conservation Act ("**EEC**") or Republic Act No. 11285 was enacted to establish a framework for introducing and institutionalizing policies on energy efficiency and conservation.

Under the EEC, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to incentives under Executive Order No. 226 or the "Omnibus Investments Code of 1987," and other applicable laws for ten years from the effectivity of the EEC. After the lapse of ten years, the inclusion of energy sufficient projects in the annual investment priorities plan shall be reviewed and may be extended by the BOI. Energy efficient projects are exempt from the nationality requirements under Article 32(1) of the Omnibus Investments Code of 1987, unless the project involved exploration, development and utilization of natural resources which is reserved to Filipino citizens, or corporations or association at least 60% of whose capital is owned by Filipino citizens as per Section 2, Article XII of the 1987 Constitution. Further, establishments that will implement or are implementing energy efficient projects are entitled to provision of awards and recognitions, and technical assistance from government agencies in the development and promotion of energy efficient technologies.

The following acts are prohibited under the EEC:

1. failing to comply with energy labelling;

2. removing, defacing, or altering any energy label on the energy-consuming product before the product is sold to the first purchaser, or leased to the first lessee;

3. failing to provide accurate information or provision of false or misleading energy information as required to be submitted under the EECA;

4. selling, leasing, or importing energy-consuming products that do not comply with the minimum energy performance;

5. failing or willfully refusing to appoint or designate a Certified Energy Conservation Officer or Certified Energy Manager;

6. willfully refusing to submit to an on-site inspection by the DOE;

7. failing or willfully refusing to submit any of the reports required;

8. failing to comply with issued orders of the DOE in the discharge of its enforcement powers; and

9. violating any provisions of the IRR, codes, and guidelines issued in accordance with the EECA.

The DOE is empowered to impose fines and penalties for the violation of the provisions of the EEC, its IRR, and other related issuances. The fines and penalties shall range from ₱10,000.00 to ₱1,000,000.00, without prejudice to criminal penalties and penalties under existing regulations. The responsible officers and employees of establishments who commit any of the prohibited acts listed above shall, upon conviction, suffer the penalty of imprisonment of one year to five years, or a fine ranging from a minimum of ₱100,000.00 to ₱100,000,000.00 or twice the amount of costs avoided for noncompliance, whichever is higher, or both, upon the discretion of the court. Any person who aids or abets the commission of the prohibited acts or causes such commission by another, shall be liable as a principal. In case of associations, partnerships, or corporations, the penalty shall be imposed on the partner, president, chief operating officer, chief executive officer, director, or officer responsible for the violation.

## CONSTRUCTION LAWS

### Contractors' License Law

Under Presidential Decree No. 1746, the CIAP was created to promote, accelerate and regulate the growth and development of the construction industry in conformity with national goals.

Moreover, the PCAB was created to perform the licensing functions previously exercised by the Philippine Contractors Licensing Board under Republic Act No. 4566 or the Contractors' License Law. The Contractors' License Law provides that no contractor shall engage in the business of contracting without first having secured a license to conduct business from the PCAB.

In applying for and granting such license, PCAB takes into consideration the applicant-contractor's qualifications and compliance with certain minimum requirements in the following criteria: (i) financial capacity, (ii) equipment capacity, (iii) experience of the firm, and (iv) experience of technical personnel. Philippine laws also require a contractor to secure construction permits and environmental clearances from appropriate government agencies prior to actually undertaking each project.

Construction without license is subject to the penalties under the law, and will cause the contractor to be deemed guilty of misdemeanor.

### Construction Industry Arbitration Law

Under Executive Order No. 1008, series of 1985, or the Construction Industry Arbitration Law, the Construction Industry Arbitration Commission ("**CIAC**") was created.

The CIAC shall have original and exclusive jurisdiction over disputes arising from, or connected with, contracts entered into by parties involved in construction in the Philippines, whether the disputes arises before or after the completion of the contract, or after the abandonment or breach thereof. These disputes may involve government or private contracts.

For the Board to acquire jurisdiction, the parties to a dispute must agree to submit the same to voluntary arbitration. The jurisdiction of the CIAC may include but is not limited to violation of specifications for materials and workmanship; violation of the terms of agreement; interpretation and/or application of contractual provisions; amount of damages and penalties; commencement time and delays; maintenance and defects; payment default of employer or contractor and changes in contract cost.

Construction disputes may be settled by a sole arbitrator or by a tribunal. Arbitrators are appointed by the parties from a list of arbitrators accredited by CIAC. The arbitral ward shall be binding upon the parties. It shall be final and not appealable, except on questions of law which shall be applicable to the Supreme Court.

As soon as a decision, order or award has become final and executory, the Arbitral Tribunal or the single arbitrator, with the concurrence of CIAC, shall issue a writ of execution requiring any sheriff or other proper officer to execute said decision, order, or award.

**Building Code**

Republic Act No. 6451, or the National Building Code of the Philippines applies to the design, location, siting, construction, alteration, repair, conversion, use, occupancy, maintenance, moving, and demolition of, and addition to, public and private buildings and structures. Buildings and structures must conform to the minimum requirements and standards under the law, including the introduction of facilities.

The law requires buildings or structures to conform in all respects to the principles of safe construction, shall be suited to the purpose for which the building is designed, and shall, in no case contribute to making the community in which it is located at eyesore, a slum, or a blighted area.

Any person or corporation intending to construct, alter, repair, move, convert or demolish any building or structure, or cause the same to be done, shall obtain a building permit from the Building Official for whichever of such work is proposed to be undertaken for the building or structure, before any such work is started.

**Fire Code**

Republic Act No. 9514, or the Fire Code of the Philippines, aims to ensure public safety and prevent and suppress all kinds of destructive fires. It provides that building owners or administrators must comply with the following:

1. inspection requirements;

2. safety measures for hazardous materials;

3. safety measures for hazardous operation/processes;

4. provision on fire safety construction, protective and warning system; and

5. abatement of fire hazards.

In addition, R.A. 9514 provides for penalties for violation of its provisions.

**ENVIRONMENTAL LAWS**

**Environmental Impact Statement System**

Real estate development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the EMB, determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB, which is a result of a positive determination by the EMB on the preventive, mitigating and enhancement measures adopted addressing possible adverse consequences of the project to the environment. The EIS refers to the document, prepares and submitted by the project proponent and/or the Environmental Impact Assessment Consultant which provides for a comprehensive study of the significant impacts of a project to the environment. On the other hand, a non-environmentally critical project in an environmentally critical area is generally required to submit an Initial Environmental Examination (the "**IEE**") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required in addition to the IEE.

The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas. While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socioeconomic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC.

The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project. Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures.

Aside from the EIS and IEE, engineering geological and geo-hazard assessments are also required for ECC applications covering subdivisions, housing and other land development and infrastructure projects.

**Philippine Clean Water Act**

In 2004, the Philippine Clean Water Act was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

The Philippine Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time.

**Philippine Clean Air Act**

R.A. 8749 or "The Philippine Clean Air Act of 1999" is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under this, the DENR is mandated to formulate a national program on how to prevent, manage, control, and reverse air pollution using regulatory and market-based instruments, and setup a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking.

The Philippine Clean Air Act of 1999 requires enterprises that operate or utilize air pollution sources to obtain an Authority to Construct or a Permit to Operate from the DENR with respect to the construction or use of air pollutants. The issuance of said permits seek to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

**The Toxic Substances and Hazardous and Nuclear Waste Control Act**

R.A. No. 6969 or "The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990," regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

Hazardous wastes are substances brought into the country without any safe commercial, industrial, agricultural or economic usage. On the other hand, toxic wastes are substances that are poisonous and have carcinogenic, mutagenic, or teratogenic effects on human or other life forms.

**Ecological Solid Waste Management Act**

R.A. No. 9003 or "The Ecological Solid Waste Management Act of 2000" provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The same law mandates all, especially, the local government units, to adopt a systematic, comprehensive and ecological solid waste management program which shall ensure protection of public health and environment, utilize environmentally sound methods, set targets and guidelines for solid waste avoidance and reduction, and ensure proper segregation, collection, transport and storage of solid waste.

The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

**The Water Code**

Presidential Decree No. 1067, or "The Water Code of the Philippines," requires a water permit for the appropriation or use of natural bodies of water. Use or appropriation of water includes, among others, the utilization of water in factories, industrial plants and mines, including the use of water as an ingredient of a finished product. Appropriation of water without a water permit, when one is required, is subject to the imposition of the corresponding penalties imposed by the Water Code and its implementing rules and regulations.

**Code on Sanitation of the Philippines**

Presidential Decree No. 856 provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial and food establishments. Food establishment is defined as any establishment where food or drinks are manufactured, processed stored, sold, or served. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation or entity shall operate a food establishment without first obtaining a sanitary permit. The permit shall be valid for one year, and shall be renewed every year.

**LABOR LAWS**

**The Philippine Constitution**

The Philippine Constitution provides that the State shall regulate the relations between workers and employers, recognizing the right of labor to its just share in the fruits of production and the right of enterprises to reasonable returns on investments, and to expansion and growth. The seven basic rights that are specifically guaranteed by the Philippine Constitution are as follows:

(a) right to organize;

(b) right to conduct collective bargaining or negotiation with management;

(c) right to engage in peaceful concerted activities, including strikes in accordance with law;

(d) right to enjoy security of tenure;

(e) right to work under humane conditions;

(f) right to receive a living wage; and

(g) right to participate in policy and decision-making processes affecting their rights and benefits as may be provided by law.

**Labor Code of the Philippines**

The **DOLE** is the Philippine Government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines ("**Labor Code**") and the Occupational Safety and Health Standards, as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE. All doubts in the implementation and interpretation of the provisions of the Labor Code shall be resolved in favor of labor. The Labor Code and other statutory laws specify the minimum statutory benefits that employers are required to grant to their employees.

*Contracting and subcontracting*

The Labor Code recognizes subcontracting arrangements, whereby a principal puts out or farms out with a contractor the performance or completion of a specific job, work, or service within a definite or predetermined period, regardless of whether such job, work, or service is to be performed or completed within or outside the premises of the principal. Such arrangements involve a "trilateral relationship" among: (i) the principal who decides to farm out a job, work, or service to a contractor; (ii) the contractor who has the capacity to independently undertake the performance of the job, work, or service; and (iii) the contractual workers engaged by the contractor to accomplish the job, work, or service.

On March 16, 2017, Department Order No. 174 (2017) ("**D.O. No. 174-17**") was issued by the DOLE providing for the guidelines on contracting and subcontracting, as provided for under the Labor Code. It has reiterated the policy that Labor-only Contracting is absolutely prohibited where: (1) (a) the contractor or subcontractor does not have substantial capital, or does not have investments in the form of tools, equipment, machineries, supervision, work premises, among others; and (b) the contractor's or subcontractor's employees recruited and placed are performing activities which are directly related to the main business operation of the principal; or (2) the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. Subsequently, DOLE issued Department Circular No. 1 (2017) clarifying that the prohibition under D.O. 174 does not apply to business process outsourcing, knowledge process outsourcing, legal process outsourcing, IT Infrastructure outsourcing, application development, hardware and/or software support, medical transcription, animation services, and back office operations or support.

D.O. No. 174-17 provides that in the event that there is a finding that the contractor or subcontractor is engaged in labor-only contracting and other illicit forms of employment arrangements, the principal shall be deemed the direct employer of the contractor's or subcontractor's employees. Further, in the event of violation of any provision of the Labor Code, including the failure to pay wages, there exists a liability on the part of the principal and the contractor for purposes of enforcing the provisions of the Labor Code and other social legislation, to the extent of the work performed under the employment contract.

On May 2, 2018, President Rodrigo Duterte signed Executive Order No. 51, reiterating the prohibition of the practice of illegal contracting or subcontracting in the country. The executive order aims to protect the worker's right to security of tenure, self-organization, and collective bargaining and peaceful concerted activities.

*Occupational Safety and Health Standards Law*

On August 17, 2018, Republic Act No. 11058 or the Occupational Safety and Health Standards Law was signed into law. It mandates employers, contractors, or subcontractors and any person who manages, controls or supervises the work, to furnish the workers a place of employment free from hazardous conditions that are causing or are likely to cause death, illness or physical harm to the workers. It also requires providing complete job safety instructions or orientation and to inform the workers of all hazards associated with their work, health risks involved or to which they are exposed to, preventive measures to eliminate or minimize the risks and steps to be taken in cases of emergency.

The Rules for Occupational Safety and Health Standards ("**OSHS**") issued by the Bureau of Working Conditions of the DOLE establishes the threshold limit values ("**TLV**") for toxic and carcinogenic substances which may be present in the atmosphere of the work environment. The TLV refer to airborne concentration of substances and represent the conditions under which it is believed that nearly all workers may be repeatedly exposed daily without adverse effect. The TLV also pertains to the time weighted concentrations for an eight-hour workday and a total of 48 work hours per week.

The employees' exposure to the substances identified in the OSHS must be limited to the ceiling value given for the relevant substance in the OSHS, or must not exceed the eight-hour time weighted average limit given for that substance in the OSHS, as the case may be.

To protect the employees, an employer is required to furnish its workers with protective equipment for the eyes, face, hands, and feet as well as protective shields and barriers, whenever necessary, by reason of the hazardous nature of the process or environment, chemical or radiological or other mechanical irritants or hazards capable of causing injury or impairment in the function of any part of the body through absorption, inhalation, or physical contact. The employer is responsible for ensuring the adequacy and proper maintenance of personal protective equipment used in its workplace.

To ensure compliance with the OSHS, every establishment or place of employment will be inspected at least once a year. Special inspection visits may be authorized by the Regional Labor Office to investigate accidents, occupational illnesses or dangerous occurrences, especially those resulting in permanent total disability or death, to conduct surveys of working conditions for the purpose of evaluating and assessing environmental contaminants and physical conditions, or to conduct investigations, inspections or follow-up inspections upon request of an employer, worker or a labor union of the establishment.

Any violation of the provisions of the OSHS will be subject to the applicable penalties provided under Department of Labor and Employment Department Order No. 198-18 and imposable upon any employer, contractor, or subcontractor who willfully fails or refuses to comply with the OSHS standards or a compliance order issued by the Secretary of Labor and Employment or his/her authorized representative.

Depending on the size of the workforce and the nature of the workplace as either hazardous or non-hazardous, an employer is obliged to provide certain free medical and dental attendance and facilities. For large-scale industries with workers of 200 to 600, the employer is required to provide the services of a part-time occupational health physician and a part-time dentist, each of whom is required to stay on the premises of the workplace at least four hours a day, six times a week, and each working in alternate periods. It is also required to provide the services of a full-time occupational health nurse and a full-time first aider. The employer must further maintain an emergency clinic, unless there is a hospital or dental clinic within 25 minutes of travel, and ensure that it has facilities readily available for transporting its workers to the hospital or clinic in case of an emergency.

Under the OSHS, every place of employment is required to have a health and safety committee. Further, the employer has the duty to write administrative policies on safety in conformity with OSHS. It must provide to DOLE copies of the policies adopted and the health and safety organization established to carry out the program on safety and health within one month after the organization or reorganization of the health and safety committee.

Moreover, Republic Act No. 7877 makes it the duty of every employer to create a committee on decorum and investigation of sexual harassment cases. Such committee must be composed of at least one representative each from management, the union, the employees from the supervisory rank, and the rank-and-file employees. In addition, it is likewise the duty of the employer to promulgate rules and regulations prescribing the procedure for the investigation of sexual harassment cases and the administrative sanctions therefor, which rules must be formulated in consultation with, and approved by, the employees.

An employer, contractor or subcontractor who willfully fails or refuses to comply with the Occupational Safety and Health Standards shall be administratively liable for a fine. Further, the liability of the employer, project owner, general contractor, contractor or subcontractor, if any, and any person who manages, controls or supervises the work, shall be solidary.

*Social Security System, PhilHealth, and the Pag-IBIG Fund*

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 8282 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, social security coverage is compulsory for all employees under 60 years of age. An employer must deduct and withhold from its compulsorily covered employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Program administered by the Philippine Health Insurance Corporation, a government corporation attached to the DOH tasked with ensuring sustainable, affordable, and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995, as amended by the Republic Act No. 11223, otherwise known as the Universal Health Care Act. The registration, accurate and timely deductions and remittance of contributions to the Philippine

Health Insurance Corporation is mandatory as long as there is employer-employee relationship. The law provides that a member should have paid his contributions for at least three months within the six months prior to the first day of availment, including those of his dependents, to be entitled to the benefits of the program.

Under the Home Development Mutual Fund Law of 2009, all employees who are covered by the Social Security Act of 1997 must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide affordable shelter financing to Filipino employees. The employer is likewise mandated to deduct and withhold, pay and remit to the Pag-IBIG Fund the respective contributions of the employees under the prescribed schedule.

**Other Labor-Related Laws and Regulations**

***Employment of Foreign Nationals***

Under Department Order No. 186, Series of 2017 ("**D.O. No. 186-17**"), issued by the DOLE, all foreign nationals who intend to engage in gainful employment in the Philippines shall apply for an Alien Employment Permit ("**AEP**"). However, D.O. No. 186-17 clarifies that an AEP is not an exclusive authority for a foreign national to work in the Philippines. It is just one of the requirements in the issuance of a work visa (9g) to legally engage in gainful employment in the country. The foreign national must obtain the required special temporary permit from the Professional Regulation Commission in case the employment involves practice of profession and Authority to Employ Alien from the Department of Justice where the employment is in a nationalized or partially nationalized industry, as well as from the Department of Environment and Natural Resources in case of employment in a mining company. D.O. No. 186-17 also provides for the list of foreign nationals who are exempt and excluded from securing an AEP.

Under D.O. No. 186-17, the Regional Director shall impose a fine of ₱10,000.00 for every year or a fraction thereof to foreign nationals found working without a valid AEP. Employers found employing foreign nationals without a valid AEP shall also pay a fine of ₱10,000.00 for every year or a fraction thereof. Further, an employer who is found to have failed to pay the penalty provided under D.O. No. 186-2017 shall not be allowed to employ any foreign national for any position in the employer's company.

On January 6, 2021, the DOLE has issued Department Order No. 221, Series of 2021, or the Revised Rules and Regulations for the Issuance of Employment Permits to Foreign Nationals. It shall take effect after fifteen (15) days from its publication in two (2) newspapers of general circulation. As of the date of this Prospectus, the new Rules on AEP have not yet been published and taken effect. However, one of the notable revisions in the new Rules with respect to the processing of the AEP application is the requirement of a publication in a newspaper of general circulation by the employer of the job vacancy to which the foreign national is intended to be hired at least fifteen (15) calendar days prior to the application for an AEP. An additional requirement in the AEP application is a duly notarized affidavit stating that no applications were received or no Filipino applicant was considered for the position. Moreover, foreign nationals providing consultancy services were removed in the list of categories excluded from the AEP.

***DOLE Mandated Work-Related Programs***

Under the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarity liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, Department Order No. 102-10 requires all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it are strictly limited to medical personnel. All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and tuberculosis prevention and control.

## INTELLECTUAL PROPERTY LAWS

### Intellectual Property Code

Under the Intellectual Property Code of the Philippines (the "**IP Code**"), the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal Government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office shall issue a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the mark is registered. The said certificate of registration shall also serve as prima facie evidence of the validity of registration and the registrant's ownership of the mark. A certificate of registration shall remain in force for an initial period of ten years and may be renewed for periods of ten years at its expiration.

The IP Code applies to license agreements which generally fall within the definition of technology transfer arrangements ("**TTAs**"). The IP Code defines TTAs as contracts or agreements involving the transfer of systematic knowledge for the manufacture of a product, the application of a process, or rendering of a service including management contracts; and the transfer, assignment or licensing of all forms of intellectual property rights, including licensing of computer software except computer software developed for mass market. TTAs must comply with Sections 87 and 88 of the IP Code, i.e., TTAs cannot contain the provisions which are prohibited under Section 87 but must contain the mandatory provisions under Section 88. Failure to comply with these provisions of the IP Code will automatically render the entire arrangement unenforceable.

## OTHER LAWS

### Nationality Restrictions

The Philippine Constitution and Philippine statutes set forth restrictions on foreign ownership of companies engaged in certain activities.

The ownership of private lands in the Philippines is reserved for Philippine Nationals and Philippine corporations at least 60% of whose capital stock is owned by Philippine Nationals. The prohibition is rooted in Sections 2, 3 and 7 of Article XII of the 1987 Philippine Constitution, which states that, save in cases of hereditary succession, no private lands shall be transferred or conveyed except to individuals, corporations or associations qualified to acquire or hold lands of the public domain. In turn, the nationality restriction on the ownership of private lands is further underscored by Commonwealth Act No. 141 which provides that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Furthermore, the Foreign Investments Act ("**FIA**") and the Eleventh Regular Foreign Investment Negative List (the "**Negative List**") categorize the ownership of private lands as a partly-nationalized activity, such that the operation, ownership, or both thereof is partially reserved for Filipinos. Thus, landholding companies may have a maximum of 40% foreign equity.

As of the date of this Prospectus, the Company does not own land. Nevertheless, because the Company's Articles of Incorporation authorizes the Company to acquire land, which may include land in the Philippines, foreign shareholdings in the Company may not exceed 40% of its total issued and outstanding capital stock.

**The Indigenous Peoples' Rights Act of 1997**

Republic Act No. 8371, otherwise known as the Indigenous Peoples' Rights Act establishes the state's mandate to recognize, promote, and protect the rights of Indigenous Cultural Communities and Indigenous Peoples. In order to achieve this, the law established the National Commission on Indigenous Peoples ("**NCIP**"), a government agency tasked with, among others, the protection of the ancestral lands and domains of Indigenous Peoples.

Corporations with large-scale projects for the development, exploitation, and utilization of land, water, air, and other natural resources within ancestral lands must undergo the NCIP's Free Prior and Informed Consent ("**FPIC**") process. The NCIP shall send representatives to hold community assemblies with the affected Indigenous Peoples. After the assemblies, the NCIP will allow the affected communities to independently hold their own decision-making processes. Only consents which are given from these independent decision-making processes will be deemed valid by the NCIP and will allow the corporation to execute its large-scale projects.

Additionally, when there is doubt as to whether or not the large scale project is within ancestral lands, the corporation can ask for the issuance of a Certificate of Non-Overlap as proof that the project is not being undertaken on ancestral lands, provided that it must be executed with an undertaking that should it later be found out that there is encroachment into ancestral lands, the FPIC process must be conducted.

**Local Government Code**

Republic Act No. 7160, as amended, otherwise known as the Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that LGUs shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of prosperity, and the promotion of morality, peace, good order, comfort, convenience, and general welfare for the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

An ordinance may be repealed by a subsequent ordinance expressly repealing or declaring it as invalid. An ordinance may also be repealed by implication by a subsequent ordinance that is inconsistent or contrary, in whole or in part, to the previous ordinance. Under the LGC, the *Sangguniang Panlalawigan* (provincial council) has the power to review ordinances passed by a component city council and can declare ordinances invalid, in whole or in part, if it finds that the lower council exceeded its authority in enacting the ordinance.

**Anti-Money Laundering Act**

On January 29, 2021, Republic Act No. 11521 was enacted, amending certain provisions of Republic Act No. 9150, otherwise known as the Anti-Money Laundering Act ("AMLA"). The necessary changes were likewise incorporated in the 2018 Implementing Rules and Regulations through the Anti-Money Laundering Council's ("AMLC") Regulatory Issuance A, B, and C No.1 Series of 2021 which took effect on January 31, 2021. In particular, R.A. No. 11521 revised the list of "Covered Persons" under the AMLA to include real estate brokers and developers. As such, real estate brokers and developers are now required to submit a covered transaction report involving any single cash transaction exceeding ₱7,500,000.00 or its equivalent in any other currency.

Further, R.A. No. 11521 provides the following suspicious transactions with Covered Persons, regardless of the amounts involved, where any of the following circumstances exist:

1. there is no underlying legal or trade obligation, purpose or economic justification;

2. the client is not properly identified;

3. the amount involved is not commensurate with the business or financial capacity of the client;

4. taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the Act;

5. any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the covered person;

6. the transaction is in any way related to an unlawful activity or offense under this Act that is about to be, is being or has been committed; or

7. any transaction that is similar or analogous to any of the foregoing.

Under the AMLA, Covered Persons shall subject covered transaction and suspicious transaction reports to the AMLC, and shall identify and record the true identity of their customers, whether permanent or occasional, and whether natural or juridical persons, or legal arrangements based on official documents. To comply with this, such Covered Persons are obligated to implement appropriate systems of collecting and recording identification information and identification documents, and shall implement and maintain a system of verifying the true identity of their clients, including validating the truthfulness of the information and confirming the authenticity of the identification documents presented, submitted, and provided by the customer, using reliable and independent sources, documents, data, or information. All records of transactions and records of closed accounts are required to be maintained and stored for five years from the date of a transaction or after their closure, respectively.

**Data Privacy Act**

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 or DPA, was signed into law on August 15, 2012, to govern the processing of all types of personal information (*i.e.,* personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System or ICT, which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the DPA and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

To this end, the appointment of a Data Protection Officer ("**DPO**") is a legal requirement for all personal information controllers ("**PICs**") and personal information processors ("**PIPs**"). The DPO is accountable for ensuring the company's compliance with all data privacy and security laws and regulations.

A PIC may be a natural or juridical person who exercises control over the processing of personal data and furnishes instructions to another person or entity to process personal data on its behalf. A PIP on the other hand, refers to a person or body instructed or outsourced by a PIC to engage in the processing of the personal data of a data subject.

The PIC or PIP that employs fewer than 250 persons shall not be required to register unless the processing it carries out is likely to pose a risk to the rights and freedoms of data subjects, the processing is not occasional, or the processing includes sensitive personal information of at least 1,000 individuals.

The DPA seeks to protect the confidentiality of "personal information," which is defined as "any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on "personal information controllers" and "personal information processors." It also provides for penal and monetary sanctions for violations of its provisions.

**Philippine Competition Act**

Republic Act No. 10667 or the Philippine Competition Act (the "**PCA**") came into effect August 5, 2015 and is the primary competition law in the Philippines.

The PCA was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (the "**PCC**"), an independent quasi-judicial agency with powers to conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities.

The PCA prohibits and imposes sanctions on:

(a) anti-competitive agreements between or amongst competitors that restrict competition as to price or other terms of trade and those fixing price at an auction or in any form of bidding including cover bidding, bid suppression, bid rotation and market allocation and other analogous practices of bid manipulation; and those which have the object or effect of substantially preventing, restricting or lessening competition;

(b) practices which are regarded as abuse of dominant position by engaging in conduct that would substantially prevent, restrict or lessen competition; and

(c) mergers or acquisitions which substantially prevent, restrict or lessen competition in the relevant market or in the market for goods or services.

The PCA provides for mandatory notification to the PCC where the value of such transaction exceeds ₱2.4 billion ("**Size of Transaction**"), and where the size of the ultimate parent entity of either party exceeds ₱6 billion ("**Size of Party**"). Notification is also mandatory for joint venture transactions if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.4 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.4 billion.

On November 22, 2017, the PCC published the 2017 Rules on Merger Procedures ("**Merger Rules**") which provides the procedure for the review or investigation of mergers and acquisition pursuant to the PCA. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within 30 days from the signing of definitive agreements relating to the notifiable merger.

Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50 million but not more than ₱250 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

Section 4(eee) of Republic Act No. 11494 or the Bayanihan 2 Act exempts from compulsory notification all mergers and acquisitions with transaction values below ₱50 billion if entered into within two years from the effectivity of Bayanihan 2 Act, or from September 15, 2020. Such transactions are likewise exempt from the

PCC's *motu proprio* review for a period of one year from the effectivity of the Bayanihan 2 Act. A transaction is considered "entered into" upon signing by the parties of the definitive agreement.

Under the PCC Resolution No. 22-2020 adopting the rules implementing Section 4 (eee) of the Bayanihan 2 Act, mergers and acquisitions shall still be subject to compulsory notification when:

1. both the transaction value and the size of the ultimate parent entity of either party is at least ₱50 billion; and

2. the transaction is entered into prior to the effectivity of the Bayanihan 2 Act and exceeds the thresholds applicable.

After September 15, 2022, it is anticipated that the thresholds will revert to their original figures of ₱2.4 billion for the Size of Transaction test and ₱6 billion for the Size of Party Test.

Additionally, the Bayanihan 2 Act suspended PCC's power to motu proprio review mergers and acquisitions for one year from the effectivity of the law. At present, the one-year moratorium has already lapsed. Mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may already be reviewed by the PCC motu proprio since the one-year period has lapsed.

Any voluntary notification shall constitute a waiver to the exemption from review.

**Philippine Revised Corporation Code**

The Philippine Revised Corporation Code was signed into law on February 20, 2019 and became effective on March 8, 2019. Among the salient features of the Philippine Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.

- The Code allows the creation of a "One Person Corporation" ("**OPC**"), which is a corporation composed of a single stockholder, provided that, only natural person, trust or an estate may form such. No minimum authorized capital stock is also required for an OPC, unless provided for under special laws.

- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least 2/3 of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.

- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or *in absentia* if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or *in absentia* are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or *in absentia,* the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Philippine Revised Corporation Code refers to the PCA in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the PCA thresholds.

**Foreign Investments Act**

The Foreign Investments Act of 1991 (the "**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Negative List signed on October 29, 2018. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

Pursuant to SEC Memorandum Circular No. 8, Series of 2013, which generally applies to all corporations engaged in identified areas of activities or enterprises specifically reserved, wholly or partly, to Philippine nationals by the Philippine Constitution, the FIA, and other existing laws, amendments thereto, and implementing rules and regulations of said laws, for purposes of determining compliance with the constitutional or statutory ownership requirement, the required percentage of Filipino ownership shall be applied to both: (i) the total number of outstanding shares of stock entitled to vote in the election of directors; and (ii) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

**Registration of Foreign Investments and Exchange Controls**

Under current BSP regulations, an investment in Philippine securities (such as the Offer Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and/or the remittance of dividends, profits and earnings derived from such shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance will be sourced outside the Philippine banking system, registration with the BSP is not required. BSP Circular No. 471 issued on January 24, 2005 subjects foreign exchange dealers and money changers to RA No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit supporting documents in connection with their application to purchase foreign exchange for purposes of capital repatriation and remittance of dividends.

Registration of Philippine securities listed in the PSE may be done directly with a custodian bank duly designated by the foreign investor. A custodian bank may be a universal or commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document ("**BSRD**") or BSRD Letter-Advice from the registering custodian bank and the broker's sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (1) the BSRD or BSRD Letter-Advice; (2) the cash dividends notice from the PSE and the Philippine Depository and Trust Corporation (formerly the Philippine Central Depository) showing a printout of cash dividend payment or computation of interest earned; (3) the copy of the corporate secretary's sworn statement attesting to the board resolution covering the dividend declaration and (4) the detailed computation of the amount applied for in the format prescribed by the BSP. For direct foreign equity investments, the latest audited financial statements or interim financial statements of the investee firm covering the dividend declaration period need to be presented in addition to the documents enumerated above. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the BSP, with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee during a foreign exchange crisis, when an exchange crisis is imminent, or in times of national emergency. Furthermore, there can be no assurance that the foreign exchange regulations issued by the BSP will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board undertakes the overall management and supervision of the Issuer by setting its goals, strategies and policies, and regularly monitoring their effectiveness and implementation. The Issuer's executive officers and management team support the Board by preparing appropriate information and documents concerning the Group's business operations, financial condition, and results of operations for its review.

### THE BOARD AND SENIOR MANAGEMENT

The Board consists of seven members, two of whom are independent Directors. The Directors shall serve for one year from date of election until their successors are elected and qualified.

The following table sets out certain information regarding the members of the Board and the Issuer's* executive management.

| Name | Citizenship | Age | Position |
|---|---|---|---|
| Enrique K. Razon, Jr. | Filipino | 62 | Chairman** |
| Christian R. Gonzalez | Filipino | 47 | Director** |
| Guillaume Lucci | American | 46 | President and Chief Executive Officer** |
| Stephen A. Paradies | Filipino | 68 | Director** |
| Rafael D. Consing, Jr. | Filipino | 53 | Director** |
| Panfilo M. Lacson | Filipino | 74 | Independent Director** |
| Danilo S. Feliciano | Filipino | 67 | Independent Director** |
| Jesus Bernardo M. Palma III | Filipino | 52 | Treasurer and Chief Financial Officer |
| Silverio Benny J. Tan | Filipino | 65 | Corporate Secretary |
| Paul T. Salanga | Filipino | 50 | Assistant Corporate Secretary |
| Philip Miguel I. Ranada | Filipino | 42 | Chief Legal Officer and Data Protection Officer |
| Janssen A. dela Cruz | Filipino | 44 | Market Sector Lead – Energy |
| Melvin John M. Tan | Filipino | 42 | Market Sector Lead – Water |
| Carla Angelica T. Peralta | Filipino | 35 | Market Sector Lead – Waste and Sustainable Fuels |
| Dave Jesus T. Devilles | Filipino | 40 | Head of Environment, Social and Governance |
| Emma G. Villa del Rey | Filipino | 47 | Head of Treasury |
| Edgardo M. Calantuan, Jr. | Filipino | 48 | Head of Information Technology |
| Jose Joel M. Sebastian | Filipino | 58 | Chief Audit Executive |
| Amabelle C. Asuncion | Filipino | 46 | Chief Compliance Officer |
| Amorsolo R. Camara Jr. | Filipino | 42 | Chief Risk Officer |
| Maricel L. Muzones | Filipino | 45 | Head of Human Resources |

*Note:*

**Board member.

The Issuer's senior management team is comprised of experienced and committed professionals with extensive experience in infrastructure businesses. The business experience, at least for the past five years, of each of the Issuer's Directors and executive officers is set out below.

**Enrique K. Razon, Jr.**, 62, Filipino

Mr. Razon has been the Chairman and a Director of the Issuer since August 2020. Concurrently, Mr. Razon is the Chairman and the President of ICTSI, a publicly-listed corporation, IWI Container Terminal Holdings, Inc., ICTSI Foundation, Inc., Razon Industries, Inc., Sureste Realty Corporation, Quasar Holdings, Inc., Razon & Co., Inc., Achillion Holdings, Inc., Collingwood Investment Company Ltd., Bravo International Port Holdings, Inc., Provident Management Group, Inc., and Prime Strategic Holdings, Inc.; the Chief Executive Officer (CEO) and the Chairman of Bloomberry Resorts Corporation; Chairman of Sureste Properties, Inc, Monte Oro Resources and Energy, Inc., Bloomberry Resorts & Hotels, Inc., and Pilipinas Golf Tournament Inc.; Director of ICTSI (Hongkong) Ltd., Australian Container Terminals, Ltd., Pentland International Holdings Ltd., CLSA Exchange Capital, Xcell Property Ventures, Inc.; Director and Chairman of Prime Infrastructure, Inc., Prime Metroline Infrastructure Holdings Corporation, Prime Metro Power Holdings Corporation, WawaJVCo Inc. and Prime

Metro BMD Corporation, Ahunan Power, Inc., Terra Solar Philippines, Inc., Wastefuel Philippines, Inc., Prime Infrastructure Foundation Inc., and Director of Menatech Energy Ltd.

In addition, he is a member of the US-Philippines Society, the ASEAN Business Club, and Philippines, Inc.

The De La Salle University in the Philippines has also conferred on Mr. Razon the degree of Doctor of Science in Logistics *honoris causa*.

**Christian R. Gonzalez**, 47, Filipino

Mr. Gonzalez is a Director of the Issuer. He is also the Executive Vice President and Chief Risk Officer of ICTSI, the Global Corporate Head of ICTSI and its subsidiaries (the "**ICTSI Group**"), and also serves as its Vice President, and Regional Head for Asia Pacific.

Prior to his current role, he served as the Director General and Chief Executive Officer (CEO) of Madagascar International Container Terminal Services Ltd. ("**MICTSL**"), which operates the port in Toamasina, Madagascar, and thereafter, was appointed as the Vice President and Head of Asia Pacific Region & Manila International Container Terminal. When he first joined the ICTSI Group in 1997, he worked in various operations departments before he was appointed as the Assistant Manager for Special Projects of ICTSI Ltd. He was named MICT Operations Manager in 2003. In 2006, he was designated as the Chief Operating Officer and later CEO of MICTSL in 2009. In 2010, he was designated as a Director of Bloomberry Resorts and Hotels, Inc. and The Country Club. In 2012, Mr. Gonzalez was appointed as the Head of ICTSI's Business Development for Asia region. He was also appointed as the President of ICTSI Foundation, Inc. on April 15, 2016. He is currently the Chairman and President of Subic Bay International Terminal Holdings, Inc., ICTSI Subic, Inc., President of ICTSI Asia Pacific Business Services, Inc., Chairman of Yantai International Container Terminal Limited and Victoria International Container Terminal Limited, Chairman and President of Intermodal Terminal Holdings, Inc., President of IW Cargo Handlers, Inc., and the Chairman of Cordilla Properties Holdings, Inc., ICTSI Far East Pte. Ltd., Mindanao International Container Terminal Services, Inc. and ICTSI Ltd.; President Commissioner of PT ICTSI Jasa Prima Tbk.; an alternate member of Sociedad Portuario Industrial Aguadulce S.A.; a Director of Bauan International Port, Inc., Davao Integrated Port & Stevedoring Services Corp., Hijo International Port Services, Inc., South Cotabato Integrated Ports Services, Inc., ICTSI Honduras Ltd., ICTSI (Hong Kong) Ltd., International Container Terminal Services Private Limited, Abbotsford Holdings, Inc., IWI Container Terminal Holdings, Inc., ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., Asiastar Consultants Limited, Manila North Harbour Port, Inc., Bloomberry Resorts Corporation, Sureste Properties, Inc., ICTSI D.R. Congo S.A., Motukea International Terminal Limited, South Pacific International Container and Prime Strategic Holdings Inc.; and a Commissioner of PT Makassar Terminal Services.

Mr. Gonzalez is a graduate of Instituto de Estudios Superiores de la Empresa (IESE) Business School, the graduate school of management of the University of Navarra, in Barcelona, Spain, where he received his Bilingual Masters in Business Administration. He is also a graduate of Business Administration from Pepperdine University in California.

**Guillaume Lucci**, 46, American

Mr. Lucci is a Director and the President and Chief Executive Officer of the Issuer.

Concurrently, he is the President and Chief Executive Officer of Prime Infrastructure Inc., Prime Metroline Infrastructure Holdings Corporation, Prime Metro Power Holdings Corporation, President of Wastefuel Philippines, Inc. and Prime Infrastructure Foundation, Inc., and a Director of Wastefuel Global, LLC and Menatech Energy Ltd. Mr. Lucci is also a member of the Makati Business Club and AMCham Phils.

Prior to his current role, he was the Head of Global Engineering of ICTSI, Infrastructure and Commercial Director in CH2M Hill, Director of CH2M Hill do Brasil and Halcrow Panama S.A. and Principal Vice President and Director of the Maritime Division of River Consulting.

Mr. Lucci earned his Master of Science degree in Structural Engineering, Mechanics and Materials from the University of California, Berkeley. He is also a graduate of Florida Institute of Technology with a Civil/Ocean Engineering degree (Summa Cum Laude) and University of Toulon et du Var in France with a Mathematics degree.

**Stephen A. Paradies**, 68, Filipino

Mr. Paradies is a Director of the Issuer.

Mr. Paradies has been a Director of ICTSI since December 1987. On April 15, 2021, he was appointed as Chairman of the Board Risk Oversight Committee and member of the Audit Committee, Nomination Sub-Committee, Remuneration Sub-Committee, and Environmental, Social And Governance Sub-Committee of ICTSI.

Mr. Paradies is also a Board Director of IWI Container Terminal Holdings, Inc., Sociedad Puerto Industrial Aguadulce S.A., Apex Mining Co. Inc., Union Investments Corp., Sureste Properties Inc., Prime BMD, Prime Metro Power Holdings, Inc., Prime Metro Infrastructure Holdings Inc., MORE Palawan Power Corp., Amber Electric & Power Corp., and The Country Club, Inc. Mr. Paradies is also Trustee of Bloomberry Cultural Foundation, Inc. and a Board Chairman of Napagapa Beverages, Inc. and MORE Electric & Power Corp.

Mr. Paradies received his Bachelor of Science Degree, Major in Business Management, from the Santa Clara University, California.

**Rafael D. Consing, Jr.**, 53, Filipino

Mr. Consing is a Director of the Issuer.

He is also the Senior Vice President, Chief Financial Officer, and Compliance Officer of ICTSI.

Concurrently, Mr. Consing is a Director and Treasurer of Subic Bay International Terminal Corp., Subic Bay International Terminal Holdings, Inc., ICTSI Subic Inc., Cordilla Properties Holdings, Inc., IW Cargo Handlers, Inc., IWI Container Terminal Holdings, Inc., Cavite Gateway Terminal, Inc.; Treasurer and Chief Financial Officer of Terra Renewables Holdings, Inc. and Terra Solar Philippines, Inc.; an alternate member of Sociedad Puerto Industrial Aguadulce S.A.; Director of Hijo International Port Services, Inc. Falconer Aircraft Management, Inc., Tecplata S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Operadora Portuaria Centroamericana S.A. de C.V., Motukea International Terminal Limited, South Pacific International Container Terminal Limited, Victoria International Terminal Limited, ICTSI South Pacific Limited, ICTSI Oregon, Inc., Global Procurement Ltd., ICTSI Honduras Ltd., Aeolina Investments Limited, Crixus Limited, ICTSI Georgia Corp., ICTSI QFC LLC, ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., ICTSI Mauritius Ltd., Consultports S.A. de C.V., Asiastar Consultants Limited, ICTSI Far East Pte. Ltd., Manila North Harbour Port, Inc., ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; the Chairman of Laguna Gateway Inland Container Terminal, Inc., CGSA Transportadora S.L. and SPIA Spain S.L.; Director and the Deputy Chairman of ICTSI Ltd. and International Container Terminal Holdings, Inc.; Commissioner of PT ICTSI Jasa Prima Tbk.; and a Treasurer of Intermodal Terminal Holdings, Inc.; Director and Treasurer of Trident Water Company Holdings, Inc.; Founder and Chairman of Net Global Solutions, Inc., Rhodium Builders, Inc.; and an Independent Director at Hatchasia, Inc.

Mr. Consing received his A.B. degree, major in Political Science, from the De La Salle University, Manila, in 1989. He is an alumnus of the Emerging CFO: Strategic Financial Leadership Program of the Stanford Graduate School of Business.

**Panfilo M. Lacson**, 74, Filipino

Mr. Lacson is an Independent Director of the Issuer.

Mr. Lacson is a politician and civil servant. He started his career in law enforcement, rose through the ranks, and in November 1999, was appointed as Chief of the Philippine National Police. He later served as a Senator of the Republic of the Philippines from 2001 to 2013. In December 2013, he was appointed as the Presidential Assistant for Rehabilitation and Recovery to manage the rehabilitation efforts in relation to the after effects of Super

Typhoon Haiyan (known in the Philippines as Super Typhoon Yolanda). Mr. Lacson returned to the Senate in 2016 and served as a Senator until 2022.

Mr. Lacson earned his Master's in Government Management from the Pamantasan ng Lungsod ng Maynila. He is also a graduate of the Philippine Military Academy.

**Danilo S. Feliciano**, 67, Filipino

Mr. Feliciano is an Independent Director of the Issuer.

Mr. Feliciano is the Chairman and Chief Executive Officer of Exchange Equity Partners Group Corporation. He has over 35 years of broad international and domestic investment banking experience, having advised some of the largest Philippine corporates on equity and equity-related financings, initial public offerings, debt placements and mergers and acquisitions. He was responsible for creating and structuring innovative transaction solutions that are currently being implemented by numerous Philippine corporates.

Prior to his current role, he was Co-Chief Executive Officer of CLSA Exchange Capital, Inc. ("**CLSA ECI**"), a Philippine investment banking joint venture between Exchange Capital Corporation and CLSA Limited, where he was responsible for all Philippine investment banking, corporate finance, financial advisory and new business activities. He was also Managing Director of CLSA ECI's predecessor company, Jardine Fleming Exchange Capital Group, Inc. He began his investment banking career in New York with Merrill Lynch where he worked for 10 years advising some of the world's largest oil and gas companies.

Mr. Feliciano received his Bachelor of Arts in Economics and East Asian Studies from Columbia University in New York (Summa Cum Laude). He received his Master of Business Administration specializing in Finance and Management from Columbia Business School in New York.

**Jesus Bernardo M. Palma III**, 52, Filipino

Mr. Palma is the Treasurer and Chief Financial Officer of the Issuer.

He is also the Treasurer and Chief Financial Officer of Prime Infrastructure, Inc., WawaJVCo Inc., Chief Financial Officer of Prime Metroline Infrastructure Holdings Corporation, Prime Metro Power Holdings Corporation, Treasurer of Ahunan Power, Inc., Wastefuel Philippines, Inc., Prime Infrastructure Foundation Inc., and Director of Menatech Energy Ltd.

Prior to joining the Issuer, he was the Managing Director of Jardine Schindler Group (Philippines).

Mr. Palma received his master's degree in Development Management from the University of the Philippines. He graduated from Divine Word College with an Accounting degree.

**Silverio Benny J. Tan**, 65, Filipino

Mr. Tan is the Corporate Secretary of the Issuer.

He is a partner of the law firm Picazo Buyco Tan Fider & Santos. He is Chairman of the Board of Mapfre Insular Insurance Corporation, a Director and the Corporate Secretary of Prime Strategic Holdings, Inc. (PSHI), Bravo International Port Holdings Inc., Alpha International Port Holdings Inc., Eiffle House Inc., Cyland Corp., Razon & Co. Inc., Trident Water Company Holdings, Inc., and Negros Perfect Circles Food Corp., a Director of Celestial Corporation, Skywide Assets Ltd., MORE Electric and Power Corporation, and Dress Line Holdings Inc. and its subsidiaries and affiliates, a Trustee of UP Visyas Foundation, Inc., the Corporate Secretary of Apex Mining Company Inc., ICTSI Foundation Inc., Sureste Properties, Inc., Bloomberry Resorts & Hotels, Inc., Bloomberry Resorts Corporation, Bloomberry Cultural Foundation Inc., Lakeland Village Holdings Inc., Devoncourt Estates Inc., Monte Oro Resources & Energy Inc., Pilipinas Golf Tournaments, Inc. and Manila Water Company, Inc., and OSA Industries Philippines, Inc., and the Assistant Corporate Secretary of ICTSI and International Container Terminal Holdings, Inc. ICTSI Ltd.

Mr. Tan is a graduate of the University of the Philippines, where he obtained his Bachelor's Degree in Political Science *(cum laude)* and his Juris Doctor degree *(cum laude)*. Mr. Tan also placed third in the 1982 Philippine Bar Exam.

**Mr. Paul T. Salanga,** 50, Filipino

Mr. Salanga is the Assistant Corporate Secretary of the Issuer.

He is a partner of the law firm Picazo Buyco Tan Fider & Santos. He is the Corporate Secretary of Prime Infrastructure, Inc., Prime Metro Power Holdings Corporation (PMPHC), Prime Metroline Infrastructure Holdings Corporation (PMIHC), Prime Metro BMD Corporation, Prime Metro BMD Industrial Engineering Services Corporation, Prime Port Holdings, Inc., LHX Holdings, Inc., Interpacific Highway Transport Corporation, Pacific Roadlinks Logistics, Inc., Central Motorpoool Support, Inc., Logistics & Transport Research Academic Center, Inc., Alsons Thermal Energy Corporation (ATEC), Sarangani Energy Corporation (SEC), San Ramon Power Inc. (SRPI), ACES Technical Services, Inc. (ATSI), Dolmar Real Estate Development Corporation (DREDC), Dauntless Holdings, Inc., Greenstone Holdings, Inc., Appaloosa Holdings, Inc., Wastefuel Philippines, Inc. (WPI), Sitara Holdings, Inc., Granciella Holdings, Inc., Caliza Rock Holdings, Inc. and Gravitas Prime, Inc. He is also the Assistant Corporate Secretary of Prime Infrastructure Capital, Inc. Torre, Inc. and Manila North Harbour Port, Inc.

Mr. Salanga was previously a director of Alphaland Development, Inc. and independent director of Optimum Development Bank. He was also previously the corporate secretary of StarTek Philippines, Inc., Assurance Solutions Insurance Agency, Inc., 3030 DPP Ventures, Inc., White Dawn Solution Holdings, Inc., Centaurus Conglomerates Holdings, Inc., and Landlink Property Investments (SPV-AMC), Inc.

Mr. Salanga earned both his Bachelor's Degree in A.B. Philosophy and his Juris Doctor degree from the Ateneo de Manila University.

**Philip Miguel I. Ranada**, 42, Filipino

Mr. Ranada is the Chief Legal Officer and Data Protection Officer of Prime Infrastructure Capital, Inc.

Mr. Ranada was previously the General Counsel of Light Rail Manila Corporation from 2015-2019, Counsel in AG Counselors Corporation from 2009-2015, and Legal Manager in Ayala Corporation from 2008-2009.

He earned his Juris Doctor degree from the University of the Philippines, graduating *cum laude*.

**Janssen A. dela Cruz**, 44, Filipino

Mr. dela Cruz is the Market Sector Lead – Energy of the Issuer.

He is also the President of Terra Solar Philippines, Inc. and Solar Tanauan Corporation.

Prior to his current role, Mr. dela Cruz was the Vice President for Business Development in Global Business Power Corp. (2013-2020), Vice President – Engineering in Resolute CM, LLC. (2009-2012) and VERSAR International Assistance Projects (2006-2008), QA Engineer in DG21 (2004-2006), and Project Engineer in Kajima (2002-2003).

Mr. dela Cruz graduated from De La Salle University with a degree in Civil Engineering, Major in Structural Design.

**Melvin John M. Tan**, 42, Filipino

Mr. Tan is the Market Sector Lead – Water of the Issuer.

Concurrently, he is the Chief Operating Officer of Manila Water Company, Inc. – Non-East Zone and International Businesses, President of WawaJVCo, Inc., Aqua Centro MWPV Corp., Boracay Island Water Company, Inc., Bulacan MWPV Development Corp., Bulakan Water Company, Inc., Calasiao Water Company, Inc., Calbayog Water Company, Inc., Clark Water Corporation, Davao del Norte Water Infrastructure Company, Inc., Ecowater MWPV Corp., Filipinas Water Holdings Corp., Leyte Water Company, Inc., Manila Water Philippine Ventures, Inc., Manila Water Total Solutions Corp., Metro Ilagan Water Company, Inc., MWPV South Luzon Water Corp., Manila Water Technical Ventures, Inc., North Luzon Water Company, Inc., Obando Water Company, Inc., Chairman and President of Manila Water Consortium, Inc., Chairman of Cebu Manila Water Development, Inc., and Director of Laguna AAA Water Corporation.

Mr. Tan is also the President and Chief Executive Officer of Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Manila and South East Asia Water Holdings Pte. Ltd., President Director of PT Manila Water Indonesia, Director of PT Sarana Tirta Ungaran, Manila Water (Thailand) Co., and Eastern Water Resources Development and Management Public Company Limited.

Prior to joining the Issuer, Mr. Tan was the Head of Project Development in Solar Philippines (2018), General Manager and Chief Operating Officer of Laguna AAA Water Corporation (2011-2017), Boracay Island Water Company (2009-2011), Operations Manager in Bonifacio Water Corporation (2008-2009), and held various managerial roles in Manila Water Company, Inc. (2002-2007).

Mr. Tan graduated from the University of the Philippines with an undergraduate degree in Economics and a master's degree in Business Administration.

**Carla Angelica T. Peralta**, 35, Filipino

Ms. Peralta is the Market Sector Lead – Waste and Sustainable Fuels of the Issuer.

Prior to her current role, she was a Supply Chain Manager in Shell Philippines Explorations B.V. (Malampaya) (2019-2021), held various operations role in Pilipinas Shell Petroleum Corporation (2014-2019) and was a Management Analyst at Megaworld Corporation (2009-2012).

Ms. Peralta graduated from Ateneo de Manila University with a degree in Management Economics and earned her master's degree in International Business in Ecole Superieure des Sciences Commerciales d'Angers.

**Dave Jesus T. Devilles**, 40, Filipino

Mr. Devilles is the Head of Environment, Social and Governance of the Issuer.

Before joining the Issuer, he was the Vice President of Sustainability, Corporate Social Responsibility and Employee Relations in Union Bank.

Mr. Devilles graduated from the University of the Philippines with a degree in Public Administration. He earned his master's degree in Corporate Communication and Reputation Management in Manchester Business School, University of Manchester.

**Emma G. Villa del Rey**, 47, Filipino

Ms. Villa del Rey is the Head of Treasury of the Issuer.

Prior to her current role, she was a Senior Treasury Manager in Atlantic Gulf & Pacific Company, Inc., Treasury Manager in Alsons Consolidated Resources, Inc., Senior Manager for Treasury in First Balfour, Inc. and First Philippine Electric Corporation, Treasury Manager in Phelps Dodge Philippines Energy Corporation, and Treasury Marketing Officer in PCI Bank.

Ms. Villa del Rey is a graduate of the University of the Philippines with a degree in Business Administration. She earned her master's degree in Business Administration in De La Salle University Graduate School of Business.

**Edgardo M. Calantuan, Jr.**, 48, Filipino

Mr. Calantuan is the Head of Information Technology of the Issuer.

He was the Vice President for Information Technology Services in SM-Digital Advantage Corporation before joining the Issuer.

Mr. Calantuan is a graduate of De La Salle University with a degree in Computer Science, Major in Information Technology.

**Jose Joel M. Sebastian**, 58, Filipino

Mr. Sebastian is the Chief Audit Executive of the Issuer.

Prior to his current role, he was the Senior Vice President for Finance of ICTSI until September 30, 2020. Concurrently, he is a Director and the President of International Container Terminal Holdings, Inc., ICTSI Ltd., and ICTSI Georgia Corp.; the Deputy Chairman of CGSA Transportadora S.L. and SPIA Spain S.L.; a Director and Treasurer of Bauan International Ports, Inc and ICTSI Asia Pacific Business Services, Inc a ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; and a Director of Cordilla Properties Holdings, Inc., Tartous International Container Terminal, JSC., International Container Terminal Services Private Limited, ICTSI DR Congo S.A., PT ICTSI Jasa Prima Tbk, Global Procurement Ltd., ICTSI Honduras Ltd., Lekki International Container Terminal Services LFTZ Enterprises, Tecon Suape S.A., Contecon Guayaquil S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Aeolina Investments Limited, Crixus Limited, ICTSI (M.E.) DMCC, ICTSI Middle East DMCC, ICTSI QFC LLC, ICTSI South Asia Pte. Ltd., ICTSI Project Delivery Services Co. Pte. Ltd., Consultports, S.A. de C.V., Limited, Operadora Portuaria Centroamericana S.A. de C.V., and Tungsten RE Ltd

Mr. Sebastian started his professional career with SyCip Gorres Velayo and Co (a member firm of Ernst & Young Global Limited) in 1984 and was admitted to the partnership in 1999. His expertise is in financial audits of publicly-listed companies in the telecommunications, port services, shipping, real estate, retail, power generation and distribution, manufacturing, media and entertainment industries. Mr. Sebastian is a member of the Auditing and Assurance Standards Council in the Philippines since 2015 representing the private industry.

Mr. Sebastian is a Certified Public Accountant. He graduated from the De La Salle University, Manila, in 1983 with a degree in Bachelor of Science in Commerce major in Accounting. He also attended the Accelerated Development Programme of the University of New South Wales in 1996.

**Amabelle C. Asuncion**, 46, Filipino

Ms. Asuncion is the Chief Compliance Officer of the Issuer.

Ms. Asuncion is also the Chief Legal Officer and Chief Compliance Officer of Manila Water Company, Inc.

Ms. Asuncion has 21 years of experience as a lawyer and has worked in both private and public sectors. Her areas of practice include corporate and commercial law, regulatory and compliance, and government relations.

She is a former commissioner of the Philippine Competition Commission (PCC), a quasi-judicial agency mandated to enforce the Philippine Competition Act in all sectors. As a commissioner, she performed adjudicative and rule-making functions, overall management of the PCC, and acted as official representative of the PCC in local and international fora. At the end of her term, she co-authored a book, “The Philippine Competition Act Annotated” (2021 ed.).

Her other experiences in the public sector include serving as legislative officer for the Office of the Senate Majority Leader and Commission on Appointments and as Executive Director for the Senate Oversight Committee on Climate Change. She is also a member of the faculty of the UP College of Law.

In the private sector, Ms. Asuncion started as an associate for SyCip Salazar Hernandez & Gatmaitan Law and eventually handled leadership roles in various organizations. She was law and policy reform consultant at Asian Development Bank, legislative advisor at the European Chamber of Commerce, legal counsel at BDO Unibank, Director for Legal and Regulatory Affairs and Compliance Officer at Bloomberry Resorts & Hotels, Inc., and partner at Divina Law.

Ms. Asuncion graduated magna cum laude in BA English Studies from the University of the Philippines in 1996, and finished her Bachelor of Laws from the same institution in 2001. She further completed her Master of Laws in International Legal Studies, and graduated with distinction, from Georgetown University Law Center in Washington, DC. in 2007. She was admitted to the Philippine Bar in 2002 and the New York bar in 2008.]

**Amorsolo R. Camara Jr.**, 42, Filipino

Mr. Camara is the Chief Risk Officer of the Issuer.

Prior to his current role, he was the Chief Compliance Officer for the following companies UCPB Savings Bank (USB), Globe Fintech Innovations Inc (GCash) , HC Consumer Finance Philippines, Inc. (Home Credit) and Betur and DCPay Philippines (Coins.ph). His appointment was confirmed by the Monetary Board of the Bangko Sentral ng Pilipinas. He also acted as the Chief Risk Officer for some of these aforementioned companies. He was also a former law associate at Kapunan Law and was consultant for a couple of other entities and agencies, both private and government.

Atty. Camara has a Master's in Management degree (*MM / MBA*) from Asian Institute of Management. He has also a Bachelor of Laws degree (*LLB*) from San Beda College of Law, Mendiola. He graduated from Ateneo de Manila University with a Bachelor of Arts degree Major in Philosophy (*AB Philosophy*). He is also an ISO 31000 Certified Risk Manager.

**Maricel L. Muzones**, 45, Filipino

Ms. Muzones is the Head of Human Resources of the Issuer.

She was previously the Human Resources Director of Jardine Schindler Elevator Corporation (2015-2019) and Human Resources Head of Viskase Asia Pacific Corporation (2011-2014), Vitarich Corporation (2008-2011), and Philippine Recyclers Inc. (2004-2008).

She graduated from Trinity University of Asia with an undergraduate degree in Psychology. She is currently pursuing a master's degree in Business Administration at the Ateneo Graduate School of Business.

## FAMILY RELATIONSHIPS

Stephen A. Paradies is the brother-in-law and Christian R. Gonzalez is the nephew of Chairman Enrique K. Razon, Jr. There are no other family relationships among the directors and officers listed in this prospectus.

## INTERLOCKING DIRECTORS

The following individuals serve as interlocking directors and/or officers between the Issuer and its wholly-owned subsidiaries:

| Officer/Director | Issuer | Prime Metro Power Holdings Corporation | Prime Metroline Infrastructure Holdings Corporation | Prime Infrastructure Inc. | Trident Water Company Holdings, Inc. |
|---|---|---|---|---|---|
| Enrique K. Razon, Jr. | Director and Chairman | Director and Chairman | Director and Chairman | Director and Chairman | – |
| Guillaume Lucci | Director, President, and CEO | Director, President, and CEO | Director, President, and CEO | Director, President, and CEO | – |

| Officer/Director | Issuer | Prime Metro Power Holdings Corporation | Prime Metroline Infrastructure Holdings Corporation | Prime Infrastructure Inc. | Trident Water Company Holdings, Inc. |
|---|---|---|---|---|---|
| Stephen A. Paradies | Director | Director | Director | – | – |
| Raphael D. Consing, Jr. | Director | – | – | – | Director |
| Christian R. Gonzalez | Director | – | – | Director | – |

The following individuals serve as interlocking directors and/or officers between the Issuer and its operating subsidiaries:

| Officer/Director | Issuer | Manila Water Company, Inc.(1) | WawaJVCo, Inc.(2) | Terra Solar Philippines, Inc.(3) | Ahunan Power, Inc.(4) | Prime Metro BMD Corporation(5) | ChicoJV Co, Inc.(6) |
|---|---|---|---|---|---|---|---|
| Enrique K. Razon, Jr. | Director and Chairman | Director and Chairman | Director and Chairman | Director and Chairman | Director and Chairman | Director and Chairman | Director and Chairman |
| Guillaume Lucci | Director, President, and CEO | – | – | – | – | – | – |
| Stephen A. Paradies | Director | – | – | – | Director | Director | – |
| Raphael D. Consing, Jr. | Director | Director | – | – | – | – | – |
| Christian R. Gonzalez | Director | – | Director | – | Director | Director | Director |

*Notes*:

(1) Based on 2022 GIS.
(2) Based on 2021 GIS.
(3) Based on 2021 GIS.
(4) Based on 2021 GIS.
(5) Based on 2020 GIS.
(6) Based on 2021 GIS.

## CORPORATE GOVERNANCE

The Company has a Revised Manual for Corporate Governance (the "**Manual**") to ensure its compliance with the leading practices on good corporate governance and related Philippine SEC rules and regulations. The Manual was approved and adopted by the Board on June 10, 2022.

The Manual provides that it is the Board that has the primary responsibility for the governance of the corporation. In addition to setting the policies for the accomplishment of corporate objectives, it has the duty to provide an independent check on the Company's management. The Board is mandated to attend its regular and special meetings in person or through teleconferencing.

In adopting the Manual, the Company defines the responsibilities of the Board and its members, in governing the conduct of the business of the Company, the Board Committees, in focusing on specific board functions to aid in the optimal performance of its roles and responsibilities, and the officers, in ensuring adherence to corporate principles and best practices.

In order to keep itself abreast with the leading practices on corporate governance, the Issuer encourages the members of its top level management and the Board to attend and participate at seminars on corporate governance initiated by accredited institutions. The Issuer recently appointed Ms. Amabelle C. Asuncion as Chief Compliance Officer and Mr. Amorsolo R. Camara Jr. as Deputy Compliance Officer, and is in the process of establishing an evaluation system for determining the extent of compliance of the Board and senior management of the Issuer with the Manual.

The Issuer welcomes proposals, especially from institutions and entities such as the Philippine SEC, PSE and the Institute of Corporate Directors, to improve its corporate governance. Further, the Manual shall be subject to regular review taking into account the subsequent issuances of relevant government agencies on best corporate governance practices and the Company's changing needs, actual conditions prevailing in the environment and regulatory requirements.

The Issuer believes there has been, and currently is, no material deviation from the Manual.

**COMMITTEES OF THE BOARD**

Pursuant to the Issuer's By-Laws and the Issuer's Manual, the Board created each of the following committees and appointed Board members thereto.[2] The term of each member of the respective committees named below shall commence upon approval by the Philippine SEC of the amendments to the By-Laws of the Issuer, creating the following Board committees.

*Audit and Risk Committee*

The Issuer's Audit and Risk Committee is responsible for assisting the Board in in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. It shall provide oversight over management's activities in managing the credit, market liquidity, and operational, legal, and other risk of the Issuer. It shall oversee the Issuer's internal and external auditors, ensuring that they act independently from each other and have unrestricted access to all records, properties, and personnel. As a corollary to this, it shall review the annual internal audit plan of the Issuer, organize an internal audit department, and monitor and evaluate the adequacy and effectiveness of the Issuer's internal control systems. It shall review reports submitted by the auditors and the quarterly, half-year, and annual financial statements before submission to the Board. It shall also coordinate, monitor, and facilitate compliance with laws, rules, and regulations as may be directed by the Board, evaluate and determine the non-audit work of the external auditor, and establish and identify the reporting line of the Internal Auditor, who shall report directly to the Audit and Risk Committee.

The Issuer also expects to adopt an Audit and Risk Committee Charter that provides that the Audit Committee shall, among other activities: (1) review and evaluate the professional qualifications, performance and independence of the external auditor and the lead partner, (2) review and approve, with the external auditor, the nature and scope of the audit plans, (3) review and approve the fees, remuneration and terms of engagement of the external auditor for audit and non-audit services, (4) evaluate and approve the non-audit work conducted by external auditors, (5) review reports or communications of the external auditors, and (6) ensure that the external auditor complies with auditing standards.

Pending adoption of the aforementioned Audit and Risk Committee Charter, the Issuer employs the services of the Chief Audit Executive, who has significant and extensive experience in audit matters. In addition, the Issuer's Manual of Corporate Governance sets out the duties and functions of the Audit Committee, among others. Audit-related corporate actions are endorsed by the Audit Committee (on recommendation by the Chief Audit Executive) to the Board, which then determines the matter.

The Audit and Risk Committee must be composed of at least three directors, who shall preferably have an accounting and finance backgrounds, two of whom shall be Independent Directors and another with audit experience. The Chairman of the Audit and Risk Committee shall be an Independent Director. As of the date of this Prospectus, Danilo S. Feliciano serves as the chairperson of the Audit and Risk Committee. Panfilo M. Lacson

[2] The Issuer has submitted an application for the amendment of its By-Laws to create the foregoing committees of the Board, among others. Such amendment application is subject to approval by the Philippine SEC.

and Stephen George A. Paradies are the other members of the Audit and Risk Committee. Panfilo M. Lacson and Danilo S. Feliciano are independent directors.

The Issuer also expects to assess the effectiveness of the Audit Committee on an annual basis to ensure that its performance meets and complies with best practices.

The assessment of the performance of the Audit Committee shall be conducted by the Issuer within one year from the date of listing of the Offer Shares on the PSE.

*Nominations and Corporate Governance Committee*

The Issuer's Nominations and Corporate Governance Committee is tasked with reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. It shall establish a formal and transparent procedure for developing a policy on director and officer remuneration to ensure that their compensation is consistent with the Issuer's culture and strategy and the business environment in which it operates. In line with this, it must ensure that there is a relationship between remuneration and performance. It shall assist the Board in the performance of corporate governance responsibilities as well as exercise such other functions as may be assigned to it by the Board or the By-Laws. The Nominations and Corporate Governance Committee is composed of at least three (3) members, at least one of whom shall be an Independent Director. As of the date of this Prospectus, Panfilo M. Lacson serves as the chairman of the Nominations and Corporate Governance Committee. Rafael D. Consing, Jr. and Christian R. Gonzalez are the other members of the committee.

*Related Party Transactions Committee*

The Issuer's Related Party Transactions Committee is responsible for reviewing the integrity and transparency of related party transactions based on the Issuer's related party transaction policy. The material or significant related party transactions reviewed and approved during the year shall be disclosed in the Issuer's Annual Corporate Governance Report. The Related Party Transactions Committee must be composed of at least three (3) non-executive directors. As of the date of this Prospectus, Panfilo M. Lacson serves as the chairman of the Related Party Transactions Committee. Danilo S. Feliciano and Stephen George A. Paradies are the other members of the committee.

**EXECUTIVE COMPENSATION**

The directors and executive officers of the Issuer did not receive any compensation prior to its incorporation in August 2020.

Independent and non-executive Directors of the Issuer are expected to be paid a ₱100,000 monthly fixed fee, ₱100,000 per regular board meeting, ₱50,000 per committee meeting and ₱150,000 per special board meeting. Except for the foregoing, there are no other arrangements for the payment of compensation or remuneration to the Directors of the Issuer in their capacity as such.

For the calendar years 2021 and 2020, the total salaries, allowances, and bonuses paid to the President and CEO and the four other most highly compensated executives of the Issuer; and for calendar year ending 2022, the total salaries, allowances, and bonuses expected to be paid to the President and CEO and the four other most highly compensated executives of the Issuer, comprising Mr. Jesus Bernardo Palma (CFO), Mr. Philip Miguel I. Ranada (Chief Legal Officer), Mr. Melvin John M. Tan (Market Sector Lead − Water) and Mr. Janssen dela Cruz (Market Sector Lead − Energy), are set out in the table below:

| | Year | Salary (₱) | Bonus and Other Annual Compensation (₱) | Total (₱) |
|---|---|---|---|---|
| President and CEO and the top four most highly compensated executive officers (total compensation) | 2020 | 37,094,000 | 14,970,302 | 52,064,302 |
| | 2021 | 64,463,382 | 10,113,421 | 74,576,803 |
| | Projected 2022 | 76,468,311 | 20,988,026 | 97,456,337 |

The Issuer adopts customary employment arrangements with its executive officers, including notice periods for resignations and non-compete clauses. There are no compensatory plans, arrangements or payments where such plan, arrangement or payment result from the resignation, retirement or any other termination of the executive officer, from the change-in-control of the Issuer or a change in the executive officer's responsibilities following a change-in-control.

**STOCK INCENTIVE PLAN**

The Issuer has established an employee stock incentive plan ("**SIP**") to incentivize certain of its executive officers, employees and other eligible participants. Pursuant to the SIP, the Board of Directors may issue share grants to eligible participants ("**Share Grants**") that could, subject to the terms of the SIP, become exercisable into Common Shares during certain exercise periods.

On September 5, 2022, the Board approved the SIP. The Issuer will file a request for exemption from registration of the SIP under Section 10.2 of the SRC to the Philippine SEC. The Issuer acknowledges that any issuance of shares pursuant to the SIP shall be done only after approval of the Philippine SEC of its request for exemption from registration.

Share Grants will be awarded under the SIP subject to a vesting period of three years, with 25% of the Share Grants vesting on the first and second anniversaries of the grant date, and 50% vesting on the third anniversary of the grant date, although terms may vary among participants in the SIP. Share Grants will be issued subject to typical leaver provisions. Vested Share Grants will only be exercisable by participants during defined exercise periods.

In addition to the SIP, the Issuer will also grant a one-time stock award to certain employees who had been working with the Issuer prior to the Offer. This award has a 36-month cliff vesting period.

The final terms of the one-time stock award, including the number of Share Grants that may be awarded thereunder, shall be subject to approval by the Board of Directors.

**WARRANTS AND OPTIONS OUTSTANDING**

As of the date of this Prospectus, there are no outstanding warrants or options in connection with the Issuer's Common Shares held by any of the Issuer's Directors or executive officers.

## SIGNIFICANT EMPLOYEES

While the Issuer values the contribution of its senior management, corporate officers and senior employees, the Issuer believes that there is no senior employee as of the date of this Prospectus, the resignation or loss of whom, would have a material adverse impact on the Issuer's business. Other than standard employment contracts, there are no special arrangements with non-senior management employees except for secondments that employees of the Issuer undertake with other members of the Group, such as Manila Water. Any compensation or fees in connection with such secondments are paid for by the Issuer.

## INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

To the best of the Issuer's knowledge and belief and after due inquiry, none of the Directors, or executive officers of the Issuer have, in the five-year period prior to the date of this Prospectus, been convicted judicially or administratively of an offense or judicially declared insolvent, spendthrift, or incapacitate to contract.

## PRINCIPAL SHAREHOLDER

### Issuer's Issued Capital

On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 Common Shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine Securities and Exchange Commission (the "**Philippine SEC**") approved such amendments on June 8, 2022.

On September 5, 2022, Prime Strategic Holdings subscribed to 100,866,657 Common Shares of the Issuer at an issue price of ₱6.00 per share or an aggregate issue price of ₱605,199,942.00.

On September 15, 2022, 47,216,664 common shares were issued out of the Issuer's unissued authorized capital stock to certain subscribers in recognition of their contributions to the success of the business of the Issuer. The shares were issued at a subscription price of ₱6.00 per share or an aggregate issue price of ₱283,299,984.00.

As of the date of this Prospectus, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share, of which 6,995,625,301 Common Shares are issued and outstanding.

As of the date of this Prospectus, Prime Strategic Holdings owns 99.3% of the Issuer's issued and outstanding Common Shares.

### Shareholder as of the date of this Prospectus

The following table sets out the Issuer's shareholders as of the date of this Prospectus.

| | **Number of Shares held[(1)]** | **% of total outstanding Shares** |
|---|---|---|
| | | **(%)** |
| Prime Strategic Holdings. | 6,948,408,603 | 99.3 |
| Enrique K. Razon Jr. | 716,676 | - |
| Guillaume Lucci | 16,666,676 | 0.2 |
| Donato Almeda | 7,499,999 | 0.1 |
| Stephen A. Paradies | 7,000,001 | 0.1 |
| Eric Recto | 7,000,000 | 0.1 |
| Christian R. Gonzalez | 5,000,010 | 0.1 |
| Rafael D. Consing, Jr. | 2,500,001 | - |
| Jesus Bernardo M. Palma III | 833,333 | - |
| Danilo S. Feliciano | 1 | - |
| Panfilo M. Lacson | 1 | - |
| **Total** | **6,995,625,301** | **100.0** |

*Note:*

(1) *Includes Shares held by nominees.*

### Principal Shareholder

Upon completion of the Offer, the direct shareholding of Prime Strategic Holdings, the directors and officers, and other shareholders of the Company is expected to be as set out below:

| | Shares owned before the Offer[(1)(3)] | (%) | Shares owned after the Offer[(3)] (assuming full exercise of the Over-allotment Option) | (%) | Shares owned after the Offer[(3)] (assuming the Over-allotment Option is not exercised) | (%) |
|---|---|---|---|---|---|---|
| Prime Strategic Holdings................ | 6,948,408,603 | 99.33 | 6,948,408,603 | [77.47] | [7,127,783,803] | [79.47] |
| Directors and Officers…………... | 32,716,699 | 0.47 | 32,716,699 | [0.37] | 32,716,699 | [0.37] |
| Other Shareholders ... | 14,499,999 | 0.21 | 14,499,999 | [0.16] | 14,499,999 | [0.16] |
| Public[(2)].................... | - | - | [1,973,127,200] | [22.00] | [1,793,752,000] | [20.00] |
| **Total ........................** | **6,995,625,301** | **100.00** | **[8,968,752,501]** | **100.00** | **[8,968,752,501]** | **100.00** |

*Notes:*

*(1) As of the date of this Prospectus.*

*(2) Comprises both institutional and retail investors.*

*(3) Includes Common Shares held by nominees.*

**Security Ownership of Certain Record and Beneficial Owners**

As of September 15, 2022, there are no persons known to the Issuer who beneficially owns more than of 5% of its voting securities except for the following:

| Title of Class | Name, Address of Record Owner | Record Owner's Relationship with Issuer | Name of Beneficial Owner | Beneficial Owner's Relationship with Record Owner | Citizenship | No. of Shares Held | Percentage of Total Outstanding Shares |
|---|---|---|---|---|---|---|---|
| Common Shares | Prime Strategic Holdings, Inc. 2288 Chino Roces Avenue Ext., Brgy. Magallanes, Makati City | Shareholder | Enrique K. Razon Jr. | Controlling Shareholder | Filipino | 6,948,408,603 | 99.33% |

**Security Ownership of Management and Related Parties**

As of September 15, 2022, the following are the shareholdings of the Board of Directors and Senior Management. Under the Philippine Revised Corporation Code, each director is required to hold at least one share in his/her name in the books of the corporation to qualify as a member of the Board of Directors.

| Title of Class | Name of Beneficial Owner | Position | Citizenship | Number of Shares and Nature of Beneficial Ownership | Percentage of Total Outstanding Shares |
|---|---|---|---|---|---|
| Common | Enrique K. Razon, Jr.* | Chairman of the Board | Filipino | 716,676 / Direct | Nil |
| Common | Guillaume Lucci | President and CEO | American | 16,666,676 / Direct | 0.2% |
| Common | Christian R. Gonzalez | Director | Filipino | 5,000,010 / Direct | 0.1% |
| Common | Stephen A. Paradies | Director | Filipino | 7,000,001 / Direct | 0.1% |
| Common | Rafael D. Consing, Jr. | Director | Filipino | 2,500,001 / Direct | Nil |
| Common | Danilo S. Feliciano | Independent Director | Filipino | 1 / Direct | Nil |
| Common | Panfilo M. Lacson | Independent Director | Filipino | 1 / Direct | Nil |
| Common | Jesus Bernardo M. Palma III | Treasurer and Chief Financial Officer | Filipino | 833,333 / Direct | Nil |
| Common | Silverio Benny J. Tan | Corporate Secretary | Filipino | - | Nil |

| Title of Class | Name of Beneficial Owner | Position | Citizenship | Number of Shares and Nature of Beneficial Ownership | Percentage of Total Outstanding Shares |
|---|---|---|---|---|---|
| Common | Paul T. Salanga | Assistant Corporate Secretary | Filipino | - | Nil |
| Common | Philip Miguel I. Ranada | Chief Legal Officer and Data Protection Officer | Filipino | - | Nil |
| Common | Jansenn A. dela Cruz | Market Sector Lead - Power | Filipino | - | Nil |
| Common | Melvin John M. Tan | Market Sector Lead - Water | Filipino | - | Nil |
| Common | Carla Angelica T. Peralta | Market Sector Lead - Waste and Sustainable Fuels | Filipino | - | Nil |
| Common | Dave Jesus T. Devilles | Head of Environment, Social, and Governance | Filipino | - | Nil |
| Common | Emma G. Villa del Rey | Head of Treasury | Filipino | - | Nil |
| Common | Edgardo M. Calantuan Jr. | Head of Information Technology | Filipino | - | Nil |
| Common | Jose Joel M. Sebastian | Chief Audit Executive | Filipino | - | Nil |
| Common | Maricel L. Muzones | Head of Human Resources | Filipino | - | Nil |
| | | | **TOTAL** | **32,716,699** | **0.4%** |

*Note:*

* Controls Prime Strategic Holdings, the Issuer's parent company.

Voting Trust Holders of 5% or more

The Issuer is not aware of any person holding more than 5% of shares under a voting trust or similar agreement.

**Ownership Disputes**

As of the date of this Prospectus, the Issuer is not experiencing any dispute over the ownership of the Issuer.

**Change in Control**

As of the date of this Prospectus, the Issuer is not aware of any arrangements that may result in a change in Control of the Company.

**Shares Owned by Foreigners**

As disclosed on the table above, Guillaume Lucci, the Issuer's President and CEO, currently owns 16,666,676 Common Shares. No other shares of the Issuer are currently owned by a foreigner.

## RELATED PARTY TRANSACTIONS

In the ordinary course of the Group's business, the Group engages in a variety of transactions with related parties and affiliates. See "*Description of the Group's Construction Business—Projects*" and "*Board of Directors—Senior Management*" for details on other transactions between members of the Group. The Group's related party transaction policy is to ensure that these transactions are entered into on terms which are not more favorable to the related party than those generally available to third parties dealing on an arm's length basis, and are not detrimental to unrelated shareholders.

The Issuer has established a Related Party Transactions Committee which evaluates the Issuer's ongoing relationships with related parties and to comply with the Board and shareholder voting mechanisms provided under the Philippine Revised Corporation Code and the relevant regulations of the Philippine SEC for related party transactions. Please see the section entitled "*Board of Directors and Senior Management – Committees of the Board*" in this Prospectus for more information.

**Summary of Related Party Transactions from Audited Consolidated Financial Statements**

A summary of the Group's transactions and outstanding balances with related parties as of and for the year ended December 31, 2021 and as of and for the six-month period ended June 30, 2022 is set out below. For more information, see Note 27 to the Group's audited consolidated financial statements as of and for the six months ended June 30, 2022; and Note 28 to the Group's audited consolidated financial statements as of and for the years ended December 31, 2021, 2020, 2019 and 2018.

| | Transactions for the 12 months ended December 31, 2021 | | Outstanding balance of receivable (payable) as of December 31, 2021 | | Transactions for the six months ended June 30, 2022 | | Outstanding balance of receivable (payable) as of June 30, 2022 | |
|---|---|---|---|---|---|---|---|---|
| | **₱** | **U.S.$** | **₱** | **U.S.$** | **₱** | **U.S.$** | **₱** | **U.S.$** |
| | (Audited) | (Unaudited) | (Audited) | (Unaudited) | (Audited) | (Unaudited) | (Audited) | (Unaudited) |
| | (in millions) | | | | | | | |
| **Prime Strategic Holdings** | | | | | | | | |
| Deposits received for future stock subscription ......... | (634.8) | (11.5) | (634.8) | (11.5) | – | – | – | – |
| **Sureste Properties, Inc.** | | | | | | | | |
| Advances made ....... | (0.5) | (0.0) | – | – | 0.4 | 0.0 | – | – |
| **ICTSI** | | | | | | | | |
| Construction and project management revenue ............................ | 806.0 | 14.7 | 17.3 | 0.3 | 231.8 | 4.2 | 110.4 | 2.0 |
| Retention receivable | – | – | 88.0 | 1.6 | (9.1) | (0.2) | 78.8 | 1.4 |
| Utilities charges....... | 1.5 | 0.0 | (3.6) | (0.1) | 2.2 | 0.0 | (6.0) | (0.1) |
| Lease liabilities ....... | 4.6 | 0.1 | (26.5) | (0.5) | 12.6 | 0.2 | (8.3) | (0.2) |

The Issuer believes that the above-discussed transactions were made on an arm's length basis at prevailing market rates, on normal commercial terms, and in accordance with the Group's policies toward related party transactions.

***Prime Strategic Holdings***

The outstanding balance for deposit for future stock subscription is due to Prime Strategic Holdings' subscription of additional shares in the Issuer as described in "*Description of the Issuer and the Group—Recent Developments—Capital Structure Changes*."

***ICTSI***

Construction and project management revenue relate to construction progress billings from Prime BMD for various works, which are billed and settled based on terms of payment set in the relevant contracts. These projects, including MICT dredging works and repairs and rehabilitation of Berths 1 to 5 and Berth 7 of ICTSI, were conducted at an arm's length basis, and include pre-qualification, bid submission, and provision of bonds.

The construction contract of ICTSI's Berth 7 amounting to ₱3.5 billion started in October 2018 and was completed on time during the pandemic. The Berth 7 project recognized total revenue of ₱40.0 million and nil for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively. The outstanding retention receivables from Berth 7 amounted to ₱77.1 million for both the year ended December 31, 2021 and the six months ended June 30, 2022. Prime BMD also secured the Berths 1-5 Wharf Repair project in May 2019 with a final project value amounting to ₱678.2 million, resulting in a total revenue of ₱267.1 million and nil for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively. The MICT dredging project is a cost-plus contract awarded in September 2018 with a provisional contract value of ₱238 million per year. This project resulted in revenues of ₱209.5 million and ₱142.4 million for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively. Prime BMD had outstanding receivables of nil and ₱33.1 million as of December 31, 2021 and June 30, 2022 in relation to the MICT dredging project.

**Transfer Pricing Regulations**

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses. On January 23, 2013, the BIR issued Revenue Regulations No. 2-2013 on Transfer Pricing Regulations (the "**Transfer Pricing Regulations**") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines. The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR can make the necessary adjustments to the taxable profits of the related parties so as to reflect the true value that would otherwise be derived on an arm's length basis.

The BIR also issued Revenue Audit Memorandum Order No. 1-2019 (the "**Transfer Pricing Audit Guidelines**") which provide the audit procedures to be applied to specific and common transfer pricing issues in the Philippines such as intra-group services, intangible asset transactions, cost contribution arrangements and interest payment transactions. Under the Transfer Pricing Audit Guidelines, it is generally not sufficient that the fees or costs charged on the related party transactions are at arm's length. The BIR will also consider other factors such as the nature and purpose of the transaction and the economic benefit derived by the recipient, among others, to determine whether it should disallow or make downward adjustments on the charges to the income recipient.

The Issuer is subject to transfer pricing regulations in relation to its related party transactions, and the BIR may determine that certain related party transactions are not conducted on an arm's length basis, which could result in tax adjustments that could have an adverse effect on the Issuer's operational and financial performance.

Pursuant to Revenue Regulations No. 19-2020 dated July 8, 2020, as amended by Revenue Regulations No. 34-2020 dated December 18, 2020 (*Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation and other Supporting Documents*), the Issuer is required to file, together with its annual income tax return, the BIR Form No. 1709, or the Information Return on Transactions with Related Party, detailing the related party transactions per related party. Due to the effects of the COVID-19 pandemic, and pursuant to Revenue Memorandum Circular No. 44-2021 dated March 31, 2021, the filing of the BIR Form 1709 may either be made physically or electronically.

Revenue Memorandum Circular No. 076-20 dated July 29, 2020 (*Clarifying Certain Issues on the Filing of the Related Party Transaction Form*) clarifies that all taxpayers with related party transactions are required to attach a transfer pricing documentation ("**TPD**"), local or otherwise, regardless of the amount and volume of related party transactions. The TPD should include the date of creation or preparation so as to ensure its applicability to the related party transactions conducted in the taxable year concerned. Further, the TPDs attached should be the one relied upon by the taxpayer prior to or at the time of the related party transaction, or prepared after the related party transactions, but not later than the filing due date of the tax return.

The Issuer intends to comply with these BIR issuances on the disclosure of related party transactions.

## [EFFECTS OF THE CHANGE IN PAR VALUE AND INCREASE IN CAPITAL STOCK ON CERTAIN RATIOS OF THE COMPANY]

[On November 19, 2021, the Issuer's Board of Directors approved amendments to the Issuer's Articles of Incorporation to, among others, (i) change its name from "Prime Infrastructure Holdings, Inc." to "Prime Infrastructure Capital, Inc." (the "**Name Change**"); (ii) reduction in par value of the common shares from ₱1.00 to ₱0.10 per share ("**Change in Par Value**"); and (iii) increase the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 common shares and 7,000,000,000 preferred shares (the "**Capital Increase**"). The Issuer's shareholders approved the Name Change, Change in Par Value, Capital Increase, and other amendments to the Articles of Incorporation of the Issuer on November 19, 2021 and the Philippine SEC approved such amendments on June 8, 2022.

Before the increase in the Issuer's authorized capital stock, the par value of the Issuer's common shares was ₱1.00 per share, and the earnings per share for the years ended December 31, 2018, 2019, 2020 and 2021, was ₱(2.35), ₱(1.57), ₱7.12 and ₱187.27, respectively, and the book value per share as of December 31, 2018, 2019, 2020 and 2021, was ₱(3.23), ₱1.88, ₱110.56 and ₱328.98, respectively. Following the increase in the Issuer's authorized capital stock, the par value of the Issuer's Common Shares is ₱0.10. Based on the par value of the Common Shares of ₱0.10, the earnings per share for the years ended December 31, 2018, 2019, 2020 and 2021, would have been ₱(0.23), ₱(0.16), ₱0.71 and ₱18.73, respectively, and the book value per share as of December 31, 2018, 2019, 2020 and 2021, would have been ₱(0.32), ₱0.19, ₱11.06 and ₱32.90, respectively. Aside from the foregoing, the change in par value of the Issuer's Common Shares had no impact on the Issuer's financial ratios.

For illustration, the following tables show the impact of the Change in Par Value and Increase in Capital Stock and on the earnings per share and book value per share of the Issuer as of December 31, 2021 and June 30, 2022.

| | As of December 31, 2021 | | | |
|---|---|---|---|---|
| | Original Par Value of ₱1.00 | | As Adjusted to Give Effect to the Change in Par Value reducing the Par Value to ₱0.10 and the Increase in Capital Stock | |
| | No. of Shares | Amount (₱ millions) | No. of Shares | Amount (₱) |
| Authorized capital stock | 50,000,000 | 50.0 | 500,000,000 | 50.0 |
| Issued and outstanding capital stock | 50,000,000 | 50.0 | 500,000,000 | 50.0 |
| Additional subscription | – | – | – | – |
| Total subscribed capital stock | 50,000,000 | 50.0 | 500,000,000 | 50.0 |
| Weighted average number of common shares | 50,000,000 | 50.0 | 500,000,000 | 50.0 |
| Net equity attributable to equity holders of the Company | N/A | 16,449.1 | N/A | 16,449.1 |
| Book value per share(1) | N/A | 329.0 | N/A | 32.9 |
| Net income attributable to equity holders of the Company | N/A | 9,363.6 | N/A | 9,363.6 |
| Basic earnings per share(2) | N/A | 187.3 | N/A | 18.7 |

| | As of June 30, 2022 | | | |
|---|---|---|---|---|
| | Original Par Value of ₱1.00 | | As Adjusted to Give Effect to the Change in Par Value reducing the Par Value to ₱0.10 and the Increase in Capital Stock | |
| | No. of Shares | Amount (₱ millions) | No. of Shares | Amount (₱) |
| Authorized capital stock | 1,330,000,000 | 133.0 | 13,300,000,000 | 1,330.0 |
| Issued and outstanding capital stock | 684,754,198 | 68.5 | 6,847,541,980 | 684.8 |
| Additional subscription | – | – | – | – |
| Total subscribed capital stock | 684,754,198 | 68.5 | 6,847,541,980 | 684.8 |
| Weighted average number of common shares | 127,581,069 | 12.8 | 1,275,810,686 | 127.6 |
| Net equity attributable to equity holders of the Company | N/A | 17,200.7 | N/A | 17,200.7 |
| Book value per share(1) | N/A | 25.1 | N/A | 2.5 |

| | As of June 30, 2022 | | | |
|---|---|---|---|---|
| | Original Par Value of ₱1.00 | | As Adjusted to Give Effect to the Change in Par Value reducing the Par Value to ₱0.10 and the Increase in Capital Stock | |
| | **No. of Shares** | **Amount (₱ millions)** | **No. of Shares** | **Amount (₱)** |
| Net income attributable to equity holders of the Company....................................... | N/A | 464.5 | N/A | 464.5 |
| Basic earnings per share(2) ......................... | N/A | 3.6 | N/A | 0.4 |

*Notes:*

(1) Book value per share is computed by dividing net equity attributable to equity holders of the Company by total subscribed capital shares of stock.

(2) Basic earnings per share is computed by dividing net income attributable to equity holders of the Company by the weighted average number of common shares.]

## DESCRIPTION OF THE SHARES

*The following is general information relating to the capital stock of the Issuer but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of the Issuer's Articles of Incorporation and By-Laws, as may be amended from time to time.*

### SHARE CAPITAL INFORMATION

Pursuant to the Issuer's amended Articles of Incorporation to implement the Offer, as approved by the Board of Directors and by the Issuer's stockholders on November 19, 2021 and by the Philippine SEC on June 8, 2022, the Issuer has an authorized capital stock of ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share. As of the date of this Prospectus, the Issuer has 6,995,625,301 issued and outstanding Common Shares.

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its articles of incorporation and by-laws. A Philippine corporation may also increase or decrease its authorized capital stock, provided that the increase or decrease is approved by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose and is duly approved by the Philippine SEC.

The Issuer may acquire its own shares for a legitimate corporate purpose as long as it has unrestricted retained earnings or surplus profits sufficient to pay for the shares to be acquired, such as in the following instances: (i) elimination of fractional shares arising out of stock dividends, (ii) the purchase of shares of dissenting shareholders exercising their appraisal right and (iii) the collection or compromise of an indebtedness arising out of an unpaid subscription in a delinquency sale or to purchase delinquent shares during such sale. Upon repurchase of its own shares, the shares become treasury shares, which may be resold at a reasonable price fixed by the board of directors.

The Board is authorized to issue shares from the treasury from time to time.

On June 8, 2022, the Philippine SEC approved the increase in the Issuer's authorized capital stock from ₱50,000,000 divided into 50,000,000 common shares to ₱1,400,000,000 divided into 13,300,000,000 Common Shares with a par value of ₱0.10 per share and 7,000,000,000 preferred shares with a par value of ₱0.01 per share representing an increase of ₱1,350,000,000 comprising 12,800,000,000 Common Shares and 7,000,000,000 preferred shares.

On September 5, 2022, Prime Strategic Holdings subscribed to 100,866,657 Common Shares of the Issuer at an issue price of ₱6.00 per share or an aggregate issue price of ₱605,199,942.00 (the "**September 5 Subscription**").

On September 15, 2022, 47,216,664 Common Shares were issued out of the Issuer's unissued authorized capital stock to certain subscribers in recognition of their contributions to the success of the business of the Issuer. The shares were issued at a subscription price of ₱6.00 per share or an aggregate issue price of ₱283,299,984.00 (the "**September 15 Subscription**" and, together with the September 5 Subscription, the "**September Subscriptions**").

Before the increase in the Issuer's authorized capital stock, the par value of the Issuer's common shares was ₱1.00 per share, and the earnings per share for the years ended December 31, 2018, 2019, 2020 and 2021, was ₱(2.35), ₱(1.57), ₱7.12 and ₱187.27, respectively, and the book value per share as of December 31, 2018, 2019, 2020 and 2021, was ₱(3.23), ₱1.88, ₱110.56 and ₱328.98, respectively. Following the increase in the Issuer's authorized capital stock, the par value of the Issuer's Common Shares is ₱0.10. Based on the par value of the Common Shares of ₱0.10, the earnings per share for the years ended December 31, 2018, 2019, 2020 and 2021, would have been ₱(0.23), ₱(0.16), ₱0.71 and ₱18.73, respectively, and the book value per share as of December 31, 2018, 2019, 2020 and 2021, would have been ₱(0.32), ₱0.19, ₱11.06 and ₱32.90, respectively. As adjusted to give effect to the September Subscriptions, the earnings per share for the years ended December 31, 2018, 2019, 2020 and 2021 and for the six months ended June 30, 2022, would have been ₱(0.23), ₱(0.16), ₱0.71, ₱18.73 and ₱0.36, respectively, and the book value per share as of December 31, 2018, 2019, 2020 and 2021 and June 30, 2022, would have been ₱(0.32), ₱0.19, ₱11.06, ₱32.90 and ₱2.59, respectively. Aside from the foregoing, the change in par value of the Issuer's Common Shares had no impact on the Issuer's financial ratios.

Out of the increase in authorized capital stock, the Issuer issued 6,347,541,980 Common Shares to Prime Strategic Holdings at par value equivalent to ₱634,754,198.00. The Common Shares have been subscribed and were issued at an issue price of ₱0.10 per share. Payment for such shares was made through the application of the deposit for future subscription paid by Prime Strategic Holdings in the amount of ₱634,754,198.00. As of the date of this Prospectus, 6,995,625,301 Common Shares are issued and outstanding, and Prime Strategic Holdings owns 99.3% of the Issuer's issued and outstanding Common Shares. The Offer Shares will be issued out of the Issuer's unissued Common Shares.

**RIGHTS RELATING TO SHARES**

**Voting Rights**

The Issuer's Common Shares and preferred shares have full voting rights. However, the Revised Corporation Code of the Philippines provides that for the following shares and shareholders, voting rights cannot be exercised: (i) delinquent shares as declared by the board of directors, (ii) treasury shares, or (iii) if the shareholder elected to exercise his right of appraisal referred to below.

Each Common Share and preferred share is entitled to one vote. At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in our books as of record for such meeting.

In accordance with Section 23 of the Revised Corporation Code of the Philippines, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by them as of the relevant record date for as many persons as there are directors to be elected and for whose election they have a right to vote, or to cumulate their votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number their shares shall equal, or by distributing such votes on the same principle among any number of candidates as the stockholder shall see fit.

**Dividends and Dividend Rights**

Shareholders have rights to dividends when declared by the Board of Directors from the unrestricted retained earnings of a company, subject to compliance with legal requirements, at such times and in such percentages as may be determined by its Board of Directors. The unrestricted retained earnings represent the undistributed earnings of the Issuer which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. The dividends shall be payable in cash, property or stock of the corporation, as determined by the Board of Directors, as the case may be. The Common Shares shall have full dividend rights.

Under the Revised Corporation Code of the Philippines, the Board of Directors may declare dividends in cash, property or in stock to all stockholders on the basis of outstanding stock held by them, provided that any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses. On the other hand, stock dividends shall be withheld from the delinquent stockholders until their subscription is fully paid. While cash and property dividends may be declared by the Board of Directors, no stock dividend shall be issued without the approval of stockholders representing at least two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

Moreover, such Revised Corporation Code of the Philippines generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; or (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies.

Holders of preferred shares shall receive one-tenth of dividends paid to holders of Common Shares (which rate shall be adjusted proportionally by the Board of Directors after any stock split or stock dividend declaration that change the number of Common Shares or preferred shares). Preferred shares have priority over Common Shares in the declaration of dividends of the Issuer.

**Conversion and Redemption Rights**

Preferred shares may be converted to Common Shares at a conversion rate of ten preferred shares to one Common Share and in such manner and within such period as may be specified in resolutions properly approved by the Board of Directors for the issuance of such preferred shares.

Preferred shares and Common Shares shall be non-redeemable.

**Rights of Shareholders to Assets of the Issuer**

Each holder of a Common Share is entitled to a pro rata share in the Issuer's assets available for distribution to the shareholders in the event of dissolution, liquidation, and winding up.

The Issuer's preferred shares enjoy priority over Common Shares in the distribution of assets of the Issuer upon its dissolution and liquidation, at such rates, terms, and conditions as the Board of Directors may provide.

**Pre-Emptive Rights**

Pre-emptive rights are available to existing stockholders of a Philippine corporation unless expressly denied in a corporation's articles of incorporation or waived by the shareholder in writing. The pre-emptive rights entitle shareholders the right to subscribe to all issues or other dispositions of shares of any class by the corporation in proportion to their respective shareholdings, regardless of whether the shares proposed to be issued or otherwise disposed of are identical to the shares held.

Such pre-emptive rights have been expressly denied in the Issuer's Articles of Incorporation.

**Derivative Rights**

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors of the corporation themselves are the malefactors.

**Appraisal Rights**

Under the Revised Corporation Code of the Philippines, dissenting stockholders have the right of appraisal to demand payment of the fair value of their shares in the following instances where they voted against any of the following proposed corporation actions:

(a) an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class;

(b) the extension of the term of corporate existence;

(c) the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;

(d) a merger or consolidation; or

(e) investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

In any of the above instances, the dissenting stockholders may require the corporation to purchase their shares at a fair value to be determined by three disinterested persons (one named by the shareholder, one by the corporation, and the third by the two previously chosen) in the absence of any agreement on the value. In the event of a dispute, the Regional Trial Court will determine any question about whether a dissenting shareholder is entitled to this right of appraisal. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights of the shareholders accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of such shares. No payment shall be made to any dissenting shareholder unless the corporation has Unrestricted Retained Earnings sufficient to support the purchase of the shares of the dissenting shareholders.

To exercise the appraisal right, a dissenting shareholder who votes against a proposed corporate action must make a written demand to the corporation for the payment of the fair value of shares held within 30 days from the date on which the vote was taken. Failure to make the demand within this period is deemed a waiver of the appraisal right.

**Right to Inspect Corporate Books and Records**

A shareholder has the right to inspect the records of the corporation, including all business transactions and the minutes of any meeting of the board of directors and shareholders, at reasonable hours on business days and may demand a copy of excerpts from such records or minutes at his or her expense. However, the corporation may refuse such inspection if the shareholder demanding to examine or copy the corporation's records has improperly used any information secured through any prior examination, or was not acting in good faith or for a legitimate purpose in making the demand.

**Right to Financial Statements**

A shareholder has a right to be furnished with the most recent financial statement of a Philippine corporation, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the results of its operations. At the meeting of shareholders, the Board of Directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements duly signed and certificate by an independent certified public accountant.

**Right to Stock Certificates**

Each shareholder whose shares of stock have been paid in full shall be entitled to a stock certificate for such shares of stock.

**Right to be Elected as Director**

Any shareholder having at least one share registered in his or her name may be elected director, provided that he or she has such qualifications and none of the disqualifications provided for in the Revised Corporation Code of the Philippines, Securities Regulation Code, the Issuer's Manual on Corporate Governance, and other relevant laws and regulations.

**Change of Control of Issuer**

There are no provisions in the Issuer's Articles of Incorporation or By-laws that would delay, deter, or prevent any change in control of the Issuer.

**BOARD OF DIRECTORS**

The Board of Directors of a corporation are vested with its corporate powers, which allows it to control the conduct of business and the property of a corporation, unless otherwise provided by law or in its articles of incorporation. Pursuant to the Issuer's Articles of Incorporation, as amended, the general management of the Issuer shall be vested in a board of seven directors who shall be stockholders and who shall serve until the election and qualification of their successors.

The Board of Directors are elected during each regular meeting of the shareholders, wherein shareholders representing at least a majority of the issued and outstanding capital stock of the Issuer are present, either in person or by proxy. Any vacancy in the Board of Directors shall be filled by a majority vote of the Board of Directors at a regular meeting or at a special meeting called for that purpose, and the director or directors so chosen shall serve for the unexpired term. Philippine law requires that representation of foreign ownership on the Board is limited only to the proportion of the foreign shareholding.

The exercise of corporate powers belongs to the Board as a whole. Individual directors have no power as such, unless otherwise authorized by the Board. A majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business, and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act. Four (4) directors, which is a majority of the Board, constitute a quorum for the transaction of corporate business. Except for certain corporate actions such as the election of officers, which shall require the vote of a majority of all the members of the Board, every decision of a majority of the quorum duly assembled as a board is valid as a corporate act.

As a corporation publicly listed in the PSE, the Issuer shall conform with the requirement to have three independent directors within the meaning set forth under Section 38 of the SRC. An independent director shall hold no interests or relationships with the Issuer that may hinder his or her independence from the Issuer or Management which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and which he or she shall certify in a letter of confirmation to the Corporate Secretary.

Pursuant to its Articles of Incorporation, the Board of Directors of the Issuer shall have the management of the business of the Issuer and such powers and authorities as are by the By-laws or by statutes of the Philippines expressly conferred upon it. The Board of Directors shall have the following express powers, to quote the Issuer's By-Laws:

(a) from time to time, to make and change rules and regulations not inconsistent with the By-laws for the management of the Issuer's business and affairs, including its Manual of Corporate Governance;

(b) to purchase, receive, take or otherwise acquire in any lawful matter, for and in the name of the Issuer, any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper and convenient;

(c) to invest the funds of the Issuer in another corporation or for purposes other than those for which the Issuer was organized, subject to such stockholders' approval as may be required by law;

(d) to incur such indebtedness as the Board may deem necessary and, for such purpose, to make and issue evidence of such indebtedness including, without limitation, notes, deeds of trust, instruments, bonds, debentures, or securities, subject to such stockholder approval as may be required by law, and/or pledge, mortgage, or otherwise encumber, all or part of the properties and rights of the Issuer;

(e) to guarantee, for and on behalf of the Issuer, obligations of other corporations or entities in which it has a lawful interest;

(f) to make provisions for the discharge of the obligations of the Issuer as they mature, including payment for any property, or in stocks, bonds, debentures, or other securities of the Issuer lawfully issued for the purpose;

(g) to sell, lease, exchange, assign, transfer or otherwise dispose of any property, real or personal, belonging to the Issuer whenever, in the Board's judgment, the Issuer's interest would thereby be promoted;

(h) to establish pension, retirement, bonus, profit-sharing, or other types of incentives or compensation plans for the employees, including officers and directors of the Issuer and to determine the persons to participate in any such plans and the amount of their respective participations;

(i) to prosecute, maintain, defend, compromise or abandon any lawsuit which the Issuer or officers are either plaintiffs or defendants in connection with the business of the Issuer, and likewise, to grant installments for the payments or settlement of whatsoever debts are due to the Issuer;

(j) to delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business or businesses of the Issuer to any standing or special committee or any officer or agent and to appoint any persons to be agents of the Issuer with such powers and upon such terms, as may be deemed fit; and

(k) to implement the By-laws and to act on any matter not covered by the By-laws, subject to the approval or consent of the stockholders when so required under any existing law, rule or regulation.

## SHAREHOLDERS' MEETINGS

### Annual or Regular Shareholders' Meeting

Under the Revised Corporation Code of the Philippines, Philippine corporations are required to hold an annual meeting of shareholders for corporate purposes including the election of directors. The By-laws of the Issuer provide for annual meetings on the first Monday in June of each year to be held at its principal office.

### Special Shareholders' Meeting

Under the Issuer's By-laws, special meetings of the shareholders may be called at the principal office of the Issuer at any time by resolution of the Board or by order of the President, or upon the written request of the shareholders owning at least a majority of the outstanding capital stock of the Issuer. Pursuant to Section 49 of the Revised Corporation Code of the Philippines, stockholders may propose the holding of a special meeting and items to be included in the agenda.

### Notice of Shareholders' Meeting

The Issuer is required to have a written or printed notice for every regular or special meeting of the shareholders to be mailed to the registered post office address, or in any other manner as the Philippine SEC shall allow under its guidelines and within such period as may be required under existing laws, whether within or outside the Philippines, of each stockholder not less than 21 days prior to the date set for a regular meeting and seven business days for a special meeting. The notice must contain the objects of the meeting.

In addition, in accordance with Section 49 of the Revised Corporation Code of the Philippines and SEC Memorandum Circular No. 6, series of 2020, for meetings to be held via remote communication, written notice must be sent at least 21 days prior to the scheduled regular meeting. The Issuer must also comply with SEC Circular No. 3, Series of 2020 which requires a corporation to send written notice of regular meetings of shareholders at least 21 calendar days prior to the date of the meeting. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. Notice of any meeting may be waived, expressly or impliedly, by any shareholder, in person or by proxy, before or after the meeting.

When the meeting of the shareholders is adjourned to another time or place, notice of the adjourned meeting need not be provided so long as the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is decided. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

For a special stockholders' meeting called pursuant to SEC Circular No. 7, the Board shall issue the notice to convene the stockholders' meeting at least seven days prior to the proposed date of the special meeting after a determination that the objectives and conditions in the written call are consistent with the requirements of SEC Circular No. 7.

### Quorum

Unless otherwise provided by law, in all regular or special meetings of the stockholders, at least a majority of the outstanding capital stock of the corporation must be present or represented in order to constitute a quorum for the transaction of business. A majority of the quorum shall decide any question that may come before the meeting, save and except in those several cases in which the laws of the Philippines require the affirmative vote of a greater proportion.

### Voting

At all meetings of shareholders, a holder of Common Shares may vote in person or by proxy, for each share held by such shareholder.

### Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their shares voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. In lieu of fixing the record date, the Board of Directors may, by resolution, direct the stock transfer books of the Issuer be closed.

Pursuant to Philippine SEC rules, cash dividends declared by corporations whose shares are listed on the PSE shall have a record date, which shall not be less than 10 and not more than 30 days from the date of declaration of cash dividends.

In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC and shall be indicated in the Philippine SEC order, which shall not be less than 10 days nor more than 30 days after all clearances and approvals by the Philippine SEC shall have been secured. Regardless of the kind of dividends, the record date set shall not be less than 10 trading days from receipt by the PSE of the notice of declaration of the dividend.

**SHARES OF STOCK**

Each shareholder of the Issuer whose stock has been paid in full shall be entitled to a certificate or certificates showing the amount of stock of the Issuer in his or her name.

Under the PSE Rules, only fully-paid shares may be listed with the PSE.

**ISSUE OF SHARES**

Subject to otherwise applicable limitations, the Issuer may issue additional shares to any individual for consideration deemed fair by the Board, provided said consideration shall not be less than the par value of the issued shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent Shares) has been paid and proof of payment of the applicable taxes shall have been submitted to the Issuer's Corporate Secretary. Under the PSE Rules, only fully-paid shares may be listed on the PSE.

**TRANSFER OF COMMON SHARES**

All transfer of shares on the PSE shall be done by means of a book-entry system. Pursuant to this system of trading and settlement, a registered shareholder transfers legal title over the shares to such nominee, but retains beneficial ownership over the shares. A shareholder transfers legal title by surrendering the stock certificate representing his shares to participants of the PDTC System (i.e., brokers and custodian banks) that, in turn, lodge the same with the PCD Nominee. A shareholder may request his shares to be uplifted from the PDTC, in which case a certificate of stock is issued to the shareholder and the shares are registered in the name of the shareholder. See "*The Philippine Stock Market.*"

Under Philippine law, transfer of the Common Shares is not required to be effected on the PSE, but any off exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See "*Taxation.*" All transfers of Shares on the PSE must be effected through a licensed stockbroker in the Philippines.

**SHARE REGISTER**

The Issuer's share register is maintained at the principal office of the share transfer agent, Stock Transfer Service, Inc.

**SHARE CERTIFICATES**

Certificates representing the Common Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional shares. For Shareholders who wish to split their certificates, they may do so through application to the Issuer's stock transfer agent. Shares may also be lodged and maintained under the book-entry system of the PDTC. See "*The Philippine Stock Market.*"

## MANDATORY TENDER OFFER

Pursuant to the SRC and its implementing rules and regulations, it is mandatory for any person or group of persons acting in concert to make a tender offer to all the shareholders of the target corporation before the intended acquisition of:

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company in one or more transactions within a period of 12 months;
- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company directly from one or more stockholders; or
- equity which would result in ownership of over 50% of the outstanding equity securities of a public company.

Pertaining to the first instance, when the securities tendered pursuant to such an offer exceed the number of shares that the acquiring person or group of persons is willing to acquire, the securities shall be purchased from each tendering shareholder on a pro rata basis according to the number of securities tendered by each security holder. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed to both selling shareholders with whom the acquirer may have been in private negotiations with and the minority shareholders.

Pertaining to the second instance, the tender offer shall be made for all the outstanding voting shares. The sale of shares pursuant to the private transaction with the stockholders shall not be completed prior to the closing and completion of the tender offer.

Pertaining to the third instance, the acquirer shall be required to make a tender offer for all the outstanding equity securities to all remaining stockholders of the company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party. The acquirer shall be required to accept all securities tendered.

Further, no mandatory tender is required on:

- purchases of shares from unissued capital shares unless such purchases will result in a 50% or more ownership of shares by the purchaser or such percentage that is sufficient to gain control of the Board;
- purchases from an increase in the authorized capital shares of the target company;
- purchases in connection with a foreclosure proceeding involving a pledge or security where the acquisition is made by a debtor or creditor;
- purchases in connection with a privatization undertaken by the Government of the Philippines;
- purchases in connection with corporate rehabilitation under court supervision;
- purchases through an open market at the prevailing market price; or
- purchases resulting from a merger or consolidation.

## FUNDAMENTAL MATTERS

The Revised Corporation Code of the Philippines provides that the following acts of the corporation require the approval of shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the corporation: (i) amendment of the articles of incorporation; (ii) removal of directors; (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of the corporation; (iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized; (v) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws; (vi) merger or consolidation; (vii) an increase or decrease in capital stock; (viii) dissolution; (ix) extension or shortening of the corporate term; (x) creation or increase of bonded indebtedness; (xi) declaration of stock dividends; (xii) management contracts with related parties; and (xiii) ratification of contracts between the corporation and a director or officer.

Further, the approval of shareholders holding a majority of the outstanding capital shares of a Philippine corporation, including non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

**ACCOUNTING AND AUDITING REQUIREMENTS**

Philippine stock corporations are required to file copies of their annual financial statements with the Philippine SEC. In addition, public corporations are required to file quarterly financial statements (for the first three quarters) with the Philippine SEC. Those corporations whose shares are listed on the PSE are additionally required to file said quarterly and annual financial statements with the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the Group's operations for the preceding year. This report is required to include audited financial statements.

## THE PHILIPPINE STOCK MARKET

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Issuer or the Joint Bookrunners, or any of the parties or advisors in connection with the offer and sale of the Shares.*

**The Exchange**

The PSE is the only stock exchange in the Philippines. It is one of the oldest stock exchanges in Asia, having been in continuous operation since the establishment of the Manila Stock Exchange in 1927. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

**Brief History**

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE maintains a single, unified trading floor in Bonifacio Global City in Taguig City.

In June 1998, the Philippine SEC granted Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC.

The PSE has an authorized capital stock of ₱120,000,000.00. As of May 1, 2022, the PSE has 85,106,285 issued and outstanding shares, of which 3,513,954 are treasury shares, resulting in 81,592,331 total shares outstanding. Each of the then 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President of the PSE.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging ("**SME**") Board. In 2013, the PSE issued Rules on Exchange Traded Funds ("**ETF**") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards. Previously, the PSE allowed listing on the First Board, Second Board, or the SME Board. With the issuance by the PSE of Memorandum No. CN-No. 2013-0023 dated June 6, 2013, revisions to the PSE Listing Rules were made, among which changes are the removal of the Second Board listing and the requirement that lock-up rules be embodied in a company's articles of incorporation of the Issuer. Each index represents the numerical average of the prices of component shares.

The PSE has a benchmark index, referred to as the PSEi (previously "**PHISIX**"), which as at the date thereof reflects the price movements of selected shares listed on the PSE, based on traded prices of shares from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006, simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE. On July 26, 2010, the PSE launched a new trading system, PSE Trade.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE has adopted an online daily disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE replaced its online disclosure System with a new disclosure system, the PSE Electronic Disclosure Generation Technology ("**EDGE**"). The PSE EDGE, a new disclosure system co-developed with the Korea Exchange, went live. The PSE EDGE system provided a dedicated portal for listed company disclosures and also offered a free-to-download mobile application for easy access by investors, with a variety of features to (i) further standardize the disclosure reporting process of listed companies on the PSE, (ii) improve investors' disclosure searching and viewing experience, and (iii) enhance overall issuer transparency in the market.

The main index for PSE is the PSEi, which is a capitalization-weighted index composed of stocks representative of the Industrial, Properties, Services, Holding Firms, Financial and Mining & Oil Sectors of the PSE. It measures the relative changes in the free float-adjusted market capitalization of the 30 largest and most active common stocks listed at the PSE. The selection of companies in the PSEi is based on a specific set of public float, liquidity and market capitalization criteria. There are also six sector-based indices as well as a broader all shares index.

In June 2015, the PSE Trade system was replaced by PSE Trade XTS which utilizes NASDAQ's X- stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, the Exchange received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

The PSE also launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and is based on internationally recognized corporate governance codes and best practices.

The table below sets out movements in the composite index as of the last business day of each calendar year from 1995 to 2021 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

| Year | Composite Index at Closing | Number of Listed Companies | Aggregate Market Capitalization (in ₱ billions) | Combined Value of Turnover (in ₱ billions) |
|---|---|---|---|---|
| 1995 | 2,594.2 | 205 | 1,545.7 | 379.0 |
| 1996 | 3,170.6 | 216 | 2,121.1 | 668.8 |
| 1997 | 1,869.2 | 221 | 1,251.3 | 586.2 |
| 1998 | 1,968.8 | 222 | 1,373.7 | 408.7 |
| 1999 | 2,142.9 | 225 | 1,936.5 | 781.0 |
| 2000 | 1,494.5 | 229 | 2,576.5 | 357.7 |
| 2001 | 1,168.1 | 231 | 2,141.4 | 159.6 |
| 2002 | 1,018.4 | 234 | 2,083.2 | 159.7 |
| 2003 | 1,442.4 | 236 | 2,973.8 | 145.4 |
| 2004 | 1,822.8 | 235 | 4,766.3 | 206.6 |
| 2005 | 2,096.0 | 237 | 5,948.4 | 383.5 |
| 2006 | 2,982.5 | 239 | 7,173.2 | 572.6 |
| 2007 | 3,621.6 | 244 | 7,977.6 | 1,338.3 |
| 2008 | 1,872.9 | 246 | 4,069.2 | 763.9 |
| 2009 | 3,052.7 | 248 | 6,029.1 | 994.2 |
| 2010 | 4,201.1 | 253 | 8,866.1 | 1,207.4 |
| 2011 | 4,372.0 | 245 | 8,697.0 | 1,422.6 |
| 2012 | 5,812.7 | 254 | 10,952.7 | 1,771.7 |
| 2013 | 5,889.8 | 257 | 11,931.3 | 2,546.2 |
| 2014 | 7,230.6 | 263 | 14,251.7 | 2,130.1 |
| 2015 | 6,952.1 | 265 | 13,465.1 | 2,172.5 |

| Year | Composite Index at Closing | Number of Listed Companies | Aggregate Market Capitalization (in ₱ billions) | Combined Value of Turnover (in ₱ billions) |
|---|---|---|---|---|
| 2016 | 6,840.6 | 265 | 14,438.8 | 1,929.5 |
| 2017 | 8,558.4 | 267 | 17,583.1 | 1,958.4 |
| 2018 | 7,466.0 | 267 | 16,146.7 | 1,736.8 |
| 2019 | 7,815.3 | 271 | 16,710.0 | 1,770.0 |
| 2020 | 7,139.7 | 271 | 15,890.0 | 1,770.0 |
| 2021 | 7,122.63 | 276 | 18,081.1 | 2,233.1 |

*Source: Philippine Stock Exchange, Inc. and PSE Annual Reports*

**Trading**

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Generally, equities trading on the PSE starts at 9:30 a.m. until 12:00 p.m., when there will be a one-and-a-half-hour lunch break. In the afternoon, trading resumes at 1:30 p.m. and ends at 3:30 p.m., with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed and such other days as may be declared by the Philippine SEC or the PSE, to be a non-trading day.

Beginning on March 15, 2020, the PSE, in the observance of the Government's implementation of the community quarantine in parts of the country including Metro Manila due to the COVID-19 pandemic, has implemented shortened trading hours starting at 9:30 a.m. and ending at 1:00 p.m. On December 6, 2021, the PSE resumed full-day trading sessions, with trading running from 9:00 a.m. to 3:00 p.m., with a one-hour break from 12:00 noon to 1:00 p.m. However, on January 11, 2022, it was announced that the PSE would be reverting to shortened trading hours starting January 14, 2022, due to the spike in COVID-19 infections. From January 14 to 31, trading will last for four hours, from 9:00 a.m. to 1:00 p.m. Beginning March 1, 2022, the PSE has reverted to its full trading schedule, which starts at 9:30 a.m. and ends at 12:00 noon for the morning session, and resumes at 1:00 p.m. and ends at 3:00 p.m. for the afternoon session.

Minimum trading lots range from five to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for a company's shares is 100 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the corporation or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the subject corporation fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the subject corporation is disseminated, subject again to the trading ban.

In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

(i) In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60.0% static threshold will be rejected by the PSE.

(ii) In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities; 15% for security cluster B; and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

**Non-Resident Transactions**

When the purchase or sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

**Settlement**

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly-owned Subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through delivery versus payment clearing and settlement of transactions of clearing members, who are also PSE trading participants;

- guaranteeing the settlement of trades in the event of a PSE trading participant's default through the implementation of its fails management system and administration of the Clearing and Trade Guaranty Fund; and

- performance of risk management and monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place 3 trading days after transaction date ("**T+3**"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the PDTC. Each PSE trading participant maintains a cash settlement account with one of the nine existing settlement banks of SCCP, which are Banco de Oro Unibank, Inc. ("**BDO**"), Rizal Commercial Banking Corporation ("**RCBC**"), Metropolitan Bank and Trust Company ("**Metrobank**"), Deutsche Bank ("**DB**"), The Hong Kong Shanghai Banking Corporation Limited ("**HSBC**"), Unionbank of the Philippines ("**Unionbank**"), and Maybank Philippines Inc. ("**Maybank Philippines**"), Asia United Bank Corporation ("**AUB**"), and China Banking Corporation ("**Chinabank**"). Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the central counterparty to each PSE-eligible trade cleared through it.

**Scripless Trading**

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO, RCBC, Metrobank, DB, HSBC, Unionbank, and Maybank Philippines.

In order to benefit from the book-entry system, securities must be immobilized in the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades, and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry is in the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities are directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

**Amended Rule on Lodgment of Securities**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the corporation shall no longer issue a certificate to PCD Nominee but shall issue a registry confirmation advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.

- For an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a registry confirmation advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

For listing applications, the amended rule on lodgment of securities is applicable to:

- the offer shares/securities of the applicant company in the case of an initial public offering;

- the shares/securities that are lodged with the PDTC, or any other entity duly authorized by the PSE in the case of a listing by way of introduction;

- new securities to be offered and applied for listing by an existing listed company; and

- additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof, to wit:

*"For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date."*

*"On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the Company's registry as a confirmation date."*

**Issuance of Stock Certificates for Certificated Shares**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a registry confirmation advice to the PDTC covering the new number of shares lodged under the PCD Nominee.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

**Amended Rule on Minimum Public Ownership**

On December 1, 2017, the Philippine SEC issued SEC Memorandum Circular No. 13, Series of 2017 ("**SEC MC 13-2017**") on the rules and regulations on minimum public ownership ("**MPO**") on initial public offerings.

Under SEC MC 13-2017, companies filing a registration statement pursuant to Sections 8 and 12 of the SRC and with intention to list their shares for trading in an exchange shall apply for registration with a public float of at least 20% of the companies' issued and outstanding shares. It shall, at all times, maintain an MPO of at least 20%. If the MPO of the company falls below 20% at any time after registration, such company shall bring the public float to at least 20% within a maximum period of 12 months from the date of such fall.

The determination of whether shareholdings are considered public or non-public is based on: (a) the amount of shareholdings and its significance to the total outstanding shares; (b) the purpose of investment; and (c) the extent of involvement in the management of the company.

The shares held by the following are generally considered as held by the public: (i) individuals whose shares are not of significant size and which are non-strategic in nature; (ii) PSE trading participants (such as brokers) whose shareholdings are non-strategic in nature; (iii) investment funds and mutual funds; (iv) pension funds which hold shares in companies other than the employing company or its affiliates; (v) PCD Nominee provided that none of the beneficial owners of the shares has significant holdings (i.e., shareholdings by an owner of 10% or more are excluded and considered non-public); and (vi) Social Security funds.

If an investment in a listed company is meant to partake of sizable shares for the purpose of gaining substantial influence on how the company is being managed, then the shareholdings of such investor are considered non-public. Ownership of 10% or more of the total issued and outstanding shares of a listed company is considered significant holding and therefore non-public.

Listed companies which become non-compliant with the minimum public ownership requirement will be suspended from trading for a period of not more than six months and will be automatically delisted if it remains non-compliant with the said requirement after the lapse of the suspension period.

Notwithstanding the quarterly public ownership report requirement of the PSE, listed companies listed on the PSE are required to (a) establish and implement an internal policy and procedure to monitor its MPO levels on a continuous basis; and (b) immediately report to the Philippine SEC within the next business day if its MPO level falls below 20%. Listed companies are also required to submit to the Philippine SEC a time-bound business plan describing the steps that the company will take to bring the public float to at least 20% within a maximum period of 12 months from, within ten days from knowledge that its MPO has become deficient. Listed companies are also required to submit to the Philippine SEC a public ownership report and progress report on any such submitted business plan within 15 days after end of each month until such time that its MPO reaches the required level.

The MPO requirement also forms part of the requirement for the registration of securities. Non-compliance with these MPO requirements subject publicly listed companies to administrative sanctions, including suspension and revocation of their registration with the SEC.

On August 4, 2020, the PSE issued Guidelines on MPO Requirement for Initial and Backdoor Listings, effective immediately. Under the guidelines, companies applying for initial listing through an IPO are required to have a minimum public offer size of 20% to 33% of its outstanding capital stock, as follows:

| Market Capitalization | Minimum Public Offer |
|---|---|
| Not exceeding ₱500M | 33% or ₱50M, whichever is higher |
| Over ₱500M to ₱1B | 25% or ₱100M, whichever is higher |
| Over ₱1B | 20% or ₱250M, whichever is higher |

A company listing through an IPO is required to maintain at least 20% public ownership level at all times, whether the listing is initial or through backdoor listing. For companies doing a backdoor listing, the 20% MPO requirement shall be reckoned from the actual issuance or transfer (as may be applicable) of the securities which triggered the application of the Backdoor Listing Rules or from actual transfer of the business in cases where the Backdoor Listing Rules are triggered by a substantial change in business.

## TAXATION

*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership, and disposition of the Offer Shares. The statements made below regarding taxation in the Philippines are based on the laws in force at the date of this Prospectus and are subject to any changes in law occurring after such date. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the Offer Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates or tax incentives under special laws. Prospective purchasers of the Offer Shares are advised to consult their own tax advisers concerning the tax consequences of their investment in the Offer Shares.*

*As used in this section, the term "**resident alien**" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "**non-resident alien**" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "**non-resident alien engaged in trade or business in the Philippines**"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "**non-resident alien not engaged in trade or business in the Philippines**." A "**domestic corporation**" is created or organized under the laws of the Philippines. A "**foreign corporation**" is a corporation that is not created or organized in the Philippines or under its laws. A "**resident foreign corporation**" is a foreign corporation engaged in trade or business within the Philippines; and a "**non-resident foreign corporation**" is a foreign corporation not engaged in trade or business within the Philippines.*

*The term "**non-resident holder**" means a holder of the Offer Shares of the Company:*

- *who is a non-resident alien individual whether or not engaged in trade or business in the Philippines, or is a non-resident foreign corporation; and*
- *should an income tax treaty be applicable, whose ownership of the Offer Shares of the Company is not effectively connected with a fixed base or a permanent establishment in the Philippines.*

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") Law took effect. The TRAIN Law, which contained an initial package of the tax reforms, amended provisions of the NIRC including provisions on DST, tax on income and other distributions, capital gains tax on the sale and disposition of shares of stock, estate tax, and donor's tax. On April 11, 2021, the second package of the Comprehensive Tax Reform Program ("**CTRP**") became effective. While the first package of the TRAIN Law brought about extensive changes to individual income taxation, the second package, Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises Act ("**CREATE**"), lowered corporate income tax rates for micro-, small-, and medium-sized enterprises, from 30% to 20%; while Large Corporations are now taxed at a lowered rate of 25%. CREATE also provided other forms of tax relief and a new tax incentive system.

### Sale, Exchange, or Disposition of Shares after the IPO

*Taxes on Transfer of Shares Listed and Traded on the PSE*

Beginning January 1, 2018, a sale, barter, exchange or other disposition of shares of stock listed at and effected through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in cash of the shares of stock sold, bartered, exchanged or otherwise disposed, unless an applicable treaty exempts such sale from the said tax. The stock transaction tax is classified as a percentage tax and is paid in lieu of the capital gains tax. In addition, a value added tax of 12% is imposed on the commission earned by the PSE-registered broker who facilitated the sale, barter, exchange or disposition through the PSE, and is generally passed on to the client.

On November 7, 2012, the BIR issued Revenue Regulations No. 16-2012 which provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the minimum public ownership ("**MPO**") requirement (*i.e.*, the rule that requires listed companies to maintain a minimum percentage of listed securities held by the public or "public float" at 10% of such companies' issued and outstanding shares, exclusive of treasury shares, at all times) after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. It also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter. The PSE gave non-compliant companies until December 31, 2012 to comply with the said requirement. Immediately after that grace period, listed companies which fail to maintain, at all times, a minimum percentage of listed securities held by the public at 20% of the listed companies' issued and outstanding shares ("**Minimum Public Ownership**") shall be subject to a trading suspension for a period of not more than six months. After the lapse of the suspension period, a listed company that remains non-compliant with the MPO shall be automatically be delisted. The sale, barter, transfer and/or assignment of shares of listed companies that fail to meet the Minimum Public Ownership requirement will be subject to capital gains and documentary stamp taxes.

The sale of such listed company's shares during the trading suspension may be effected only outside the trading system of the PSE and shall be subject to capital gains tax and documentary stamp tax.

*Capital Gains Tax, if the Sale was Made Outside the PSE*

Pursuant to the TRAIN, net capital gains realized by an individual taxpayer or domestic corporation other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares of stock in a Philippine corporation listed at and effected outside of the facilities of the local stock exchange, are subject to a final tax at the rate of 15% beginning January 1, 2018. Net capital gains realized by resident and non-resident foreign corporations during each taxable year from the sale, exchange or disposition of shares of stock in a Philippine corporation listed at but effected outside of the facilities of the local stock exchange, are subject to a final tax as follows: 5% on gains not exceeding ₱100,000.00 and 10% on gains over ₱100,000.00. Provided, starting April 11, 2021 (the effectivity of CREATE Law), the final tax rate is 15% regardless of the amount.

Gains from such sale or disposition of shares in a Philippine corporation may be exempt from capital gains tax or subject to a preferential rate under a tax treaty. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain a confirmation of exemption or preferential tax rate under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return. A prospective investor should consult its own tax advisor with respect to the applicable rates under the relevant tax treaty.

Furthermore, if the fair market value of the shares of stock in a Philippine corporation sold outside the facilities of the local stock exchange is greater than the consideration received by the seller or the selling price, the amount by which the fair market value of the shares exceeds the selling price shall be deemed a gift that is subject to donor's tax under Section 100 of the Tax Code; provided, however, that a sale, exchange or other transfer of such shares outside the facilities of the local stock exchange made in the ordinary course of business (a transaction which is bona fide, at arm's length and free from donative intent) will be considered as made for an adequate and full consideration in money or money's worth and will not be subject to donor's tax.

The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains, documentary stamp taxes, and other internal revenue taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

**Tax on Dividends**

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to income tax at the rate of 10%. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines from a domestic corporation are subject to a 20% tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines from a domestic corporation are subject to tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are subject to withholding tax at the rate of 25%.

The 25% final withholding tax rate for inter-corporate cash and/or property dividends paid by a domestic corporation to a non-resident foreign corporation may be reduced depending on the country of domicile of the non-resident foreign corporation if it has an existing tax treaty with the Philippines. A country with a tax treaty may have a reduced preferential tax rate depending on the provisions of the corresponding tax treaties. On the other hand, the tax rate for a country without a tax treaty may be reduced to 15% if (i) the country in which the non-resident foreign corporation is domiciled imposes no tax on foreign-sourced dividends or (ii) if the country of domicile of the non-resident foreign corporation allows a credit equivalent to 15% for taxes deemed to have been paid in the Philippines. Provided, effective July 1, 2020, the credit against tax due shall be equivalent to the difference between the regular income tax rate and the 15% of tax dividends.

The Company shall withhold taxes at a reduced rate on dividends to a non-resident holder if the nonresident submitted to the Company a Tax Residency Certificate ("**TRC**") and BIR Form No. 0901-D prior to the payment of dividends. TRC is a certificate issued by the tax authority of the country of residence and shall establish the fact of residency in a contracting state of the non-resident.

On March 31, 2021, the BIR issued Revenue Memorandum Order No. 14-2021 ("**RMO 14-2021**"). RMO 14-2021 was issued to streamline the procedures and documents for the availment of the tax treaty benefits. To avail of the tax treaty relief benefits, the following guidelines and procedures will be observed:

1. The non-resident income recipient should submit to the withholding agent or income payor the submitted Application Form for Treaty Purposes, Tax Residency Certificate duly issued by the foreign tax authority, and the relevant provision of the applicable tax treaty on whether to apply a reduced rate of, or exemption from, withholding at source on the income derived by the non-resident income recipient. The documents should be submitted to each withholding agent or income payor prior to the payment of income for the first time. The failure to provide the said documents when requested may lead to the withholding using the regular withholding rates without the tax treaty benefit rate.

2. When the preferential tax rates have been applied by the withholding agent, it shall file with the ITAD a request for confirmation on the propriety of the withholding tax rates applied by the withholding agent. On the other hand, if the regular withholding rates have been imposed on the income, the non-resident income recipient shall file a tax treaty relief application ("**TTRA**") with ITAD. In either case, each request for confirmation and TTRA shall be supported by the documentary requirements set out in the issuance.

3. The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. On the other hand, the filing of the TTRA may be filed by the non-resident income recipient at any time after the receipt of the income.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the nonresident income recipient is not entitled to treaty benefits, it will issue a BIR Ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the nonresident income recipient's entitlement to the treaty benefits. In this case, the nonresident income recipient may apply for a refund of the excess withholding tax.

The original or certified true copy of the following documents, as may be applicable, shall be submitted to the International Tax Affairs Division of the BIR when claiming the tax treaty relief:

A. General Requirements
    1. Letter-request
    2. Application Form duly signed by the non-resident income earner or its/his/her authorized representative
    3. Tax Residency Certificate for the relevant period, duly issued by the tax authority of the foreign country in which the Bondholder is a resident
    4. Bank documents/certificate of deposit/telegraphic transfer/telex/money transfer evidencing the payment/remittance of income
    5. Withholding tax return with Alphalist of Payees
    6. Proof of payment of withholding tax

7. Notarized Special Power of Attorney issued by the non-resident income earner to its/his/her authorized representative(s), which shall expressly state the authority to sign the Application Form as well as to file the tax treaty relief application or request for confirmation

B. Additional general requirements for legal persons and arrangements, and individuals:
   1. Authenticated copy of the non-resident legal person or arrangement's Articles/Memorandum of Incorporation/Association, Trust Agreement, or equivalent document confirming its establishment or incorporation, with an English translation thereof if in foreign language.
   2. Original copy of the Certificate of Non-Registration of the Bondholder or certified true copy of License to Do Business in the Philippines duly issued by the Philippine SEC for legal persons and arrangements, or original copy of the Certificate of Business Registration/Presence duly issued by the Department of Trade and Industry for individuals.

C. Additional general requirements for fiscally transparent entities:
   1. A copy of the law of the foreign country showing that tax is imposed on the owners or beneficiaries of the foreign fiscally transparent entity;
   2. List of owners/beneficiaries of the foreign entity;
   3. Proof of ownership of the foreign entity; and
   4. Tax Residency Certificate issued by the concerned foreign tax authority to the owners or beneficiaries of the fiscally transparent entity.

The BIR may require additional documents during the course of its evaluation as it may deem necessary. Upon the confirmation of the entitlement to the tax treaty benefit or confirmation of the correctness of the withholding tax rates applied, the BIR will issue a certification to that effect. Any adverse ruling may be appealed to the Department of Finance within 30 days from receipt.

If the income of the nonresident Shareholder has been subjected to regular withholding rates, the Shareholder may file a claim for refund with the BIR independently of, or simultaneously with, the TTRA. Nonetheless, all claims for refund shall be filed within the two-year prescriptive period provided under Section 229 of the National Internal Revenue Code, as amended.

Transfer taxes (*e.g.*, documentary stamp tax, local transfer tax) may be payable if the dividends declared are property dividends, depending on the type of property distributed as dividends. Stock dividends distributed pro-rata to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to stock transaction tax if the transfer is through a local stock exchange; or if the transfer is made outside of the exchange, capital gains tax; and documentary stamp tax.

If the dividends of the non-resident taxpayer have been subjected to the regular rate, he/she/it may subsequently file a claim for refund of the difference between the amount of withholding tax actually paid in the Philippines and the amount of tax that should have been paid under the treaty after obtaining a certificate confirming his/her/its entitlement to treaty benefits. For this purpose, a duly accomplished BIR Form No. 1913 shall be filed together with the letter-request. The claim for refund may be filed independently of, or simultaneously with, the TTRA. (See RMO 14-2021, sec. 10). However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund.

**Preferential Rates under Income Tax Treaties**

The following table lists some of the countries with which the Philippines has income tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

| | **Dividends (%)** | **Stock transaction tax on sale or disposition effected through the PSE (%)[9]** | **Capital gains tax due on disposition of shares outside the PSE (%)** |
|---|---|---|---|
| Canada | 25[1] | 0.6 | May be exempt[13] |
| China | 15[2] | Exempt[10] | May be exempt[13] |
| France | 15[3] | Exempt[11] | May be exempt[13] |
| Germany | 15[4] | Exempt[12] | May be exempt[13] |
| Japan | 15[5] | 0.6 | May be exempt[13] |

| | Dividends (%) | Stock transaction tax on sale or disposition effected through the PSE (%)[9] | Capital gains tax due on disposition of shares outside the PSE (%) |
|---|---|---|---|
| Singapore .................................... | 25[6] | 0.6 | May be exempt[13] |
| United Kingdom........................... | 25[7] | 0.6 | Exempt[14] |
| United States .............................. | 25[8] | 0.6 | May be exempt[13] |

*Notes:*

(1) 15% if the recipient company which is a resident of Canada controls at least 10% of the voting power of the company paying the dividends; 25% in all other cases.

(2) 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; 15% in all other cases.

(3) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends; 15% in all other cases.

(4) 5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases.

(5) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends; 15% in all other cases.

(6) 15% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company; 25% in all other cases.

(7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends; 25% in all other cases.

(8) 20% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation; 25% in other cases. Notwithstanding the rates provided under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with respect to Taxes on Income, corporations which are residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the National Internal Revenue Code provided certain conditions are met.

(9) If the stock transaction tax is not expressly included in the tax treaty, the income recipient will be subject to stock transaction tax at the rate of 0.6% of the gross selling price as provided under Section 127 of the National Internal Revenue Code as amended by the Section 39 of the TRAIN.

(10) Article 2(2)(b)(ii) of the Agreement between the Government of the Republic of the Philippines and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on November 18, 1999.

(11) Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995.

(12) Article 2(3)(a)(iv) of the Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013.

(13) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.

(14) Under the income tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

When availing of capital gains tax exemption on the sale of shares of stock under an income tax treaty, a tax treaty exemption ruling from the BIR shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a CAR from the BIR is required before the transfer is registered in the company's stock and transfer book. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the tax treaty relief ruling should be submitted to the BIR office processing the CAR.

The requirements for a tax treaty relief application in respect of capital gains tax or the stock transaction tax on the sale of shares are set out in Revenue Memorandum Order No. 72-2010 (*Guidelines on the Processing of Tax Treaty Relief Applications (TTRA) Pursuant to Existing Philippine Tax Treaties* dated August 25, 2010), BIR Form No. 0901-C, other BIR issuances. These include documentary requirements such as the supporting contract; stock certificates; the General Information Sheet; secretary's certificate; comparative schedule of Property, Plant and Equipment; financial statements; BIR Form No. 0605; BIR Form No. 2000-OT; and proof of residence in the country that is a party to the income tax treaty. Proof of residence consists of a consularized or an apostilled certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable income tax treaty. If the seller is a juridical entity, authenticated or an apostilled certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence. The tax treaty relief application has to be filed with the BIR before the first taxable event as defined under Revenue Memorandum Order No. 72-2010, which in respect of capital gains tax, is before the due date for the payment of the DST on the sale of shares.

**Documentary Stamp Tax**

Beginning January 1, 2018, the original issue of shares is subject to a documentary stamp tax ("**DST**") of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The Philippines imposes a DST upon the transfer outside of the PSE of shares of stock issued by a Philippine corporation at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the par value of the shares. The DST is imposed on the person making, signing, issuing, accepting, or transferring the document and is thus payable by either or both the vendor or the vendee of the shares. Conversely, the sale, barter, or exchange of shares of stock listed on and traded through the PSE are exempt from DST.

**Estate and Gift Taxes**

Shares issued by a corporation organized or constituted in the Philippines in accordance with Philippine laws are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor's taxes.

The transfer by a deceased individual to his heirs of the Offer Shares by way of succession, whether such individual was a citizen of the Philippines or an alien and regardless of residence, shall be subject to an estate tax at a rate of 6% of the net estate of the deceased individual.

The transfer of the Offer Shares by way of gift or donation by an individual or corporate holder, whether or not a citizen or resident of the Philippines, shall be subject to donor's tax at a rate of 6% based on the total gifts in excess of ₱250,000.00 exempt gift made during the calendar year.

In case the Offer Shares are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Offer Shares exceeded the value of the consideration may be deemed a gift, and donor's taxes may be imposed on the transferor of the Offer Shares, based on Section 100 of the NIRC, provided that a transfer of property made in the ordinary course of business (a transaction which is a *bona fide*, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Offer Shares, shall not be collected: (1) if the decedent, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (2) if the laws of the foreign country of which the decedent or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

**Taxation Outside the Philippines**

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence such gain is subject to Philippine income tax and capital gains tax and the transfer of such shares by gift (donation) or succession is subject to the donors' or estate taxes stated above. Sales or other dispositions of shares of stock in a domestic corporation through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, are, however, subject to a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax consideration on non-resident holders of shares of stock under laws other than those of the Philippines.

## PLAN OF DISTRIBUTION

Up to [1,255,626,400] Offer Shares (the "**Institutional Offer Shares**"), or 70% of the Firm Shares, are (subject to re-allocation as described below) being offered for sale (i) outside the United States by the Joint International Bookrunners in offshore transactions in reliance on Regulation S under the U.S. Securities Act, (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers as defined under the Securities Regulation Code of the Philippines and other investors in the Philippines by the Local Underwriters (the "**Institutional Offer**"). Up to [538,125,600] Firm Shares (the "**Trading Participants and Retail Offer Shares**"), or 30% of the Firm Shares, are (subject to re-allocation as described below) being offered by the Local Underwriters at the Offer Price to all of the PSE Trading Participants and local small investors ("**LSIs**") in the Philippines (the "**Trading Participants and Retail Offer**"). Notwithstanding the Joint International Bookrunners being named in this Prospectus, offers or sales by the Joint International Bookrunners of Offer Shares outside the Philippines are not governed by Philippine laws. The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Issuer and the Joint Bookrunners. The Joint Bookrunners will underwrite, on a firm commitment basis, the Firm Shares. There is no arrangement for any of the Joint Bookrunners to return any of the Offer Shares relating to the Trading Participants and Retail Offer or the Institutional Offer to the Issuer.

No Offer Shares are designated to be sold to specified persons apart from the Trading Participants and Retail Offer Shares.

### Roles and Responsibilities of the Sole Global Coordinator, the Joint International Bookrunners, Joint Bookrunners and Joint Local Underwriters and Domestic Co-Lead Underwriters

The Sole Global Coordinator is responsible for the coordination of the various execution workstreams relating to the Offer.

The Joint Bookrunners are assisting the Issuer in the book-building process, which includes marketing and allocation of the Offer to potential investors as described in this Plan of Distribution. None of the activities of the Joint International Bookrunners themselves have been or will be conducted in the Philippines, or would constitute licensable activities in the Philippines. In the case of the Joint Bookrunners and Joint Local Underwriters, which include BDO Capital and BPI Capital, the potential investors will be based in the Philippines.

The Domestic Co-Lead Underwriters, which include First Metro, PNB Capital and RCBC Capital, have undertaken to underwrite a portion of the Trading Participants and Retail Offer on a firm commitment basis.

### Joint International Bookrunners

CLSA Limited ("**CLSA**"), CITIC Securities' international platform, provides global investors and corporates with insights, liquidity and capital to drive their growth strategies. Award-winning research, an extensive Asia footprint, direct links to China and highly experienced finance professionals differentiate its innovative products and services in asset management, corporate finance, equity and debt capital markets, securities and wealth management.

UBS convenes the global ecosystem for investing, where people and ideas are connected and opportunities brought to life, and provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as to private clients in Switzerland. UBS offers investment solutions, products and impactful thought leadership, is the leading global wealth manager, provides large-scale and diversified asset management, focused investment banking capabilities, and personal and corporate banking services in Switzerland. The firm focuses on businesses that have a strong competitive position in their target markets, are capital efficient and have an attractive long-term structural growth or profitability outlook.

UBS is present in all major financial centers worldwide. It has offices in more than 50 regions and locations, with about 30% of its employees working in the Americas, 29% in Switzerland, 20% in the rest of Europe, the Middle East and Africa and 21% in Asia Pacific. UBS Group AG employs more than 72,000 people around the world. Its shares are listed on the SIX Swiss Exchange and the New York Stock Exchange (NYSE).

Each of the Joint International Bookrunners and its affiliates have, from time to time, engaged in, and may in the future engage in, investment banking, financing, private banking, commercial banking or financial consulting activities and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. Each of the Joint International Bookrunners may have received and expects to continue to receive customary fees and commissions for these activities and dealings. In addition, in the ordinary course of business, each Joint International Bookrunner and its affiliates may trade the Issuer's securities or the securities of the Issuer's affiliates or derivatives relating to the foregoing securities for its or its affiliates' own account or for the accounts of customers, and may at any time hold a long or short position in such securities.

None of the Joint International Bookrunners has a contract or other arrangement with the Issuer whereby such Joint International Bookrunners may put back or return to the Issuer any unsold Offer Shares.

**Joint Bookrunners and Joint Local Underwriters**

BDO Capital & Investment Corporation ("**BDO Capital**") is the wholly-owned investment banking subsidiary of BDO Unibank, Inc. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital is duly licensed by the Philippine SEC to engage in underwriting and distribution of securities to the public. As of December 31, 2021, it had ₱4.50 billion and ₱4.20 billion in assets and capital, respectively.

BPI Capital Corporation ("**BPI Capital**") offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December 1994, BPI Capital Corporation is duly licensed by the Philippine SEC to engage in the underwriting and distribution of securities. As of December 31, 2021, BPI Capital Corporation had total assets of ₱3.5 billion, total liabilities of ₱149 million and total equity of ₱3.3 billion. The firm operates as a wholly-owned subsidiary of the Bank of the Philippine Islands.

**Domestic Co-Lead Underwriters**

First Metro is a leading investment bank in the Philippines with 59 years of service in the development of the country's capital markets. It is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the country. First Metro and its subsidiaries offer a wide range of services, from debt and equity underwriting to loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research. First Metro has established itself as a leading bond house with key strengths in origination, structuring, and execution.

PNB Capital, a wholly-owned subsidiary of the Philippine National Bank, offers a spectrum of investment banking services including loan syndications and project finance, bond offerings, private placements, public offering of shares, securitization, financial advisory and mergers and acquisitions. PNB Capital obtained its license from the Philippine SEC to operate as an investment house with a non-quasi-banking license. It was incorporated on July 30, 1997 and commenced operations on October 8, 1997. As of December 31, 2021, it had an authorized capital of ₱2.0 billion and paid-up capital of ₱1.5 billion. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government. As of December 31, 2021, total assets of PNB Capital were at ₱2.7 billion while total capital was at ₱2.4 billion.

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 48 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country's largest fully integrated financial services conglomerates. As of March 31, 2022, RCBC Capital's total assets were ₱3.7 billion while total capital was ₱3.1 billion.

The Local Underwriters have engaged in transactions with, and have performed various investment banking, commercial banking and other services for the Issuer's affiliates in the past, and may do so for the Issuer and their respective subsidiaries and affiliates from time to time in the future. However, all services provided by the Local Underwriters, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Issuer. The Local Underwriters do not have any right to designate or nominate a member of the

Board. Each of the Local Underwriters has no direct relationship with the Issuer in terms of share ownership and, other than as Local Underwriters for the Offer, does not have any material relationship with the Issuer.

None of the Local Underwriters has a contract or other arrangement with the Issuer whereby such Local Underwriter may put back or return to the Issuer any unsold Offer Shares.

**THE TRADING PARTICIPANTS AND RETAIL OFFER**

The Trading Participants and Retail Offer Shares shall (subject to re-allocation as described below) initially be offered by the Local Underwriters to all of the PSE Trading Participants and LSIs in the Philippines. [Up to] [358,750,400] Trading Participants and Retail Offer Shares, or 20% of the Firm Shares, shall be allocated among the [125] PSE Trading Participants. Each PSE Trading Participant shall initially be allocated [2,870,000] Firm Shares and subject to reallocation as may be determined by the Joint Bookrunners and Joint Local Underwriters. The balance of [400] Firm Shares shall be allocated by the Joint Bookrunners and Joint Local Underwriters to the PSE Trading Participants. A total of [179,375,200] Trading Participants and Retail Offer Shares, or [10]% of the Firm Shares, shall be made available nationwide to LSIs through the PSE Electronic Allocation System or "PSE EASy." An LSI is defined as a subscriber to the Offer who is willing to subscribe to a minimum board lot or whose subscription does not exceed ₱100,000.00. In the case of this Offer, the minimum subscription of LSIs shall be [100] Shares or ₱[1,460.0] while the maximum subscription shall be [6,800] Shares or up to ₱[99,280.00]. There will be no discount on the Offer Price. The procedure in subscribing to Offer Shares via PSE EASy is indicated in the Issuer's Implementing Guidelines for Local Small Investors to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Local Underwriters shall prioritize subscriptions of small investors with amounts lower than the maximum subscription.

Upon closing of the Trading Participants and Retail Offer, any allocation of Trading Participants and Retail Offer Shares not taken up by the PSE Trading Participants and the LSIs shall be distributed by the Local Underwriters to their clients or the general public in the Philippines or as otherwise agreed with the Joint International Bookrunners. Trading Participants and Retail Offer Shares not taken up by the PSE Trading Participants or the LSIs and which are not reallocated to the Institutional Offer, or taken up by the clients of the Local Underwriters, or the general public, shall be purchased by the Local Underwriters pursuant to the terms and conditions of the Domestic Underwriting Agreement (as defined below). Nothing herein or in the Domestic Underwriting Agreement shall limit the rights of the Local Underwriters from purchasing the Offer Shares for their own account.

To facilitate the Trading Participants and Retail Offer, the Issuer has appointed BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, PNB Capital and Investment Corporation and RCBC Capital Corporation to act as the Local Underwriters. The Issuer and the Local Underwriters entered into a Domestic Underwriting Agreement to be dated on or about [September 28], 2022 (the "**Domestic Underwriting Agreement**"), whereby the Local Underwriters agree to underwrite on a firm commitment basis, a number of Firm Shares equivalent to the Trading Participants and Retail Offer Shares, subject to agreement between the Joint Bookrunners on any clawback, clawforward or other such mechanism relating to the reallocation of the Offer Shares between the Institutional Offer and the Trading Participants and Retail Offer.

| | **Number of Trading Participants and Retail Offer Shares** |
|---|---|
| CLSA Limited | [0] |
| UBS AG, Singapore Branch | [0] |
| BPI Capital Corporation | [188,344,100] |
| BDO Capital & Investment Corporation | [188,344,000] |
| PNB Capital and Investment Corporation | [53,812,500] |
| First Metro Investment Corporation | [53,812,500] |
| RCBC Capital Corporation | [53,812,500] |
| **Total** | **[538,125,600]** |

The foregoing table does not reflect the exercise of the Over-allotment Option that may or may not be exercised by CLSA Limited and its relevant affiliates, as Stabilizing Agent, to purchase up to [179,375,200] Option Shares.

On or before 12 noon on [●], 2022, the PSE Trading Participants shall submit to the Receiving Agent their respective allocation from the Trading Participants and Retail Offer Shares.

With respect to the LSIs, all applications to purchase or subscribe for the Trading Participant and Retail Offer Shares must be done online through the PSE EASy. The system will generate a reference number and payment instruction. An application to purchase the Trading Participant and Retail Offer Shares shall not be deemed as a duly accomplished and completed application unless submitted with all required relevant information and applicable supporting documents to the Local Underwriters or such other financial institutions that may be invited to manage the LSI program. Payment for the Trading Participant and Retail Offer Shares may be made in cash following the payment instructions generated through PSE EASy. LSI applicants may check the status of their subscription applications through their PSE EASy investor accounts.

PSE Trading Participants who take up Trading Participants and Retail Offer Shares shall be entitled to a selling fee of [1.0]%, inclusive of VAT, of the Trading Participants and Retail Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less the applicable withholding tax, will be paid by the Issuer via the Receiving Agent to the PSE Trading Participants within [10] business days from the Listing Date.

Apart from the said selling commission of the PSE Trading Participants on the final take-up of the Firm Shares, there are no other discounts and commissions, either in cash, securities, contracts or other considerations, which will be paid to or received by any broker-dealer in connection with the Offer.

The estimated underwriting and selling agent fees amounts to approximately ₱[504.1] million, or about [1.75]% of the gross proceeds from Offer Shares, assuming full exercise of the Over-allotment Option. The underwriting fees shall be withheld by the Receiving Agent from the proceeds of the Firm Offer. No discounts and commissions have been or will be paid, directly or indirectly, to the underwriters apart from said underwriting fee disclosed in this Prospectus. Further, there are no finders engaged for, and no finders' fees payable in relation to, this Offer.

All of the Trading Participants and Retail Offer Shares are or shall be lodged with the PDTC and shall be issued to the PSE Trading Participants and LSIs in scripless form. Investors may maintain the Trading Participants and Retail Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Trading Participants and Retail Offer Shares from the PDTC's electronic system after the Listing Date. Costs or fees relating to such upliftment shall be for the account of the investor.

**THE INSTITUTIONAL OFFER**

The Institutional Offer Shares will be offered for sale (i) outside the United States in offshore transactions in reliance on Regulation S of the U.S. Securities Act by the Joint International Bookrunners, (ii) within the United States through the Joint International Bookrunners' U.S. registered broker-dealer affiliates to QIBs in reliance on Rule 144A under the U.S. Securities Act, and (iii) to certain qualified buyers and other investors in the Philippines by the Local Underwriters.

The allocation of the Firm Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to further adjustment as may be determined by the Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. Unless otherwise agreed by the Joint Bookrunners the reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer and the Institutional Offer.

The international purchase agreement to be dated on or about [September 28], 2022 (the "**International Purchase Agreement**"), entered into among the Issuer and the Joint International Bookrunners, is subject to certain conditions and may be subject to termination by the Joint International Bookrunners if certain circumstances, including force majeure, occur on or before the Listing Date.

Under the terms and conditions of the International Purchase Agreement, the Joint International Bookrunners have agreed to procure purchasers for or failing which to purchase the portion of Institutional Offer Shares opposite its name indicated in the following table, subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism relating to reallocation of the Offer Shares between the Institutional Offer and the Trading Participants and Retail Offer. In addition, pursuant to the Domestic Underwriting Agreement, the Local Underwriters agree to underwrite, on a firm commitment basis, the portion of Institutional Offer Shares opposite its name indicated in the following table, subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism relating to reallocation of the Offer Shares between the Institutional Offer and the Trading Participants and Retail Offer.

| | **Number of Institutional Offer Shares** |
|---|---|
| CLSA Limited | [627,813,500] |
| UBS AG, Singapore Branch | [538,125,600] |
| BPI Capital Corporation | [44,843,600] |
| BDO Capital & Investment Corporation | [44,843,700] |
| PNB Capital and Investment Corporation | [0] |
| First Metro Investment Corporation | [0] |
| RCBC Capital Corporation | [0] |
| **Total** | **[1,255,626,400]** |

The foregoing table does not reflect the exercise of the Over-allotment Option that may or may not be exercised by CLSA Limited and its relevant affiliates, as Stabilizing Agent, to purchase up to [179,375,200] Option Shares.

The Joint International Bookrunners and their affiliates have engaged in transactions with, and have performed various investment banking, commercial banking, and other services for, the Issuer in the past, and may do so for the Issuer and its subsidiaries and affiliates from time to time in the future. However, all services provided by the Joint International Bookrunners, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Issuer. The Joint International Bookrunners do not have any right to designate or nominate a member of the Board. The Joint International Bookrunners have no direct relationship with the Issuer in terms of share ownership and, other than as Joint International Bookrunners for the Offer, do not have any material relationship with the Issuer.

Investors in the Institutional Offer will be required to pay, in addition to the Offer Price, a participation fee of up to 1.00% of the Offer Price.

**THE OVER-ALLOTMENT OPTION AND UNDERTAKING TO PURCHASE**

In connection with the Offer, subject to the approval of the Philippine SEC, the Issuer has granted CLSA as the Stabilizing Agent an Over-allotment Option, exercisable in whole or in part, to purchase up to [179,375,200] Option Shares at the Offer Price and on the same terms and conditions as the Firm Shares, as set forth herein, from time to time for a period which shall not exceed 30 calendar days from and including the Listing Date. In connection therewith, the Issuer and Prime Strategic Holdings have entered into a Greenshoe Agreement with the Stabilizing Agent to, among other things, utilize up to [179,375,200] Option Shares to cover over-allocations under the Institutional Offer and, to the extent the Over-allotment Option is not fully exercised by the Stabilizing Agent, deliver any relevant Option Shares to Prime Strategic Holdings (and for Prime Strategic Holdings to purchase such Option Shares at the Offer Price). The Option Shares may be over-allotted and the Stabilizing Agent may affect price stabilization transactions for a period beginning on or after the Listing Date, but extending no later than 30 days from and including the Listing Date.

Any Common Shares that may be delivered to the Stabilizing Agent under the Greenshoe Agreement will be delivered to Prime Strategic Holdings either through the purchase of Common Shares in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Over-allotment Option by the Stabilizing Agent. The Stabilizing Agent may purchase Common Shares in the open market only if the market price of the Common Shares falls below the Offer Price. The initial stabilization action shall be at a price below the Offer Price. After the initial stabilization action, (i) if there has not been an independent trade (i.e., a trade made by a person other than the Stabilizing Agent for itself or on behalf of its clients) in the market at a higher price than the initial stabilization trade, the subsequent trade shall be below the initial stabilization price, or (ii) if there has been an independent trade in the market at a higher price than the initial stabilization trade, the subsequent trade shall be at the lower of the stabilizing action price or the independent trade price. Such activities may stabilize, maintain or otherwise affect the market price of the Common Shares, which may have the effect of preventing a decline in the market price of the Common Shares and may also cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions (which would include thereafter disposing of or selling the Common Shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the Common Shares will not decline significantly after any such stabilizing activities end.

Once the Over-allotment Option has been fully exercised by the Stabilizing Agent, it will no longer be allowed to purchase Common Shares in the open market for the conduct of stabilization activities. As discussed under the section "*Dilution*," if the Over-allotment Option is fully exercised, the number of shares held by new investors will be [1,973,127,200] Common Shares and the public float will be [22]%. To the extent the Over-allotment Option is not fully exercised by the Stabilizing Agent, the relevant Option Shares shall be purchased by Prime Strategic Holdings at the Offer Price and the purchase price of such Common Shares shall be delivered by Prime Strategic Holdings to the Issuer, and as discussed under the section "*Dilution*," the number of shares held by new investors will be [1,793,752,000] Common Shares and the public float will be [20]%.

**LOCK-UP**

Pursuant to Sections 1(b)(ii) and 2(a)(ii) under Part D, Article III of the PSE Consolidated Listing and Disclosure Rules, as amended (the "**PSE Listing Rules**"), in relation to item 8 of PSE Guidance Note 25, even if the applicant company is unable to meet the track record requirement of the PSE but is able demonstrate compliance with Section 1(b)(ii) of Article III, Part D of the PSE Listing Rules (i.e., the applicant company is a newly formed holding company which uses the operational track record of its subsidiary ), the 180-day lock-up period applies to the said applicant company (the "**180-day lock-up**").

In addition, under the PSE Listing Rules, if there is any issuance or transfer of shares (i.e., private placements, asset for shares swaps, or similar transactions) or instruments which lead to issuance of shares (i.e., convertible bonds, warrants, or similar instruments) done and fully paid for within 180 calendar days prior to the offering period, and the transaction price is lower than that of the listing price, all shares availed of shall be subject to a lock-up period of at least 365 calendar days from full payment of the aforesaid shares.

Based on the foregoing, all the shares held by Prime Strategic Holdings shall be subject to the 180-day lock-up as follows:

| **Shareholder** | **Subject to 180-day Lock-up Period (from Listing Date)** |
|---|---|
| Prime Strategic Holdings | 6,948,408,603 |
| **TOTAL** | **6,948,408,603** |

The following shall also be subject to the lock-up period of 365 days from full payment:

| **Shareholder** | **Subject to 365-day Lock-up Period (from full payment of shares)** |
|---|---|
| Prime Strategic Holdings | 6,448,408,603 |
| Enrique K. Razon, Jr | 716,666 |
| Christian R. Gonzales | 5,000,000 |
| Guillaume Lucci | 16,666,666 |
| Stephen A. Paradies | 7,000,001 |
| Rafael D. Consing, Jr. | 2,500,001 |
| Jesus Bernardo M. Palma III | 833,333 |
| Donato Almeda | 7,499,999 |
| Eric Recto | 7,000,000 |
| Danilo S. Feliciano | 1 |

| Shareholder | Subject to 365-day Lock-up Period (from full payment of shares) |
|---|---|
| Panfilo M. Lacson | 1 |
| **TOTAL** | **6,495,625,271** |

To implement this lock-up requirement, the Issuer and Prime Strategic Holdings shall enter into an escrow agreement with the trust department or custodian unit of an independent and reputable financial institution.

The Issuer and Prime Strategic Holdings have agreed with the Joint Bookrunners that they will not, without the prior written consent of the Joint Bookrunners, issue, offer, sell, contract to sell, pledge, or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any common shares or securities convertible or exchangeable into or exercisable for any common shares or warrants or other rights to purchase common shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options for a period of 180 calendar days after the listing of the Common Shares.

## INDEMNITY

The International Purchase Agreement provides that the Issuer will indemnify the Joint International Bookrunners against certain liabilities, including under the U.S. Securities Act or the SRC, as applicable.

## REGISTRATION OF FOREIGN INVESTMENTS

The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See the section entitled "*Regulatory and Environmental Matters – Registration of Foreign Investments and Exchange Controls*" in this Prospectus.

## SELLING RESTRICTIONS

### Philippines

No securities, except for a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the Philippine SEC on Form 12-1 and the registration statement has been declared effective by the Philippine SEC.

## LEGAL MATTERS

Certain legal matters as to Philippine law in connection with the Offer will be passed upon by Picazo Buyco Tan Fider & Santos, legal counsel to the Issuer, and Romulo Mabanta Buenaventura Sayoc & De Los Angeles, legal counsel to the Joint Bookrunners.

Certain legal matters as to United States federal law and New York State law will be passed upon by Milbank LLP, United States legal counsel to the Issuer, and Latham & Watkins LLP, United States legal counsel to the Joint Bookrunners. In rendering their opinions, Milbank LLP and Latham & Watkins LLP may rely upon the opinions of Picazo Buyco Tan Fider & Santos and Romulo Mabanta Buenaventura Sayoc & De Los Angeles as to all matters of Philippine law.

None of the above-mentioned advisers have any direct or indirect interest in the Issuer arising from the Offer.

## INDEPENDENT AUDITORS AND OTHER EXPERTS

### Independent Auditors

SyCip Gorres Velayo & Co. ("**SGV & Co.**"), a member firm of Ernst & Young Global Limited, independent auditors, (i) audited the Group's consolidated financial statements as of and for the years ended December 31, 2021, 2020, 2019 and 2018 included in this Prospectus in accordance with Philippine Standards on Auditing, and (ii) audited the Group's consolidated financial statements as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 included in this Prospectus in accordance with Philippine Standards on Auditing. The financial information for such periods is extracted from the financial statements included in this Prospectus, which have been prepared in accordance with PFRS. SGV & Co. has agreed to the inclusion of its reports in this Prospectus.

SGV & Co. has acted as the Issuer's independent auditor since its incorporation on August 20, 2020. Christine G. Vallejo is the Issuer's current audit partner and has served as such since the Issuer's incorporation. The Group has not had any material disagreements on accounting and financial disclosures with SGV & Co. SGV & Co. has neither shareholdings in the Issuer nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Issuer. SGV & Co. will not receive any direct or indirect interest in the Issuer or in any securities thereof (including options, warrants, or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission of the Philippines.

The following table sets out the aggregate fees billed for each of the last two fiscal years for professional services rendered by SGV & Co. to the Issuer for the years ended December 31, 2020 and 2021, excluding fees related to the Offer. The fees of SGV & Co. related to the Offer amount to ₱20 million**.**

| | **2020** | **2021** |
|---|---|---|
| | **(₱ in millions)** | |
| Audit and audit-related fees | | |
| Audit services | 2.9 | 11.7 |
| All other fees | | |
| Tax services | 3.3 | 1.6 |
| Review of financial modeling, purchase price allocation and accounting positions | — | 11.1 |
| Bench marking, contract review and others | 2.8 | 1.5 |
| **Total** | **9.0** | **25.9** |

The Issuer also expects to adopt an Audit and Risk Committee Charter that provides that the Audit Committee shall, among other activities: (1) review and evaluate the professional qualifications, performance and independence of the external auditor and the lead partner, (2) review and approve, with the external auditor, the nature and scope of the audit plans, (3) review and approve the fees, remuneration and terms of engagement of the external auditor for audit and non-audit services, (4) evaluate and approve the non-audit work conducted by the external auditor, (5) review reports or communications of the external auditor, and (6) ensure that the external auditor complies with auditing standards.

### Independent Market Research Consultants

GlobalData, an independent market research consultant, was responsible for preparing the industry report entitled "Market Assessment of the Water Infrastructure, Treatment and Renewable sectors for IPO Prospectus" and dated as of September 2022, the full version of which is attached to this Prospectus as Annex 1. LMC International, an independent market research consultant, was responsible for preparing the industry report entitled "Sustainable Fuels Report" and dated as of September 2022, the full version of which is attached to this Prospectus as Annex 2. GlobalData and LMC International are leaders in global research services. Each provides a total market research solution to both local and multinational corporations across all sectors worldwide.

None of GlobalData or LMC International has shareholdings in the Issuer or any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Issuer. Neither GlobalData nor LMC International will receive any direct or indirect interest in the Issuer or in any securities thereof (including options, warrants, or rights thereto) pursuant to or in connection with the Offer.

## INDEX TO THE GROUP'S FINANCIAL STATEMENTS

**Audited Consolidated Financial Statements of the Group as of and for the six months ended June 30, 2021 and 2022**



**Audited Consolidated Financial Statements of the Group as of and for the years ended December 31, 2018, 2019, 2020 and 2021**

PRIME INFRA

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

The management of Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.; the "Company") and its subsidiaries (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**Enrique K. Razon, Jr.**
*Chairman*

**Guillaume Lucci**
*President and Chief Executive Officer*

**Jesus Bernardo M. Palma III**
*Treasurer and Chief Financial Officer*

*Signed this August 26, 2022*

**REPUBLIC OF THE PHILIPPINES)**
**PASAY CITY, METRO MANILA ) ss.**

SUBSCRIBED AND SWORN to before me this AUG 26 2022 2022, affiants exhibiting to me the following:

| Name | Evidence of Identity | Expiry Date & Place Issued |
|---|---|---|
| Enrique K. Razon, Jr. | Passport No. P6820100A | 19 April 2018; DFA Manila |
| Guillaume Lucci | Passport No. P54943243 | 21 December 2016; USA |
| Jesus Bernardo M. Palma III | Passport No. P9376280B | 28 March 2022; DFA Manila |

Doc. No. 231;
Page No. 48;
Book No. 1;
Series of 2022.

ANDREI LAURENCE V. AQUINO
Notary Public
Commission No. 21-19 valid until December 31, 2022
16F Three E-Com Center, Bayshore cor.
Ocean Drive, Block 21, Mall of Asia Complex,
Pasay City, 1300 Metro Manila
Roll No. 66397
PTR No. 7724404 / Pasay City
IBP Lifetime No. 015049; 1 Feb 2020; Makati City
MCLE Compliance No. VII-0006754 (22 November 2021)

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

**INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors
Prime Infrastructure Capital, Inc.
16th Floor Three E-Com Center
Bayshore Corner Ocean Drive
Block 21 Mall of Asia Complex
Pasay City, Metro Manila

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at June 30, 2022 and December 31, 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended June 30, 2022 and 2021 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2022 and December 31, 2021 and its consolidated financial performance and its consolidated cash flows for the six months ended June 30, 2022 and 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

**Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner
CPA Certificate No. 99857
Tax Identification No. 206-384-906
BOA/PRC Reg. No. 0001, August 26, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1402-AR-2 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-105-2019, November 7, 2019, valid until November 6, 2022
PTR No. 8854379, January 3, 2022, Makati City

August 26, 2022

## PRIME INFRASTRUCTURE CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 6 and 33) | **₱10,930,912,960** | ₱15,902,296,865 |
| Short-term investments (Notes 6 and 33) | **350,913,784** | 458,516,237 |
| Trade and other receivables (Note 7) | **4,162,027,585** | 3,863,227,901 |
| Contract assets - current portion (Notes 9, 23, and 29) | **1,050,136,928** | 1,410,597,516 |
| Inventories (Note 8) | **630,280,120** | 502,219,402 |
| Prepayments and other current assets (Note 9) | **3,025,530,580** | 2,556,625,773 |
| Total Current Assets | **20,149,801,957** | 24,693,483,694 |
| **Noncurrent Assets** | | |
| Contract asset classified as noncurrent (Notes 9 and 29) | **9,220,922,144** | 6,938,878,432 |
| Service concession asset (Note 10) | **128,661,501,601** | 119,820,531,291 |
| Investments in associates (Note 11) | **12,153,725,988** | 11,452,445,937 |
| Financial assets at fair value through other comprehensive income (FVOCI) (Note 12) | **2,030,515,407** | 1,617,040,000 |
| Property, plant and equipment (Note 13) | **7,929,713,188** | 7,705,291,615 |
| Project development costs (Note 14) | **315,297,384** | 222,895,431 |
| Goodwill and other intangible assets (Notes 4 and 15) | **1,834,487,583** | 1,864,064,190 |
| Deferred tax assets - net (Note 26) | **1,499,325,616** | 1,590,722,464 |
| Other noncurrent assets (Notes 15) | **13,771,909,885** | 10,454,075,044 |
| Total Noncurrent Assets | **177,417,398,796** | 161,665,944,404 |
| **TOTAL ASSETS** | **₱197,567,200,753** | ₱186,359,428,098 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and other current liabilities (Note 16) | **₱14,323,524,438** | ₱14,825,223,023 |
| Short-term loan (Note 17) | **4,066,952,925** | 52,500,000 |
| Current portion of: | | |
| Long-term loan (Note 17) | **6,134,996,938** | 5,371,667,319 |
| Service concession obligations (Notes 10, 29 and 31) | **632,353,311** | 626,529,444 |
| Lease liabilities (Note 18) | **102,587,399** | 168,612,103 |
| Contract liabilities (Note 16) | **342,391,535** | 883,420,581 |
| Income tax payable | **507,881,844** | 170,811,967 |
| Total Current Liabilities | **26,110,688,390** | 22,098,764,437 |

*(Forward)*

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| **Noncurrent Liabilities** | | |
| Long-term loan - net of current portion (Note 17) | **₱84,540,146,666** | ₱81,236,765,438 |
| Contract liabilities - net of current portion (Note 16) | **570,825,095** | 151,548,734 |
| Lease liabilities - net of current portion (Note 18) | **323,292,384** | 328,935,082 |
| Service concession obligation (Note 10) | **9,105,648,861** | 8,840,974,693 |
| Retirement liability - net (Note 19) | **216,682,873** | 160,698,350 |
| Deferred tax liabilities - net (Note 26) | **721,302,460** | 583,896,165 |
| Provisions (Note 36) | **1,083,197,076** | 1,166,957,229 |
| Other noncurrent liabilities (Notes 20 and 29) | **5,398,048,677** | 5,150,979,307 |
| Total Noncurrent Liabilities | **101,959,144,092** | 97,620,754,998 |
| Total Liabilities | **128,069,832,482** | 119,719,519,435 |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Common stock (Note 21) | **684,754,198** | 50,000,000 |
| Additional paid-in capital (Note 21) | **6,300,032,147** | 6,318,588,499 |
| Deposit for future stock subscription (Notes 2, 21 and 33) | **–** | 634,754,198 |
| Cumulative translation adjustment (Notes 2 and 11) | **(415,464,223)** | (422,631,409) |
| Cumulative changes in fair value of financial assets at FVOCI (Note 9) | **511,819,130** | 201,712,575 |
| Hedging reserves (Note 33) | **204,630,949** | 150,275,373 |
| Remeasurement gain on defined benefit plans (Note 19) | **41,732,314** | 37,054,360 |
| Other equity reserve (Note 2) | **(67,544,299)** | 3,125,000 |
| Retained earnings (Note 21) | **9,940,732,508** | 9,476,263,544 |
| Net Equity Attributable to Equity Holders of the Parent Company | **17,200,692,724** | 16,449,142,140 |
| **Equity Attributable to Non-controlling Interests** | **52,296,675,547** | 50,190,766,523 |
| Total Equity | **69,497,368,271** | 66,639,908,663 |
| **TOTAL LIABILITIES AND EQUITY** | **₱197,567,200,753** | ₱186,359,428,098 |

*See accompanying Notes to Consolidated Financial Statements.*

## PRIME INFRASTRUCTURE CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Six Months Ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **CONTINUING OPERATIONS** | | |
| **REVENUES** (Note 22) | **₱12,601,799,438** | ₱3,421,367,965 |
| **COST OF SERVICES** (Note 23) | **6,294,330,999** | 1,816,438,236 |
| **GROSS PROFIT** | **6,307,468,439** | 1,604,929,729 |
| **OPERATING EXPENSES** (Note 24) | **2,317,301,397** | 814,498,134 |
| | **3,990,167,042** | 790,431,595 |
| **OTHER INCOME (EXPENSES)** | | |
| Revenue from development and rehabilitation works (Notes 1, 2, 7 and 10) | **12,740,899,396** | 1,561,195,433 |
| Cost of development and rehabilitation works (Notes 1, 2, 7 and 10) | **(12,717,556,645)** | (1,558,407,164) |
| Interest expense (Notes 10, 17, 18 and 24) | **(1,797,655,431)** | (275,931,582) |
| Foreign currency differentials (Note 1) | **2,176,205,876** | 699,695,635 |
| Foreign exchange gain - net | **(1,549,727,820)** | (395,590,307) |
| Equity share in net income of associates (Note 11) | **307,270,402** | 29,246,011 |
| Interest income (Notes 6, 19 and 24) | **274,574,659** | 128,734,259 |
| Gain on acquisition of a subsidiary (Note 4) | **–** | 9,120,287,952 |
| Others | **32,784,714** | 93,644,697 |
| | **(533,204,849)** | 9,402,874,934 |
| **INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS** | **3,456,962,193** | 10,193,306,529 |
| **PROVISION FOR INCOME TAX** (Note 26) | **907,024,187** | 167,789,895 |
| **NET INCOME FROM CONTINUING OPERATIONS** | **2,549,938,006** | 10,025,516,634 |
| **NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS** (Note 25) | **(570,069)** | 425,745 |
| **NET INCOME** | **2,549,367,937** | 10,025,942,379 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Items that will be reclassified to profit or loss in subsequent years: | | |
| Gain on cash flow hedge - net of tax (Note 33) | **411,294,050** | – |
| Costs of hedging - net of tax (Note 33) | **(258,566,947)** | – |
| Cumulative translation adjustment - net of tax (Note 11) | **66,228,394** | (22,839,827) |
| | **218,955,497** | (22,839,827) |
| Items that will not be reclassified to profit or loss in subsequent years: | | |
| Unrealized gain (loss) on equity instrument designated at FVOCI - net of tax | **310,106,555** | (90,000,000) |
| Actuarial gain on long-term employee benefits - net of tax | **13,144,012** | – |
| | **323,250,567** | (90,000,000) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | **542,206,064** | (112,839,827) |
| **TOTAL COMPREHENSIVE INCOME** | **₱3,091,574,001** | ₱9,913,102,552 |

*(Forward)*

| | Six Months Ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **Net Income Attributable to** | | |
| Equity holders of the Parent Company | **₱464,468,964** | ₱9,408,937,756 |
| Non-controlling interests | **2,084,898,973** | 617,004,623 |
| | **₱2,549,367,937** | ₱10,025,942,379 |
| **Total Comprehensive Income Attributable to** | | |
| Equity holders of the Parent Company | **₱840,776,237** | ₱9,196,818,697 |
| Non-controlling interests | **2,250,797,764** | 716,283,855 |
| | **₱3,091,574,001** | ₱9,913,102,552 |
| **Earnings per Share** (Note 28) | | |
| Basic/Diluted | **₱0.4** | ₱18.8 |

*See accompanying Notes to Consolidated Financial Statements*

# PRIME INFRASTRUCTURE CAPITAL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE SIX MONTHS ENDED June 30, 2022 AND 2021

| | Equity Holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Other Comprehensive Income | | | | | | | | |
| | Paid-in-Capital (Note 21) | Deposit for future stock subscription (Note 2) | Cumulative translation adjustment (Note 2 and 11) | Cumulative changes in fair value of financial assets at FVOCI (Note 2 and 9) | Hedging reserves (Note 33) | Remeasurement loss on defined benefit plans (Note 19) | Other Equity reserve | Retained Earnings (Deficit) | Subtotal | Non-Controlling interest | Total |
| Balance at December 31, 2021 | ₱6,368,588,499 | ₱634,754,198 | (₱422,631,409) | ₱201,712,575 | ₱150,275,373 | ₱37,054,360 | ₱3,125,000 | ₱9,476,263,544 | ₱16,449,142,140 | ₱50,190,766,523 | ₱66,639,908,663 |
| Subscribed capital | – | – | – | – | – | – | – | – | – | 4,220,680 | 4,220,680 |
| Net income | – | – | – | – | – | – | – | 464,468,964 | 464,468,964 | 2,084,898,973 | 2,549,367,937 |
| Other comprehensive income | – | – | 7,167,186 | 310,106,555 | 54,355,576 | 4,677,954 | – | – | 376,307,271 | 165,898,793 | 542,206,064 |
| Share based payment | – | – | – | – | – | – | – | – | – | 2,106,251 | 2,106,251 |
| Conversion of deposit for future stock subscription | 634,754,198 | (634,754,198) | – | – | – | – | – | – | – | – | – |
| Share issuance cost (Note 21) | (18,556,352) | – | – | – | – | – | – | – | (18,556,352) | – | (18,556,352) |
| Non-controlling interest arising from incorporation of new subsidiaries (Note 1) | – | – | – | – | – | – | – | – | – | 231,050,000 | 231,050,000 |
| Acquisition of non-controlling interest (Note 1) | – | – | – | – | – | – | (70,669,299) | – | (70,669,299) | (382,265,673) | (452,934,972) |
| Balance at June 30, 2022 | ₱6,984,786,345 | ₱– | (₱415,464,223) | ₱511,819,130 | ₱204,630,949 | ₱41,732,314 | (₱67,544,299) | ₱9,940,732,508 | ₱17,200,692,724 | ₱52,296,675,547 | ₱69,497,368,271 |
| Balance at December 31, 2020 | ₱5,772,464,684 | ₱– | (₱707,280,880) | ₱347,190,995 | ₱– | ₱– | ₱3,125,000 | ₱112,632,632 | ₱5,528,132,431 | ₱185,572,043 | ₱5,713,704,474 |
| Subscribed capital | 596,123,815 | – | – | – | – | – | – | – | 596,123,815 | 11,852,899 | 607,976,714 |
| Net income | – | – | – | – | – | – | – | 9,408,937,756 | 9,408,937,756 | 617,004,623 | 10,025,942,379 |
| Other comprehensive income | – | – | (122,119,059) | (90,000,000) | – | – | – | – | (212,119,059) | 99,279,232 | (112,839,827) |
| Non-controlling interest arising from business combination (Note 4) | – | – | – | – | – | – | – | – | – | 47,400,674,491 | 47,400,674,491 |
| Balance at June 30, 2021 | ₱6,368,588,499 | ₱– | (₱829,399,939) | ₱257,190,995 | ₱– | ₱– | ₱3,125,000 | ₱9,521,570,388 | ₱15,321,074,943 | ₱48,314,383,288 | ₱63,635,458,231 |

*See accompanying Notes to Consolidated Financial Statements.*

## PRIME INFRASTRUCTURE CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax from continuing operations | **₱3,456,962,193** | ₱10,193,306,529 |
| Income (loss) before income tax from discontinued operations (Note 25) | **(570,069)** | 425,745 |
| Income before income tax | **3,456,392,124** | 10,193,732,274 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 10, 13, 15, 18, 23 and 24) | **2,127,507,027** | 389,272,710 |
| Interest expense (Notes 10, 17, 18 and 24) | **1,797,655,431** | 275,931,582 |
| Unrealized foreign exchange loss (gain) | **(654,288,166)** | 48,418,039 |
| Share in net income of associates (Note 11) | **(307,270,402)** | (29,246,011) |
| Interest income (Notes 6, 10 and 24) | **(274,574,659)** | (128,734,259) |
| Provision for impairment loss (Notes 14 and 24) | **104,978,381** | 8,543,743 |
| Movement in retirement liability (Note 19) | **52,924,554** | (20,015,814) |
| Loss on disposal of property | **303,149** | – |
| Gain on acquisition of a subsidiary (Note 4) | **–** | (9,120,287,952) |
| Changes in operating assets and liabilites: | | |
| Decrease (increase) in: | | |
| Receivables | **(325,053,946)** | (402,678,674) |
| Contract asset | **610,198,567** | 506,421,124 |
| Inventories | **(128,060,718)** | 44,884,855 |
| Prepayments and other current assets | **(515,520,153)** | (60,983,579) |
| Service concession asset | **(9,854,003,696)** | (839,959,945) |
| Decrease in accounts payable and other current liabilities | **(594,797,724)** | (38,634,929) |
| Cash generated from (used for) operations | **(4,503,610,231)** | 826,663,164 |
| Interest received | **27,937,495** | 8,753,512 |
| Income tax paid | **(376,815,534)** | (44,170,015) |
| Net cash generated from (used in) operating activities | **(4,852,488,270)** | 791,246,661 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash and cash equivalents acquired from business combination (Note 4) | **–** | 21,638,562,865 |
| Acquisitions of/additions to: | | |
| Property, plant and equipment (Note 13) | **(628,532,215)** | (472,841,789) |
| Intangible assets | **(9,625,601)** | (130,319,465) |
| Project development cost | **(197,051,159)** | (24,263,625) |
| Investment in associates (Note 11) | **(2,063,600)** | (1,280,802) |
| Subsidiary (Note 4) | **–** | (5,957,381,570) |
| Short-term investments (Note 6) | **–** | (647,025,286) |
| Financial asset at FVOCI (Note 12) | **–** | (596,140,000) |
| Proceeds from: | | |
| Redemption of short-term investments | **135,496,548** | 16,754,076 |
| Dividends from associates (Note 11) | **115,291,403** | – |
| Sale of property and equipment | **–** | 1,039,655 |
| Decrease (increase) in: | | |
| Contract asset during construction phase | **(2,286,784,359)** | (331,219,055) |
| Other noncurrent assets | **(158,917,651)** | (2,657,352,787) |
| Due from related parties | – | 480,631 |
| Net cash generated from (used in) investing activities | **(3,032,186,634)** | 10,839,012,848 |

*(Forward)*

| | Six Months Ended June 30 | |
|---|---|---|
| | **2022** | 2021 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Availment of short-term debt (Note 17) | **₱4,066,952,925** | ₱– |
| Availment of long-term debt (Note 17) | **3,834,014,339** | 9,080,544,107 |
| Deposits for future stock subscription (Note 21) | **–** | 521,366,990 |
| Collection of subscription receivable (Note 21) | **–** | 596,123,815 |
| Payments of: | | |
| Short-term debt (Note 17) | **(52,500,000)** | – |
| Long-term loan (Note 17) | **(2,297,064,654)** | (91,502,744) |
| Lease liabilities (Note 18) | **(104,462,178)** | (8,692,724) |
| Service concession obligation | **(337,688,152)** | (30,781,716) |
| Interest | **(1,883,896,600)** | (199,791,344) |
| Debt issue cost (Note 17) | **(100,500,662)** | (28,826,742) |
| Stock issuance cost (Note 21) | **(18,556,352)** | – |
| Increase (decrease) in non-controlling interest | **(215,558,041)** | 111,132,129 |
| Increase in other noncurrent liabilities | **31,903,266** | 391,801,645 |
| Net cash provided by financing activities | **2,922,643,891** | 10,341,373,416 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(9,352,892)** | 177,985,862 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(4,971,383,905)** | 22,149,618,787 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **15,902,296,865** | 1,343,265,670 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** (Note 6) | **₱10,930,912,960** | ₱23,492,884,457 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.; PICI or the Parent Company), was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 20, 2020 and is engaged in the business of developing and/or investing in infrastructure assets which include renewable and sustainable energy, water and construction.

On November 17, 2021, the Parent Company filed its amended articles of incorporation with the SEC to change its corporate name from Prime Infrastructure Holdings, Inc. to Prime Infrastructure Capital, Inc. On June 8, 2022, the SEC approved the change in corporate name.

The Parent Company was incorporated by Prime Strategic Holdings, Inc. (PSHI, the intermediate parent company) whose primary purpose is to subscribe, acquire, hold, sell, assign or dispose of shares of stock and other securities of any corporation including those engaged in hotel and/or gaming and entertainment business; and to be involved in the management and operation of the investee companies. The Parent Company is 100%-owned by PSHI while the ultimate parent company is Razon & Co. Inc (RCI). Both PSHI and RCI are entities incorporated in the Philippines.

The registered office address of the Parent Company is 16th Floor Three E-Com Center, Bayshore Corner Ocean Drive, Block 21 Mall of Asia Complex, Pasay City, Metro Manila.

In December 2020, the Parent Company completed the acquisition of its subsidiaries, Prime Metroline Infrastructure Holdings Corporation (PMIHC) and Prime Metro Power Holdings Corporation (PMPHC), pursuant to deeds of assignment between PSHI and the Parent Company. PMIHC and PMPHC, subsidiaries of PSHI since incorporation in 2017, were deemed to be the accounting acquirer for accounting purposes under the principles of PFRS 3, *Business Combinations*. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard (see Note 2).

The accompanying consolidated financial statements were approved by the Parent Company's Board of Directors (BOD) on August 26, 2022.

*Subsidiaries of PICI*

<u>Prime Metroline Infrastructure Holdings Corporation (PMIHC)</u>
PMIHC was incorporated in the Philippines and registered with the Philippine SEC on February 15, 2017 and is engaged in the business of developing and/or investing in infrastructure assets in construction and biofuels.

Pursuant to the subscription agreement between PMIHC and PICI dated December 29, 2020, the former became a 75% owned subsidiary of PICI.

On December 30, 2020, PICI subscribed to 37.5 million Class A common shares of PMIHC for an aggregate consideration of ₱37.5 million. Accordingly, 7.5 million Class A common shares with a par value of ₱1.0 per share were issued pending the SEC approval for the increase in the authorized capital stock. The increase in authorized capital stock was approved on December 17, 2021 resulting in a 98.21% ownership interest as at December 31, 2021.

On November 19, 2021, the BOD and stockholders of PMIHC approved the increase in its authorized capital stock from ₱50.0 million divided into 40.0 million Class A common shares, with a par value of ₱1.00 and 100.0 million Class B common shares with a par value of ₱0.10 per share into ₱500.0 million divided into 490.0 million Class A common shares with a par value of ₱1.00 per share, and 100.0 million Class B common shares with a par value of ₱0.1 per share. The application for increase in authorized capital stock was presented for filing to SEC on December 22, 2021.

On December 15, 2021, PICI subscribed to an additional 228,495,772 shares of PMIHC at a subscription price of ₱2.00 per share for an aggregate consideration of ₱456,991,544, out of the increase in authorized capital stock filed with the SEC. The additional subscription will raise PICI's interest to 99.32%. As of August 26, 2022, the SEC approval for the increase is still pending.

Prime Metro Power Holdings Corporation (PMPHC)
Pursuant to the subscription agreement between the PMPHC and PICI dated December 29, 2020, the former became 75% owned subsidiary of the latter. PMPHC, a corporation duly organized and existing under the laws of the Republic of the Philippines, was registered with the Philippine SEC on February 15, 2017 and is engaged in the business of developing and/or investing in infrastructure assets in renewable and sustainable energy.

On December 30, 2020, PICI subscribed to 37.5 million Class A common shares of PMPHC for an aggregate consideration of ₱37.5 million. Accordingly, 7.5 million Class A common shares with a par value of ₱1.0 per share were issued pending the SEC approval for the increase in the authorized capital stock. The increase in authorized capital stock was approved on December 17, 2021 resulting in a 98.21% ownership interest as at December 31, 2021.

On November 19, 2021, the BOD and stockholders of PMPHC approved the increase in its authorized capital stock from ₱50.0 million divided into 40.0 million Class A common shares, with a par value of ₱1.00 and 100.0 million Class B common shares with a par value of ₱0.10 per share into ₱2.0 billion divided into 1,990.0 million Class A common shares with a par value of ₱1.00 per share, and 100.0 million Class B common shares with a par value of ₱0.10 per share. The application for increase in authorized capital stock was presented for filing to SEC on December 22, 2021.

On December 15, 2021, PICI subscribed to an additional 1,452,191,440 shares of PMPHC at a subscription price of ₱2.00 per share for an aggregate consideration of ₱2,904,382,880, out of the increase in authorized capital stock filed with the SEC. The additional subscription will raise PICI's interest to 99.84%. As of August 26, 2022, the SEC approval for the increase is still pending.

On December 23, 2021, PICI subscribed to an additional 148,374,211 shares of PMPHC at a subscription price of ₱2.00 per share for an aggregate consideration of ₱296,748,422, out of the increase in authorized capital stock filed by PMPHC.

Prime Infrastructure, Inc. (PII, formerly Prime Infrastructure Capital, Inc.)
PII was incorporated in the Philippines and registered with the Philippine SEC on October 20, 2020 and is engaged in the business of developing and/or investing in infrastructure assets which include renewable and sustainable energy and water. On November 19, 2021, PII's BOD and shareholders approved the amendments in the PII's articles of incorporation ("AOI") to amend its corporate name from Prime Infrastructure Capital, Inc. to Prime Infrastructure, Inc. On March 24, 2022, the Philippine SEC approved the abovementioned amendments.

On December 4, 2020, pursuant to a deed of assignment of subscription, PSHI assigned its subscription to 2.5 million common shares of PII to PICI thereby making PII as 100%-owned by PICI.

*Subsidiaries of PMIHC*

Prime Metro BMD Corporation (PMBC)
PMBC is a 60%-owned subsidiary of PMIHC. PMBC was incorporated in the Philippines and was registered with the Philippine SEC on April 17, 2017 and is engaged in construction business.

Prime Metro BMD Industrial Services Corporation (PISC)
PISC is a 100%-owned subsidiary of PMBC. PISC was incorporated in the Philippines and was registered with the Philippine SEC on December 9, 2021 and is engaged in construction business.

Waste Fuel Philippines, Inc. (WFPI)
PMIHC hold 60% equity ownership WFPI, a Company incorporated in the Philippines and registered with the Philippine SEC on May 10, 2021. Its primary purpose is to engage in the manufacture, processing, and sale of biofuels and its related by-products without engaging in retail trade activities.

*Subsidiaries of PMPHC*

ChicoJVCo (ChicoJVCo)
PMPHC holds 82% equity ownership of the ChicoJVCo, a corporation duly organized and existing under the laws of the Republic of the Philippines, was incorporated and registered with the SEC on May 7, 2018. Its primary purpose is to engage in hydropower business including establishment and operation of hydropower plants and facilities and selling the power generated from the operation of such facilities.

A Joint Venture Agreement (JVA) was entered into by PMPHC and San Lorenzo Ruiz Piat Energy and Water, Inc. (SLRPEWI) for the assignment of the Chico Hydropower Service Contract (CHSC) and development of Chico Hydropower Project (CHP) to ChicoJVCo.

Pursuant to the JVA, PMPHC paid a down payment in the amount of ₱50.0 million to study, consider and pursue the commercial development of the CHP under ChicoJVCo for 18 months (irrevocable option period).

In November 2018, ChicoJVCo agreed to advance 50.0 million to SLRPEWI to extend the irrevocable option period by another 12 months, or up to July 2, 2020. The down payment, and the amount advanced, are part of the total consideration under the JVA should PMPHC decide to pursue the CHP under ChicoJVCo.

On December 5, 2019, PMPHC and ChicoJVCo entered into a reimbursement agreement wherein ChicoJVCo will pay ₱50.0 million to the PMPHC, in connection with the down payment paid by PMPHC to SLRPEWI to study, consider and pursue the commercial development of the CHP, in accommodation and for the benefit of ChicoJVCo.

On January 17, 2020, the irrevocable option period was extended for another six (6) months from July 2, 2020, or up to January 2, 2021. On September 18, 2020, the irrevocable option period was extended again from January 2, 2021 up to April 30, 2022.

As of June 30, 2022, ChicoJVCo's BOD intends to wind up or shorten its corporate life. The BOD recognized the non-viability of the Chico Hydropower Project due to the termination of its joint venture agreement with SLRPEWI when the irrevocable option to study, consider and pursue the commercial development of the said project has expired (see Note 14).

Menatech Energy Limited (Menatech)
Menatech, an entity incorporated in United Arab Emirates, is a wholly-owned subsidiary of PMPHC. Menatech, through its branch in Iraq, operates the Umm Qasr Power Plant (UQPP) located at the Umm Qasr Port, Basra Governorate, Republic of Iraq.

Prime Metro Power Global Holdings Ltd. (Prime Global)
Prime Global is a wholly-owned subsidiary of PMPHC incorporated in the Federal Territory of Labuan, Malaysia to carry on the business of holding company involved in energy business. Prime Global remained dormant as at June 30, 2022.

Prime Exploration PTE. LTD. (Prime Exploration)
Prime Exploration is a wholly-owned subsidiary of PMPHC incorporated in the Republic of Singapore on June 11, 2022 to carry on the business of holding company involved in energy business.

*Subsidiaries of PII*

WawaJVCo Inc. (WawaJVCo)
WawaJVCo is 82%-owned subsidiary of PII. WawaJVCo was incorporated in the Philippines and registered with the Philippine SEC on April 11, 2019 primarily to engage in business of bulk water supply, including obtaining water permits and the establishment and operation of facilities for the capture and diversion of water and selling such water in bulk for municipal use, provided that within Metro Manila, WawaJVCo will only supply bulk water services and provide water services to authorized concessionaires.

WawaJVCo is a company formed by PMPHC and San Lorenzo Ruiz Builders and Developers Group, Inc., a Philippine entity, to develop the Tayabasan Multi-basin System and the Upper Wawa Dam ("Wawa Bulk Water Project") and shall supply Metropolitan Waterworks and Sewerage System (MWSS, a government-owned and controlled corporation in charge of the provision of water in the Metropolitan Manila area) and its concessionaires raw water for their treatment and distribution to end users and customers. WawaJVCo is expected to begin supplying 80 MLD of raw water for the East Zone by the fourth quarter of 2022. As of August 26, 2022, the Tayabasan and Wawa Dam construction is still ongoing.

In April 2019, PMPHC subscribed and paid 2,500,000 shares with par value of ₱1 in WawaJVCo, representing 82% ownership interest in WawaJVCo. In June 2019, PMPHC entered into a deed of assignment of shares with PMIHC for the assignment and transfer of PMPHC's 82% ownership in WawaJVCo to PMIHC for ₱2.5 million.

On November 19, 2021, PICI, holder of existing deposits for future subscriptions to PMIHC amounting to ₱521,037,162 entered into a deed of assignment for the PMIHC DFFS to PII as partial payment of its subscription in the PII's shares. On the same date, PMIHC entered into a deed of assignment of shares for the transfer of its interest in Wawa comprised of 2.5 million common shares of WawaJVCo and 281,667 preferred shares to PII. Investment in WawaJVCo. assigned to PII amounted to ₱2.5 million for the common shares and ₱281.7 million for the preferred shares at subscription price of ₱1.0 and ₱1,000.0 per share, respectively. In addition, PMIHC assigned deposit for future investment in WawaJVCo of ₱236.9 million to settle the full amount of the deposits for future subscription.

Ahunan Power, Inc. (API)
API is 85%-owned subsidiary of PII. It was incorporated in the Philippines and registered with the Philippine SEC on September 17, 2020 primarily to engage in the development, construction, operation, maintenance, repair, and management of hydropower plants, other power-generating plants, related facilities, and other allied businesses, including investing, bidding and negotiating for such projects (whether shareholder, partner or otherwise), and to trade electricity in the Wholesale Electricity Spot Market.

In 2021, PMPHC entered into a Deed of Assignment with PII transferring its 85% interest in API.

Solar Philippines Tanauan Corporation (SP Tanauan)
SP Tanauan was incorporated and registered with the Philippine SEC on September 7, 2016. It is primarily engaged in the business of renewable energy.

On December 13, 2021, PII signed a subscription agreement and paid ₱2,000.0 million for 176,041,000 common shares of SP Tanauan or a 50% interest ownership. SP Tanauan has not yet started its commercial operations as of June 30, 2022.

Terra Renewables Holdings, Inc. (TRHI)
TRHI is 50%-owned by PII and was incorporated and registered with the Philippine SEC on January 10, 2022 primarily to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose property of every kind and description (except real property). Upon incorporation, PII and SP Holdings, Inc. subscribed to 24,999,997 shares each at a subscription price of ₱1.00 per share.

In 2022, PII and SP Holdings Inc. entered into additional subscription agreements for 180,050,000 shares each at a subscription price of of ₱1.00 per share. As of June 30, 2022, non-controlling interest of SP Holdings Inc. amounted to ₱205.05 million.

Terra Solar Philippines, Inc. (TSPI)
TSPI is 50%-owned by PII and was incorporated in the Philippines and registered with the Philippine SEC on June 21, 2021. It is primarily engaged in the business of generating power from renewable energy sources and selling or supplying the same to any corporation, public utility, distribution utility, or electric cooperative. TSPI is under pre-development stage as of June 30, 2022. Upon incorporation, PII and Solar Philippines Power Project Holdings, Inc. subscribed to 10,000 shares each at a subscription price of ₱1.00 per share.

On November 2021, PII and Solar Philippines Power Project Holdings, Inc. entered into additional subscription agreements for 15,000,000 shares each at a subscription price of ₱1.00 per share.

Torre, Inc.
Torre, Inc. is a wholly-owned subsidiary of PII and was incorporated in the Philippines and registered with the Philippine SEC on December 29, 2020. It is primarily engaged in the establishment, development, construction, operation, maintenance of passive telecommunications tower infrastructure, related facilities and other allied businesses. Torre, Inc. is under pre-development stage as of June 30, 2022.

Prime Integrated Waste Solutions, Inc. (PIWSI)
PIWSI is a wholly-owned subsidiary of PII and was incorporated in the Philippines and registered with the Philippine SEC on May 12, 2022. Its purpose is to explore, develop, construct, operate, manage, or otherwise engage in the business of waste management. PIWSI is under pre-development stage as of June 30, 2022.

Primeres Energy Corporation (PEC)
PEC is a wholly-owned subsidiary of PII and was incorporated in the Philippines and registered with the Philippine SEC on April 13, 2022. Its purpose is to explore, develop, construct, operate, manage, or otherwise engage in the power plant systems including power transmission lines, converting stations, and generation plants from renewable and non-renewable resources. PEC is under pre-development stage as of June 30, 2022.

Trident Water Company Holdings, Inc. (TWCHI/Trident)
TWCHI is a wholly-owned subsidiary of PII. TWCHI was incorporated in the Philippines and registered with the Philippine SEC on March 3, 2020 primarily to acquire, hold or dispose of properties, including shares of stocks and securities of any corporation, including those engaged in water supply and in water distribution business, and to be involved in the management and operation of such investee companies, without engaging in dealership in securities, stock brokerage or investment company.

On December 22, 2021, TWCHI applied for an increase in authorized capital stock to 975.0 million common shares (₱1.0 par value) and 250.0 million preferred shares (₱0.1 par value). PII then entered into a subscription agreement with TWCHI for the proposed increase in authorized capital of 545.1 million common shares at a subscription price of ₱2.0 per share paid via assignment of its deposit for future subscriptions in Trident amounting to ₱1.09 million.

On June 3, 2021, TWCHI obtained control of Manila Water Company, Inc. (MWCI) through its completion of the tender offer. As of June 30, 2022, TWCHI obtained voting and economic interest in MWCI of 52.2% and 35.6%, respectively. Please see detailed discussion under MWCI section below.

Manila Water Company, Inc. (MWCI)
Manila Water Company, Inc. was incorporated on January 6, 1997. It became a publicly listed company via an initial public offering on March 18, 2005. MWCI and its subsidiaries are incorporated to provide water, integrated used water, sewerage and sanitation, distribution services, pipeworks, engineering, procurement and management services.

On February 1, 2020, MWCI and PSHI, on behalf of a company to be incorporated (TWCHI), signed a Subscription Agreement for the acquisition of 820.00 million common shares (equivalent to 24.96% economic rights) of MWCI at ₱13.00 per share or a total of ₱10.66 billion.

On February 6, 2020, Ayala, as part of the Shareholders' Agreement to be executed among itself, its wholly-owned subsidiary Philwater Holdings Co., Inc. (Philwater), and TWCHI, Ayala's Executive Committee approved the grant of proxy rights by Philwater to TWCHI over its 4,000,000,000 preferred shares to enable the latter to achieve 51.00% voting interest in MWCI, subject to the fulfillment of the conditions set forth in the subscription agreement. Upon the grant of proxy rights to TWCHI, Ayala's effective voting interest in MWCI will stand at 31.60%. This arrangement aimed to strategically rationalize the economic and voting stakes between Ayala and TWCHI as strategic partners in MWCI.

On February 7, 2020, MWCI received a letter from PSHI, that it had announced through publication in a newspaper of general circulation, its intention to make a mandatory offer for the shares of MWCI at an offer price of ₱13.00 per share.

On July 2, 2020, the SEC approved MWCI's application for the amendment of its Articles of Incorporation to increase the carved-out shares from 300.00 million to 900.00 million unissued common shares and the issuance of such carved-out shares in one or more transactions or offerings "for cash, properties, or assets to carry out MWCI's corporate purposes as approved by the Board of Directors (BOD)." Carved-out shares are common shares which are waived of shareholders' pre-emptive rights and are earmarked for specific corporate purposes.

On August 25, 2020, MWCI received a copy of the resolution from the Philippine Competition Commission (PCC), indicating that the PCC will take no further action with respect to the transaction. Specifically, it was deemed that the proposed acquisition of TWCHI of shares in MWCI would not likely result in substantial lessening of competition.

In 2020, MWCI also received consents from specific lenders for the subscription.

On February 15, 2021, MWCI and PSHI signed an Amendment to the Subscription Agreement. The amendment covered the inclusion of TWCHI as party to the Subscription Agreement following its establishment, as well as the updated payment terms which was 50.00% or ₱5.33 billion upon Closing and 50.00% or ₱5.33 billion upon call of MWCI's BOD.

On the same date, Philwater and TWCHI executed a Share Purchase Agreement wherein Philwater agreed to sell 2,691,268,205 of its preferred shares in MWCI for ₱4.84 billion to TWCHI with a payment term over a five (5)-year period. The purchase of the preferred shares reflected a 39.09% voting stake and 8.19% economic stake in MWCI. The rights and title to the shares, except voting rights covered by the proxies, which shall be executed upon the execution of the Shareholders' Agreement, shall not be transferred until all payments are made. Dividends earned by the preferred shares shall continue to be for the account of Philwater until full payment has been made.

On April 8, 2021, MWCI received the Tender Offer Report from TWCHI to acquire up to 1,118,253,916 common shares of MWCI through a tender offer to all shareholders. Said tender offer did not include the 866,996,201 common shares held by Ayala and its nominees and the 4,000,000,000 preferred shares held by Philwater and its nominees. On May 31, 2021, a total of 462,660 common shares of MWCI were tendered, accepted and purchased by TWCHI via block sale through the facilities of the Philippine Stock Exchange.

On June 3, 2021, TWCHI completed the tender offer. Following the completion of the tender offer, TWCHI owns 870,462,660 common shares of MWCI and has voting rights over 2,691,268,205 preferred shares to be acquired by TWCHI. In addition, PSHI also owns 29,589,500 common shares of MWCI. On June 24, 2021, TWCHI acquired 29,589,500 common shares of MWCI from PSHI.

The above transactions resulted in voting and economic interest of TWCHI in MWCI of 52.2% and 35.6%, respectively.

As of June 30, 2022 and December 31, 2021, TWCHI holds 900,052,160 common shares and 2,691,268,205 preferred shares in MWCI.

<u>Significant transactions - MWCI</u>

<u>MWCI's Concession Agreement with Metropolitan Waterworks and Sewerage System (MWSS)</u>
On February 21, 1997, MWCI 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 (the "East Zone"). The Concession Agreement sets forth the rights and obligations of MWCI throughout a twenty-five (25)-year concession period. The MWSS Regulatory Office (MWSS RO) monitors and reviews the performance of each of the Concessionaires - MWCI and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

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

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

Under the Concession Agreement, MWCI 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 all 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 3, 10 and 15); 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 (4) Charging Years shall be zero; and
   ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

In the event that the MWSS RO determines, at any time from and after the second ($2^{nd}$) Rate Rebasing Date, that MWCI shall incur significant capital expenditures in carrying out its responsibilities under the Concession Agreement which should not be recovered through immediate rate adjustments, the MWSS RO may propose to MWCI that the Concession Agreement be amended to provide for the payment to MWCI for all or a portion of such unforeseen capital expenditure (Expiration Payment). Any Expiration Payment shall be treated by the MWSS RO as an anticipated receipt for purposes of making rate adjustment calculations. Any Expiration Payment may be discharged through the delivery to MWCI of a USD denominated debt instrument issued by MWSS or another public-sector owned by the Republic but, in either case, with the full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external debt obligations of the Republic, having a cash value equal to such Expiration Payment.

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 MWCI 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 MWCI (subject to interim adjustments) are set out in the Concession Agreement; and,
b. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWCI to recover, over the twenty-five (25)-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWCI'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 (5)-year intervals commencing on the second Rate Rebasing date, provided that the MWSS RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees (MWSS BOT) passed Resolution No. 2009-072 approving the fifteen (15)-year extension of the Concession Agreement 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 23, 2009. A Memorandum of Agreement and Confirmation was entered into by and between MWSS and MWCI on October 23, 2009 (the "CA Extension"). The significant commitments under the Extension are as follows:

a. Mitigation of 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. Increase of MWCI's share in the current operating budget of MWSS by 100% as part of the concession fees starting 2009.
c. Increase in total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

On January 25, 2022, RA No. 11601 took effect, granting MWCI a franchise to establish, operate, and maintain the waterworks and sewerage system in the East Zone Service Area of Metro Manila and the Province of Rizal for a period of twenty-five (25) years.

Section 5 of RA 11601 provides that the Concession Agreement shall serve as the certificate of public convenience and necessity, license or permit of MWCI for the operation of its waterworks and sewerage system. Under RA 11601, "Concession Agreement" refers to the agreement between the grantee and MWSS on February 21, 1997, including its amendment dated October 26, 2001, and the Memorandum of Agreement and Confirmation dated October 23, 2009, as amended by the Revised Concession Agreement dated March 31, 2021, or as may thereafter be amended.

<u>MWCI's Revised Concession Agreement with MWSS</u>
On March 31, 2021, MWCI and MWSS entered into a Revised Concession Agreement (RCA) which has a term of up to July 31, 2037. The RCA shall become effective within six (6) months from March 31, 2021 and upon satisfaction of the conditions precedent. MWCI waived the ₱7.4 billion arbitral award issued in its favor against the Republic and MWSS, in the case of *Manila Water Company Inc. v. the Republic of the Philippines, PCA Case No. 2017-01* as part of the conditions for effectivity of the RCA.

MWCI and MWSS has executed six (6) amendments to the RCA extending its Effective Date to allow time to complete the remaining condition precedent the Undertaking Letter from the Republic. The Sixth Amendment executed on May 19, 2022 extended the Effective Date to not later than June 30, 2022.

On June 30, 2022, the RCA did not take effect due to the Republic's failure to submit the prescribed Undertaking Letter. Any changes adopted by MWCI in relation to the RCA were reverted to the terms provided in the Original Concession Agreement. As of June 30, 2022, MWCI's deferred FCDA amounted to ₱2,555.6 million (see Note 15).

<u>Rate Rebasing Tariff Adjustments</u>
In March 2012, MWCI submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. MWSS conducted a review of the proposal including MWCI's last five (5) years' financial performance. The financial review process was 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 MWCI's 2012 average basic water rate of ₱24.57 per cubic meter which shall be implemented in five (5) equal tranches of negative 5.894% per charging year. MWCI objected to MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS BOT, through MWSS RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWCI'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, MWCI received the final award of the Appeals Panel in the arbitration which included the following tariff component determination:
a. ₱28.10 billion Opening Cash Position (OCP) which restored ₱11.00 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.60 billion capital expenditures and concession fees which restored ₱29.50 billion from the September 2013 future capital and concession fee expenditure of ₱170.10 billion;
c. 7.61% 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 translated 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 were consistent with MWCI's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved MWCI's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS RO (MWSS RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, MWCI shall stagger its implementation over a five (5)-year period. The first tranche took effect on October 16, 2018 amounting to ₱1.46 per cubic meter or 5.70% of the pre-rebased 2017 basic tariff. The MWSS BOT also approved the implementation of the subsequent partial Rebasing Convergence Adjustment on a staggered basis as scheduled below:
- ₱2.00 on January 1, 2020,
- ₱2.00 on January 1, 2021, and
- ₱0.76 to ₱1.04 on January 1, 2022.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved MWCI's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments were recommended by the MWSS RO (MWSS RO Resolution No. 2018-12-CA) and took effect on January 1, 2019.

Effective January 1, 2022, subject to the validation of the MWSS RO of the feasibility and cost of the Wawa Bulk Water Source to Calawis Project as MWCI's medium-term water source, an additional partial Rebasing Convergence Adjustment of up to ₱0.28 per cubic meter on top of the basic partial Rebasing Convergence Adjustment of ₱0.76 per cubic meter, was approved by the MWSS BOT on September 27, 2018.

On March 31, 2022, MWCI submitted its 2023 Service Improvement Plan to the MWSS RO for the Sixth Rate Rebasing Period (2023 to 2027). The Rate Rebasing exercise is ongoing as of August 26, 2022.

MWCI Water Supply Shortage

In March 2019, the large decline in La Mesa dam water levels caused water service availability in the East Zone to drop significantly, reaching its lowest level at about 68.5 meters in April 2019. In order to ease the widespread inconvenience of the water supply shortage to the customers who were affected by the unprecedented water shortage, MWCI announced a one-time voluntary Bill Waiver Program on March 26, 2019. This program had two parts, namely: (1) all customers will receive a bill waiver of the minimum charge in their consumption which represents ten (10) cubic meters covering water, environmental and sewer charges; and (2) all customers from hard-hit barangays with absolutely no water service for at least seven (7) days from March 6 to March 31, 2019 will not be charged at all for the month of March 2019. The bill waiver is in the nature of an abatement or reduction from the gross amount or price to be paid by the customers. This was implemented in April 2019 and was treated as sales discount in the customer's billings.

In April 2019, MWSS BOT (MWSS Resolution No. 2019-055-CO and MWSS Resolution No. 2019-056-CO) imposed a financial penalty of ₱534.05 million on MWCI for its failure to meet its service obligation to provide 24/7 water supply to its customers (see Note 24). While the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS, MWCI has abided by the decision of MWSS to pay the financial penalty of ₱534.05 million even as it assumes no liability on the basis of the penalty as MWCI was not the root cause of the water supply shortage. Pursuant to the directive of the MWSS RO, the ₱534.05 million financial penalty was distributed to the East Zone customers through rebates wherein all connections as of March 31, 2019 received a minimum rebate equivalent to their first 10 cubic meters or ₱153.93 each while identified severely affected accounts received an additional rebate of ₱2,197.94 each.

Supreme Court Decision in Relation to the Philippine Clean Water Act of 2004

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against MWCI, Maynilad, and MWSS for alleged violation of Philippine Clean Water Act of 2004 (RA No. 9275, the "Clean Water Act"), particularly the five (5)-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On September 18, 2019, MWCI received a copy of the Decision of the Supreme Court on the case '*Manila Water Company, Inc. vs. The Secretary of the Department of Environment and Natural Resources, et.al.*' with G.R. No. 206823 and promulgated on August 6, 2019. In the Decision, the Supreme Court found MWCI liable for fines in violation of Section 8 of the Clean Water Act in the following manner:

a. MWCI shall be jointly and severally liable with MWSS for the total amount of ₱921.46 million covering the period starting from May 7, 2009 to the date of promulgation of the Decision, August 6, 2019, to be paid within fifteen (15) days from finality of the Decision.
b. From finality of the Decision until full payment of the ₱921.46 million fine, MWCI shall be fined in the initial amount of ₱322,102.00 per day, subject to a further 10.00% increase every two (2) years as provided under Section 28 of the Clean Water Act, until full compliance with Section 8 of the same law.
c. The total amount of fines imposed by the Decision shall earn legal interest of six percent (6.00%) per annum from finality and until full satisfaction thereof.

On October 2, 2019, MWCI filed a Motion for Reconsideration with the Supreme Court.

On July 1, 2020, MWCI received a copy of the Consolidated Comment (on the separate Motions for Reconsideration filed by petitioners MWSS, Maynilad, and MWCI) filed by the Office of the Solicitor General in behalf of the adverse parties.

MWCI filed with the Supreme Court a Motion for Leave to file and admit its Reply last August 17, 2020.

On November 3, 2020, MWCI received a Resolution dated September 8, 2020 issued by the Supreme Court, which relevantly (i) noted the Consolidated Comment; (ii) granted the Motion for Leave and Admit Attached Reply; and (iii) noted the Reply filed by MWCI.

On January 26, 2022, MWCI filed a Manifestation to inform the Supreme Court of certain developments (i.e., the execution of the RCA and the grant of a legislative franchise to MWCI) which it deems relevant in the resolution of its 2019 Motion for Reconsideration.

As of August 26, 2022, MWCI's Motion for Reconsideration remains pending with the Supreme Court.

<u>FCDA</u>
Prior to November 18, 2021, the MWSS BOT approved the FCDA quarterly. The FCDA had no impact on the net income of MWCI, as the same is a recovery or refund mechanism of foreign exchange losses or gains. The following FCDA adjustments and their related foreign exchange basis took effect in 2019 to 2021.

| Approval Date | Effective Date | FCDA | Foreign Exchange Rate Basis |
|---|---|---|---|
| December 14, 2018 | January 1, 2019 | ₱0.75 per cubic meter | USD1: ₱53.94 / JPY1: ₱0.48 |
| March 6, 2019 | April 1, 2019 | ₱0.52 per cubic meter | USD1: ₱52.77 / JPY1: ₱0.47 |
| September 26, 2019 | October 13, 2019 | ₱0.69 per cubic meter | USD1: ₱52.41 / JPY1: ₱0.47 |
| March 11, 2020 | April 1, 2020 | ₱0.48 per cubic meter | USD1: ₱50.77 / JPY1: ₱0.47 / EUR1: ₱56.36 |
| September 14, 2020 | October 1, 2020 | ₱0.33 per cubic meter | USD1: ₱50.10 / JPY1: ₱0.47 / EUR1: ₱56.37 |
| December 1, 2020 | January 1, 2021 | ₱0.19 per cubic meter | USD1: ₱48.51 / JPY1: ₱0.46 / EUR1: ₱57.22 |
| February 24, 2021 | April 1, 2021 | ₱0.24 per cubic meter | USD1: ₱48.06 / JPY1: ₱0.46 / EUR1: ₱58.39 |

There were no FCDA adjustments for the third quarter of 2019 as the MWSS BOT did not approve the adjustments until the fourth quarter of 2019. On May 29, 2020, the MWSS BOT approved an FCDA adjustment for the third quarter of 2020 similar to the prevailing FCDA adjustment for the second quarter of 2020 of ₱0.48 per cubic meter which had no impact on customer bills. There were no further FCDA adjustments approved from February 24, 2021. The RCA signed on March 31, 2021 also removed the FCDA mechanism.

On October 28, 2021, the MWSS BOT approved the recommendation of the MWSS RO to remove the FCDA from MWCI's customer bills beginning November 18, 2021, the initial effectivity date of the RCA. Beginning November 18, 2021, the FCDA was no longer applied to water rates of MWCI's East Zone customers.

On June 30, 2022, the RCA did not take effect due to the Republic's failure to submit the prescribed Undertaking Letter. See discussion under "MWCI's Revised Concession Agreement with MWSS" above.

<u>MWCI's, MWSS', and WawaJVCo, Inc.'s Raw Water Supply Offtake Agreement</u>
On August 6, 2019, MWSS along with MWCI signed a thirty (30)-year Raw Water Supply Offtake Agreement with WawaJVCo, Inc. This will involve the supply of 518.00 million liters per day of raw water from the Wawa and Tayabasan rivers and is among the medium-term water supply augmentation measures identified to provide water security and sustainability to the consumers of the East Service Area.

On September 9, 2019, the MWSS RO adopted RO Resolution No. 2019-12-CA declaring the proposed Wawa-Calawis Bulk Water Supply Project as sound and feasible for implementation and recommending the inclusion of the total systems cost or Total Expense of the 518.00 million liters per day Calawis Water Treatment Plant and Conveyance Facility Project, prudently and efficiently incurred, in the next Rate Rebasing Exercise.

On September 10, 2019, the MWSS BOT approved the recommendation of the MWSS RO through MWSS Resolution No. 2019-143-RO.

On January 7, 2020, the parties executed the First Supplement to the Raw Water Supply Offtake Agreement to reflect their agreement on the joint conditions precedent.

On September 28, 2021, the parties executed the Second Supplement to the Raw Water Supply and Offtake Agreement to reflect the impact of the COVID-19 pandemic on the timeline of the project.

<u>MWCI's Water Franchise Approval</u>
On January 25, 2022, RA No. 11601 became effective, granting MWCI a twenty-five (25)-year franchise to establish, operate and maintain a waterworks system to ensure an uninterrupted and adequate supply, and distribution of potable water for domestic, commercial, and other purposes, and for the establishment and maintenance of sewerage system in the East Zone under a concession from the MWSS, or under an appropriate certificate of public convenience and necessity, license or permit from the MWSS RO.

MWCI is likewise given the right to recover, supply, distribute, and reuse treated and grey water whether in bulk or retail for domestic, commercial or industrial and other purposes. Furthermore, MWCI is allowed to develop new raw water sources as operations may require and enter into bulk water supply arrangements. It may also exercise the power of eminent domain as necessary for its operations and may install and maintain its pipelines and facilities on public property and roads.

The franchise coexists alongside the Concession Agreement which shall serve as MWCI's certificate of public convenience and necessity, license or permit for the operation of a waterworks and sewerage system. When public interest for affordable water security requires and upon application by MWCI, MWSS is authorized to approve the amendment of the Concession Agreement to extend its term up to the term of the franchise.

MWCI has sixty (60) days from the effectivity date of the franchise to accept such franchise in writing to the Congress of the Philippines, else, the franchise will be rendered void. Upon MWCI's acceptance of the franchise, its successors or assignees, shall exercise the privileges granted to MWCI under the franchise. On March 21, 2022, pursuant to Section 14 of RA No 11601, MWCI submitted its notices of acceptance of its 25-year legislative franchise to the Committee on Legislative Franchises of the House of Representatives and the Senate Committee on Public Services. Section 23 of RA No. 11601 provides that income taxes due from MWCI, its successors, or assignees may not be passed on to its consumers

On March 2, 2022, the MWSS BOT approved Resolution No. 2022-025-RO, Series 2022 (the "BOT Resolution") involving the implications of the Legislative Franchises on the value-added tax (VAT) and franchise tax of the Concessionaires specifically:

i. The removal of VAT from the customer bills of Manila Water and Maynilad resulting from the grant of the Legislative Franchises to the Concessionaires, subject to the National Internal Revenue Code of 1997, as amended, and the relevant rules of the Bureau of Internal Revenues; and
ii. The imposition of Government Taxes in the customers' bills as pass-through costs comprised of a national franchise tax rate of 2.00% and actual implemented rates of local franchise tax for each local government unit starting March 21, 2022

MWCI started implementing the BOT Resolution on March 21, 2022 and replaced VAT with government taxes in its customers' bills.

Significant Transactions – Domestic Subsidiaries of MWCI

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, July 22, 2009, June 30, 2015, and May 3, 2018) with PGL, a local government unit organized and existing under Philippine Laws.

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

While Laguna Water has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by Laguna Water in the performance of its obligations under the agreement remains with Laguna Water and shall not pass to PGL until the end of the concession period at which time, Laguna Water will transfer, or if the ownership is vested in another person, cause the transfer to PGL. Laguna Water has the exclusive right to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services (see Note 10).

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

The concession agreement also states that the base tariff shall be increased by ten percent (10%) in Year 7, 9, 11, 14, and 17 of Laguna Water's concession, which took effect on the commencement date on October 20, 2004.

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

In connection with the amendment to the concession agreement on June 30, 2015, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan.

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

On October 20, 2015, the Year 11, Laguna Water made a tariff adjustment of 10% which was implemented in November 2015.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna, approved the inclusion of its municipality within the service area of Laguna Water, pursuant to the expansion of the service area of Laguna Water under its amended concession agreement with PGL.

On May 3, 2018, the concession agreement was amended to include the approval of an environmental charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

On October 20, 2018, the Year 14, Laguna Water implemented a tariff adjustment of 10.00% effective December 1, 2018.

In view of the Provisional Authority and Provisional Water Tariff issued by the National Water Resources Board (NWRB) on September 28, 2021, Laguna Water implemented an average of 10.00% tariff increase across all customer rate categories effective November 1, 2021 (for residential, institutional and few commercial accounts) and December 1, 2021 (for the remaining commercial and industrial accounts). Upon implementation, varying rates on tariff increases were applied to each customer category depending on its current rate and NWRB's customer classification.

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 a twenty-five (25)-year concession period. TIEZA Regulatory Office (TIEZA RO) will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants Boracay Water (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island for a period of twenty-five (25) years from January 1, 2010 (commencement date) until December 31, 2034 (expiration date), or the early termination date as the case may be. The legal title to all fixed assets contributed to the existing TIEZA system by Boracay Water during the concession remains with Boracay Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

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

Under its concession agreement, Boracay Water is entitled to the following rate adjustments:
a. annual standard rate adjustment to compensate for increases in the CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments (see Notes 2, 10 and 15).

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.

On June 7, 2017, TIEZA approved the new water rates of Boracay Water, which was equivalent to an increase of 52.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99%, and 10.70% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017, equivalent to 30.14% of the existing rate.

On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase along with a 3.80% CPI effective January 1, 2018.

On December 18, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase together with 7.72% CPI. Furthermore, an additional 3.00% was applied to the basic water and sewer tariff to account for FCDA. The new rates took effect on January 1, 2019.

Boracay Water's concession agreement also provides a general rate setting policy for rates chargeable by Boracay Water for water and sewerage services as follows:
a. For the period through the second rate rebasing date (January 1, 2017), the maximum rates chargeable by Boracay Water (subject to interim adjustments) are set out in the concession agreement; and
b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit Boracay Water to recover, over the twenty-five (25)-year term of its

concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five (5)-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

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

As a result of the above terms of the concession agreement, Boracay Water recognized a total of ₱986.86 million service concession assets on its commencement date. It includes the JICA loan assumed by Boracay Water, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees (see Note 10).

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

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to Clark Water by virtue of an assignment and assumption agreement between VWPI and Clark Water. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, Clark Water pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by Clark Water on the facilities as well as title to new facilities procured by Clark Water in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, where in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of Clark Water the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of Clark Water and CDC under the concession agreement. Under the lease agreement, Clark Water was required to make a rental deposit amounting to ₱2.77 million equivalent to six (6) 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 fifteen (15) years up to October 1, 2040;
b. additional investment of ₱4.00 billion over the remaining life of the extended concession period, provided under the amended concession agreement, to be spent for further improvement and expansion of water and wastewater services in the area. Investment requirement under the original concession agreement amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Initial investment prior to the amendment of the concession agreement amounted to ₱1.00 billion.
c. introduction of a rate rebasing mechanism for every four (4) years starting 2014.
d. reduction in tariff rates by 3.9% (from ₱25.63/$m^3$ to ₱24.63/$m^3$) effective September 1, 2014, subject to the EPA; and
e. increase in tariff rates by:
   i. ₱0.41/$m^3$ (from 24.63/$m^3$ to ₱25.04/$m^3$) in 2018;
   ii. ₱0.42/$m^3$ (from ₱25.04/$m^3$ to ₱25.45/$m^3$) in 2019;
   iii. ₱0.42/$m^3$ (from ₱25.45/$m^3$ to ₱25.87/$m^3$) in 2020; and
   iv. ₱0.43/$m^3$ (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 Clark Water's investment was extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in its concession agreement. As of August 26, 2022, Clark Water's 2018 rate rebasing is still ongoing which put on hold the approved tariff increases under the amended concession agreement on August 15, 2014.

*Clark Water's Compliance with the Department of Environment and Natural Resources' (DENR's) Administrative Order No. (DAO) No. 2016-08*

On June 16, 2016, the DENR promulgated DAO No. 2016-08 regulating the discharge of nutrients and imposing additional limits and parameters. Pursuant to Section 10 of DAO No. 2016-08, Clark Water sought the approval of the DENR of its Compliance Action Plan (CAP) which would have extended the current five (5)-year CAP of Clark Water. On July 17, 2020, Clark Water received the approval of DENR on its submitted CAP with project completion deadline of December 31, 2021. On October 19, 2020, the CDC sent a letter to the DENR in support of Clark Water's request for extension of its CAP to 2023. On November 11, 2020, however, the CDC received a letter from the DENR denying Clark Water's request citing the DAO No. 2016-08's clear five (5)-year limit for the grace period. On November 26, 2020, CDC sent another letter to the DENR appealing to the DENR for reconsideration of their request to postpone the DAO No. 2016-08. On December 7, 2020, the DENR sent a letter to the CDC, denying their request for the second time.

As a result, DENR held in abeyance the renewal of Clark Water's discharge permit pending its compliance with the CAP even though Clark Water is compliant with DAO No. 1990-35, the applicable regulation at that time. On April 20, 2021, Clark Water received notice to proceed from CDC. Clark Water immediately proceeded with the construction of the Bionutrient Removal (BNR) Project in compliance to the approved CAP. DENR subsequently issued a temporary discharge permit on April 26, 2021 valid until October 30, 2021.

On July 29, 2021, DAO No. 2016-08 was superseded by a relaxed standard under DAO No. 2021-19. On December 21, 2021, Clark Water sent a letter to the DENR for the reduced CAP pursuant to DAO No. 2021-19. On January 1, 2022, Clark Water's discharge permit expired. On January 13, 2022, DENR issued Discharge permit extension until March 31, 2022 which was subsequently extended for another six (6) months or until September 30, 2022. On August 1, 2022, the discharge permit was extended until February 11, 2023.

<u>Manila Water Consortium (MW Consortium) Agreement with the Provincial Government of Cebu (PGC)</u>

On March 21, 2012, MW Consortium signed a Joint Investment Agreement (JIA) with the PGC for the formation of a joint venture company with 51.00% and 49.00% equity participation for MW Consortium and the PGC, respectively. Under the JIA, the parties agreed to develop and operate a bulk water supply system that will supply 35.00 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is thirty (30) years starting March 2012 and renewable for another twenty-five (25) years. On May 23, 2012, MW Consortium and the PGC incorporated Cebu Water, with an ownership of 51.00% and 49.00%, respectively, pursuant to the JIA.

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

On August 29, 2019, MW Consortium received a Notice of Breach/Default of the JIA from the PGC. On December 10, 2019, PGC issued a Notice of Termination of the JIA. Pursuant to the JIA, MW Consortium issued a Notice of Existence of a Dispute on PGC on December 12, 2019.

On February 3, 2020, MW Consortium and the PGC signed the Terms of Reference for the interim protocol between both parties pending Settlement with Finality of the Dispute between MW Consortium and PGC.

On March 29, 2022, MW Consortium and PGC executed a Settlement Agreement that constitutes the full, final and complete settlement of all claims, complaints, and causes of action of PGC against Cebu Water in relation to the perceived breach of the Joint Investment Agreement between the two parties.

On April 7, 2022, Manila Water Philippine Ventures, Inc. (MWPVI) secured the approval of its BOD to purchase the 32.6% stake (107,601,639 common shares) of Metro Pacific Water Investment Corporation (MWIC) in MW Consortium for a purchase price of ₱107.6 million. The Share Purchase Agreement and Deed of Absolute Sale were duly signed by the parties on May 12, 2022. The acquisition of additional interest in MW Consortium was accounted as an equity transaction resulting to an adjustment to other equity reserve amounting to to ₱167.7 million for the six months ended June 30, 2022.

Zamboanga Water's Non-Revenue Water Reduction Service Agreement (NRWRSA) with Zamboanga City Water District (ZCWD)

On December 19, 2014, MWCI received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga del Sur. On January 30, 2015, MWCI and ZCWD signed and executed a JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, MWCI and ZCWD incorporated Zamboanga Water to implement the NRW Reduction project.

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

In March 2019, the City Government of Zamboanga City declared a state of calamity due to the recurrence of El Niño. This prompted the ZCWD to implement a service-wide water rationing scheme. Consequently, Zamboanga Water was constrained to suspend its NRW Reduction activities due to the unstable supply caused by said water rationing.

In October 2019, Zamboanga Water and ZCWD jointly formed a Technical Working Group to negotiate and resolve all the pending issues or disputes arising during the implementation of the NRW Reduction Project, such as the impact of the yearly occurrence of El Nino, non-payment of performance and "locked-in" fees, opposing interpretation of provisions in the NRWRSA, among others.

Per Section 1.10 of the NRWRSA, a rebaseline is to be performed if there is a decrease in supply resulting from El Niño. Per agreement with ZCWD Project Management Unit (PMU) in November 2017, the computed NRW cu.m./day prior the rebaseline shall be used as basis for the "locked-in" performance computation. However, a supplemental agreement to formally recognize the computation and payment of "locked-in" performance has not been finalized as of December 31, 2019.

On April 3, 2020, Zamboanga Water received a letter, dated April 1, 2020, from the ZCWD, requesting for the termination of the NRWRSA. In its letter, ZCWD indicated that the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the District Metered Areas (DMAs) established by Zamboanga Water has rendered the NRWRSA impractical and unworkable, and thus, in the interest of fiscal responsibility and sound management of government funds, ZCWD requested for the termination of the NRWRSA.

On April 30, 2020, Zamboanga Water approved the termination of the NRWRSA. Such termination, however, is without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRWRSA. The termination of the NRWRSA resulted to the classification of Zamboanga Water as discontinued operations (see Note 3). The summary of results of operations and cash flows of Zamboanga Water as of December 31, 2021 is presented in Note 25.

On September 16, 2020, Zamboanga Water filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRWRSA.

On August 8, 2022, the Arbitral Tribunal under the Philippine Dispute Resolution Center, Inc. has issued the final decision in favor of Zamboanga Water related to its claims against ZCWD for unpaid fixed fees and performance fees, interest, and other claims. ZCWD was ordered to pay ₱38.7 million for the outstanding fixed fees and performance fees plus interest from the time of the finality of the decision, as well as future performance fees and others as stated in the final decision.

Tagum Water's Bulk Water Sales and Purchase Agreement with Tagum Water District (TWD)
On July 28, 2015, TWD awarded the Tagum City Bulk Water Supply Project (the "Tagum Bulk Water Project") to Davao Water, a consortium of MWCI and iWater, Inc.

On October 15, 2015, Davao Water signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, Tagum Water, which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date, as defined in the JVA.

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, subject to renewal upon mutual agreement by both parties. Tagum Water shall supply treated water exclusively to TWD. The quantity of treated water to be supplied to TWD will be 26.00 million liters of water per day for the first year, 32.00 million liters of water per day for years 4 to 6, and 38.00 million liters of water per day for years 7 to 15.

On March 28, 2017, TWD issued a Notice to Proceed for the 24-month construction of the water treatment plant. On June 26, 2019, TWD approved a 120-day construction period extension requested by Tagum Water due to delays caused by unforeseen conditions in the project site which was discovered only after construction had already commenced.

On July 17, 2019, Tagum Water issued to TWD the Certificate of Substantial Completion of the Water Treatment plant to begin the pre-commissioning period. On August 27, 2019, Tagum Water started the commissioning period with 5.00 to 8.00 million liters per day of treated water delivery to TWD.

On September 9, 2019, Tagum Water's BOD ratified the implementation of the design, supply of materials, installation of equipment and construction of two (2) units 300 mm shallow wells in Tagum City, Davao del Norte. On October 28, 2019, Tagum Water informed TWD of the completion of the two (2) wells and the results of the water quality analysis.

On December 6, 2019, Tagum Water's BOD approved the additional capital expenditure in the initial amount of ₱157.00 million to address the inadequacy of yield in the intake structure. Tagum Water constructed two (2) additional wells, (i) artificial recharge thru media replacement and (ii) chlorine scrubber system, to ensure health and safety during the operation.

On December 11, 2019, Tagum Water commenced the extension of the commissioning period for 120 days with the consent of TWD BOD.

On February 7, 2020, the Tagum Water BOD finalized the approval of the additional capital expenditure in the amount of ₱154.0 million.

On April 4, 2020, the extended commissioning period has concluded. However, the operation started only on May 18, 2020 due to COVID-19 quarantine measures in the region.

On March 16, 2021, an artificial recharge intake structure was energized to deliver the contractual volume of 26.0 million liters per day. However, in the second quarter of 2021, several unusual heavy rains which brought floods were encountered, and this resulted to silt issue on the lagoon. This, in turn, affected plant production, yielding only an average of 23.0 million liters per day. To mitigate the problem, heavy desilting activities were done, and on November 22, 2021, the procured slurry dredger was already operational in aiding the desilting activities at the artificial recharge lagoon. On

December 14, 2021, the plant was already back to its delivery of the contractual 26.00 million liters per day to TWD.

On March 8, 2022, MWPVI took full ownership of Davao Water after the acquisition of 735,000 common shares held by iWater, Inc. (iWater) for a consideration of ₱345.33 million. Prior to the purchase, MWPVI held 51.00% while iWater held 49.00% equity interest each. Effective March 1, 2022, all the BOD members of the Davao Water are representative of MWPVI.

The share purchase agreement causes a significant shift in the ownership structure of Davao Water. As of March 15, 2022, Davao Water is a wholly-owned subsidiary of MWPVI. The acquisition of additional interest in Davao Water was accounted as an equity transaction resulting to an adjustment to other equity reserve amounting to to ₱97.1 million for the six months ended June 30, 2022.

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

On April 19, 2021, MWPVI and Aqua Centro entered into a Novation Agreement with Adauge Commercial Corporation whereby MWPVI assigns and transfers its rights, duties and obligations under the MOA with ALI Group to Aqua Centro for Atria Development (Iloilo City). As of December 31, 2021, MWPVI is still operating Atria Development.

On May 31, 2021, MWPVI and the ALI Group signed an Amended and Restated MOA. MWPVI shall have a preferred status with regards to the provision of water and used water services to all property development projects of the ALI Group except for the excluded developments namely, Amaia Scape Pampanga, Amaia Scape San Fernando, Amaia Scape Capas, Amaia Scape Cabanatuan, Amaia Scape Trece Martires, Bellavita Capas, Bellavita Cabanatuan 1 and East, Bellavita Pililia, Bellavita Lian, Bellavita Lipa, Bellavita Rosario and Bellavita Iloilo.

On December 29, 2021, MWPVI entered into a Deed of Absolute Sale with Amaia Land Corp. (Amaia) and BellaVita Land Corp. (BellaVita) whereby MWPVI sells, conveys, transfers, assigns and delivers the properties and all rights, title, and interest to Amaia and BellaVita for the excluded development on the Amended and Restated MOA with ALI Group (see Note 13). As of December 31, 2021, MWPVI completed the sale and transfer of the properties to Amaia and BellaVita.

On December 8, 2016, MWPVI entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the "SM Group"). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

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

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

On June 25, 2018, Aqua Centro entered into additional MOAs with the SM Group with each development of SM Prime Holdings, Inc. and Metro South Davao Property Corp.

As of June 30, 2022, Aqua Centro and MWPVI has eight (8) and one (1) signed MOAs with the SM Group, respectively.

Calasiao Water's Concession Agreement with Calasiao Water District (CWD)

On December 9, 2016, MWCI received a Notice of Award from CWD, a water district created and existing by virtue of Presidential Decree No. 198, for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of CWD in Calasiao, Pangasinan.

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

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

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017 (the commencement date) until December 29, 2042 (the expiration date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

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

The grounds for EPA means any of the following circumstances:

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

MWPVI's Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) and Incorporation of BMDC

On January 4, 2017, MWPVI entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to its wholly-owned subsidiary upon its incorporation.

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

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

Obando Water's Concession Agreement with Obando Water District (OWD)
On January 24, 2017, the consortium of MWCI and MWPVI received the Notice of Award from OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD in Obando, Bulacan.

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

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90.00% and 10.00% owned by Filipinas Water and OWD, respectively.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty-five (25) years commencing on January 1, 2018 (the commencement date) until December 31, 2042 (the expiration date) or the early termination date, as the case may be. While Obando Water has the right to manage, operate, repair and refurbish specified OWD facilities in the service area, legal title to these assets remain with OWD. The legal title to all fixed assets contributed to the existing OWD system by Obando Water during the concession remains with Obando 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 OWD.

Obando Water's initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Starting March 2021, Obando Water's tariff was inclusive of VAT. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:
a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed;
d. change in assumptions at the time of the execution of the concession agreement; or

e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer impose penalties from OWD.

BMDC's APA with Solar Resources, Inc. (Solar Resources)
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

BMDC's APA with Borland Development Corporation (Borland)
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC.

MWCI's Notice of Award from Leyte Metropolitan Water District (LMWD)
On December 6, 2017, MWCI received the Notice of Award from LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.
Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

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

In January 2018, an internal conflict arose between the Province-appointed BOD of LMWD and the City-appointed BOD as to which is the legitimate BOD authorized to represent the LMWD. This issue caused substantial delay in the implementation and recognition of the Notice of Award in favor of MWCI.

On February 20, 2019, MWCI wrote to the LMWD, now represented by the City-Appointed BOD, and requested the LMWD to honor the Notice of Award.

On April 12, 2019, the LMWD advised that it had already rescinded/terminated the JVA negotiations with MWCI.

On June 21, 2019, MWCI initiated available legal course of action to compel the LMWD to honor the Notice of Award granted to MWCI.

As of August 26, 2022, the case remains pending with the Supreme Court.

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

On February 20, 2018, the BOD of MWPVI approved the creation of an SPV for this project.

On November 16, 2018, MWPVI signed and executed a JVA with TPGI. Under the agreement, MWPVI and TPGI shall incorporate a joint venture company, with 50.00% and 50.00% ownership, respectively, which shall implement the project. As of June 30, 2022, MWPVI and TPGI are still in the process of incorporating the joint venture company.

EcoWater's Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ for the provision of water and used water services to the locators therein. The lease agreement has a term of twenty-five (25) years from signing of the contract and became effective on its commencement date on February 1, 2018.

MWPVI shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.00 million liters per day.

On August 4, 2020, MWPVI's BOD approved the assignment of the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of the PEZA in the CEZ from MWPVI to EcoWater.

Ilagan Water's Bulk Water Sales and Purchase Agreement with City of Ilagan Water District (CIWD)
On January 26, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from CIWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the "Ilagan Project").

On November 16, 2018, the Consortium (namely, Filipinas Water) signed and executed a JVA with the CIWD. Under the JVA, Filipinas Water and CIWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project. Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

On February 15, 2019, Ilagan Water was incorporated and registered with the Philippine SEC to implement the Ilagan Project.

On March 18, 2019, Ilagan Water's BOD approved the execution of a Bulk Water Sales and Purchase Agreement (BWSPA) and Septage Management Agreement (SMA) with CIWD.

On March 16, 2020, Ilagan Water signed and executed a BWSPA and SMA with the CIWD, for the supply of bulk water and septage management to CIWD for a period of twenty-three (23) years and twenty-two (22) years from the Operation Start Date, respectively.

MWCI's and MWPVI's Notice of Award from Balagtas Water District (BWD)
On April 23, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

On March 22, 2021, the Consortium of MWCI and MWPVI accepted the decision of BWD to revoke and terminate the Notice of Award.

On March 24, 2021, the Notice of Award was terminated due to the non-completion by BWD of a financial condition precedent agreed upon by the parties at the time of the issuance of the Notice of Award.

Given this and despite the best efforts of both parties, as of December 31, 2021, the Consortium and the BWD no longer proceeded with the expected joint venture.

Bulakan Water's Concession Agreement with the Bulacan Water District (BuWD)
On April 26, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from the BuWD for the joint venture project for the development, financing, design, engineering, construction, rehabilitation, upgrade, testing, commissioning, operation, management, and maintenance of water facilities and the provision of water and sanitation services in the Municipality of Bulakan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD for the implementation of the project. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall be granted a concession by BuWD. On October 16, 2018, the joint venture company, Bulakan Water, was incorporated and was registered with the SEC.

On June 14, 2019, Bulakan Water and the BuWD signed and executed a concession agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of water facilities and the provision of water and sanitation services in the Municipality of Bulakan for a period of twenty-five (25) years from the commencement date.

North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag in Pangasinan
On April 27, 2018, MWPVI was granted a franchise by the Municipality of Sta. Barbara, Pangasinan for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On June 11, 2018, MWPVI received a Notice to Proceed from the Municipality of Sta. Barbara for the implementation of the project.

On August 13, 2018, MWPVI was granted a franchise by the Municipality of San Fabian, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On December 3, 2018, MWPVI was granted a franchise by the Municipality of Manaoag, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of Manaoag, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On January 25, 2019, MWPVI received a Notice to Proceed for the implementation of the project in the Municipality of Manaoag, Pangasinan.

In February 2019, MWPVI signed a MOA each with the Municipalities of Sta. Barbara, San Fabian, and Manaoag.

On September 16, 2019, MWPVI incorporated North Luzon Water to operate the franchises granted in Sta. Barbara, San Fabian, and Manaoag in Pangasinan.

On August 4, 2020, the MWPVI BOD approved the assignment of the franchises, rights and obligations granted to MWPVI by the local government units of Malasiqui, San Fabian, and Manaoag in the province of Pangasinan to North Luzon Water.

As of June 30, 2022, North Luzon Water's MOAs did not have any impact on the Group's financial position and operations since North Luzon water has yet to commence any activities in relation to these agreements.

Laguna Water's JVA with Pagsanjan Water District (PAGWAD)

On July 12, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in PAGWAD's service area.

On January 21, 2019, Laguna Water signed and executed a contractual JVA with PAGWAD. Under the agreement, Laguna Water shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna. Upon completion of conditions precedents in the JVA, Laguna Water and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035. The agreement was executed on March 1, 2019.

As of June 30, 2022, Laguna Water has been operating, managing, and maintaining the service area of PAGWAD.

MWCI's and MWPVI's JVA with the Tanauan Water District (TnWD)

On October 12, 2018, MWCI and MWPVI (collectively, the "Consortium") received the Notice of Award from TnWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services in the service area of TnWD in Tanauan City, Batangas.

On February 4, 2019, the Consortium signed and executed a JVA with the TnWD for the implementation of the project. Upon completion of the conditions precedent set out in the JVA, the Consortium, through an SPV, and the TnWD shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

On May 20, 2019, South Luzon Water, the joint venture company, was incorporated to execute the Tanauan Project.

On September 30, 2019, South Luzon Water's BOD approved to accept the assignment by MWCI and MWPVI of their respective rights and obligations under their JVA with the TnWD.

On January 21, 2020, South Luzon Water's BOD approved and clarified that the assignment has a retroactive application effective June 1, 2019, considering the actual commencement date of the takeover and operation of the Tanuan Project.

MWCI's JVA with Lambunao Water District (LWD)
On November 27, 2018, MWCI received a Notice of Award from LWD for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of LWD in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, MWCI and LWD shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

On July 3, 2019, MWCI and LWD entered into a JVA to implement the design, improvement, upgrade, rehabilitation, and expansion of water supply including the financing and construction of such facilities and infrastructure in the service area of LWD, and the management, operation and maintenance of such water supply and the provision of the services necessary or incidental thereto in the service area.

On August 8, 2019, MWCI's BOD ratified its Executive Committee's approval of the assignment to Aqua Centro of the implementation of the concession project awarded by LWD to MWCI.

On August 30, 2019, MWCI formally notified LWD of the designation of Aqua Centro as the Project Company to implement and carry out the concession project.

On September 1, 2019, Aqua Centro officially commenced operations on the joint venture activity. On the same date, Aqua Centro's BOD approved the Deed of Accession between MWCI and LWD.

On September 18, 2019, LWD gave its consent to, and confirmation of, the designation of Aqua Centro as the project company for the implementation of the project pursuant to the JVA.

On December 11, 2019, LWD signed the Deed of Accession between MWCI and Aqua Centro.

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

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

As of June 30, 2022, Aqua Centro has already started operations in nine (9) out of the ten (10) subdivisions. Aqua Centro shall operate the one (1) remaining subdivision once all the conditions precedent under the APAs have been fulfilled.

<u>MWCI's, MWPVI's, and TPGI's JVA with San Jose City Water District (SJCWD)</u>
On December 21, 2018, the consortium of MWPVI and TPGI received a Notice of Award from SJCWD for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

On January 14, 2021, the consortium of MWCI, MWPVI, and TPGI has signed and executed a JVA with the SJCWD for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

On July 21, 2021, San Jose City (N.E.) Water Company, Inc. (San Jose Water) was incorporated which shall accede to the JVA and assume all the rights, responsibilities, and obligations of the consortium upon signing of the Accession Agreement between San Jose Water, the consortium of MWCI, MWPVI, and TPGI, and SJCWD. As of June 30, 2022, MWPVI has subscribed to shares equivalent to the 3.35% ownership in San Jose Water which commenced its official operations on January 1, 2022.

<u>Calbayog Water's JVA with Calbayog City Water District (CCWD)</u>
On December 27, 2018, MWCI received the Notice of Award from CCWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of CCWD in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the CCWD in the Province of Samar.

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

On April 17, 2019, Calbayog Water was incorporated to engage in the development, construction, improvement, upgrade, rehabilitation, expansion, management, operation and maintenance of water supply and wastewater facilities, and to provide services necessary or incidental thereto.

On June 10, 2019, the Executive Committee of MWCI approved the joint venture with the CCWD. It also approved the assignment to Calbayog Water of the joint venture with CCWD.

On July 3, 2019, MWCI signed and executed a JVA with CCWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater system of CCWD in the City of Calbayog. Calbayog Water commenced operations on October 16, 2019.

Calbayog Water's current water tariff is exclusive of Value-Added Tax (VAT) which is charged to the customers for the first three (3) years of the concession agreement. This is based on the Local Water Utilities Administration (LWUA) approved tariff of Calbayog City Water District (CCWD). Starting in the month of May 2022, Calbayog Water's tariff will be inclusive of VAT which is expected to increase its water revenue by ₱1.4 million per month.

MWPVI's Grant of Franchise from Sangguniang Panlungsod of Iloilo
On March 26, 2019, the Sangguniang Panlungsod of Iloilo City granted a non-exclusive franchise to the joint venture between MWPVI and TPGI to construct, establish, commission, operate and maintain a water supply system to service the population of the Iloilo City.

The franchise granted to MWPVI shall be for a term of twenty-five (25) years, covering all the barangays under the governance and jurisdiction of Iloilo City.

As of June 30, 2022, the franchise from the Sangguniang Panlungsod of Iloilo City is not yet operational.

Aqua Centro's and Laguna Water's MOAs with Raemulan Lands, Inc. (RLI)
On July 10, 2019, Aqua Centro and Laguna Water entered into three (3) MOAs with Raemulan Lands, Inc. (RLI) for the construction, operation, and management of water distribution facilities in Pasinaya North and Tradizo Enclaves in Cavite and Jubilation Enclave in Laguna.

Aqua Centro and Laguna Water have started operations in 2019.

On December 4, 2020, an Amendment to the MOA with RLI for Pasinaya North was executed. The amendment states a one-time fee or charge amounting to ₱5.47 million for the right to use for 25 years of RLI's Water Distribution Facilities in Pasinaya North. This one-time fee was presented as part of the "Right-of-use assets" in the consolidated statements of financial position (see Note 18).

MWTS's Integrated Waste Management Facility with the City of Marikina
On July 31, 2019, MWTS received the Certificate of Acceptance and Grant of Original Proponent Status from the Office of the Mayor of the City of Marikina to build and operate an Integrated Waste Management Facility to treat and process the city solid waste of Marikina City. In 2020, MWTS has withdrawn the unsolicited proposal submitted for the project.

EcoWater's Water Purchase Agreement (WPA) with ROHM Electronics Philippines, Inc. (REPI)
On September 9, 2019, EcoWater entered into a WPA with REPI. Pursuant to the WPA, EcoWater will design, finance, construct, own, operate and maintain a water supply system to cater the water supply of REPI.

On September 16, 2020, the operation has started with a guaranteed volume of 90,000.00 million cubic meters (mcm) per month.

On May 10, 2022, EcoWater entered into a Novation Agreement with REPI and MWPVI to transfer its rights, duties and obligation under WPA to MWPVI. As of June 30, 2022, EcoWater is still the operator of REPI.

Calbayog Water's Stakeholder Management Agreement with CCWD and Subscription Agreement with TPGI

On July 15, 2020, Calbayog Water and TPGI entered into a Stakeholder Management Agreement, where TPGI agrees to provide support to the Operations Management/Stakeholder Management of Calbayog Water. On the same date, Calbayog Water and TPGI entered into a Subscription Agreement wherein TPGI agreed to subscribe to Calbayog Water's shares at a subscription price of ₱1.00 per share for a total subscription of ₱49.17 million, payable in tranches up to 2022.

MWPVI's Deed of Accession for Used Water Only with Ayala Land Malls, Inc.

On May 31, 2021, MWPVI entered a Deed of Accession with Ayala Land Malls, Inc. namely, North Eastern Commercial Corporation (Cloverleaf, The 30th), North Triangle Depot Commercial Corp (Trinoma), Ayala Land Metro North Inc. (U.P Town Center), North Ventures Commercial Corporation (Fairview Terraces), Summerhill Commercial Ventures Corp (Feliz), Arvo Commercial Corporation (Marikina, The District Dasmarinas, Legaspi), ALI-CII Development Corp. (Metropoint), Bay City Commercial Ventures Corp. (Manila Bay), Alabang Commercial Corporation (ATC), Lagoon Development Corporation (Pavilion), North Beacon Commercial Corporation (Marquee), Cavite Commercial Towncenter Inc. (The District Imus, Serin), Cagayan de Oro Gateway Corp (Centrio) and Capitol Central Commercial Ventures Corp. (Capitol Central), (collectively the "ALI Malls Group") whereby MWPVI shall provide used water services and operation and management of the Used Water Facilities only.

Under the Deed of Accession, turnover of operations to MWPVI started in June 2021. As of August 26, 2022, MWPVI is operating all of the covered locations in the contract.

MWCI's and MWPVI's Notice of Award from the Provincial Government of Pangasinan (PGP)

On September 30, 2021, the Consortium of MWCI and MWPVI received a Notice of Award from PGP for the implementation of a joint venture project for the provision of bulk water to the Province of Pangasinan.

Upon completion of conditions precedent, both parties shall sign a concession agreement to implement the project that has an estimated capital expenditure program of ₱8.00 billion over the twenty five (25)-year contract period.

On January 14, 2022, the Consortium of MWCI and MWPV signed the Concession Agreement with the PGP for the implementation of the joint venture project for the development, financing, construction, operation and maintenance of a bulk water facility within the Province of Pangasinan. On the same day, a groundbreaking activity was held in one of the proposed sites for a treatment plant.

Significant Transactions – Foreign Subsidiaries of MWCI

MWCI's Management, Operation, and Maintenance Contract (MOMC) with the National Water Company (NWC), Kingdom of Saudi Arabia for the North West Cluster

On December 3, 2020, the Consortium of Saur SAS, Miahona Company, and MWCI signed a MOMC with the NWC, Kingdom of Saudi Arabia for the latter's North West Cluster. The MOMC comprised of the management, operations, and maintenance of the water and wastewater facilities of the North West Cluster (Madinah and Tabuk) over a seven (7)-year contract period, which will entail the implementation of enabling projects and deployment of key personnel to manage the cluster and achieve the key performance indicators target set by the NWC.

On March 25, 2021, the Consortium registered and incorporated International Water Partners Company (IWP), a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 40.00%, 40.00% and 20.00%, respectively. On April 1, 2021, IWP officially commenced the implementation of the MOMC.

The MOMC aims to improve water and wastewater services, operational performance and the level of operations in the distribution sector of the Kingdom in general, and at the North Western Cluster in particular, as well as training and developing of personnel to improve performance, sustainability and quality of service.

On June 15, 2021, MWAP subscribed to 100 shares of IWP representing 20.00% for SAR0.10 million (₱1.28 million).

MWCI's MOMC with the NWC, Kingdom of Saudi Arabia for the Eastern Cluster
On October 8, 2021, the Consortium's Project Company, IWP, has been awarded the MOMC of the NWC, Kingdom of Saudi Arabia for its Eastern Cluster. The MOMC will comprise the management, operations and maintenance of the water and wastewater facilities of the Eastern Cluster (i.e., Dammam, Al Hofuf, Al Jubail, Al Khobar, Al Qatif and Hafar Al Batin) over a seven (7)-year contract period, which will entail the implementation of enabling projects and deployment of key personnel to manage the Eastern Cluster and achieve the Key Performance Indicators target set by the NWC.

The award comes after the commencement of the MOMC for the North West Cluster (i.e., Madinah and Tabuk), which was also awarded to IWP.

On January 27, 2022, International Water Partners Company the Second (IWP2) was incorporated with MWAP, Saur, and Miahona owning 30.00%, 35.00%, and 35.00%, respectively. On April 1, 2022, IWP2 officially commenced the implementation of the MOMC. MWAP subscribed to 150 shares of IWP2 representing 30.00% for SAR0.15 million (₱2.06 million) (see Note 11).

MWTH Liquidation
MWTH, one of the intermediate holding companies of MWAP, has completed and finalized its Members' Voluntary Liquidation in Singapore as part of the corporate restructuring initiative of the MWAP Group. On March 18, 2022, the surplus funds and assets of MWTH including the shares in MWTC have been distributed to MWAP as its sole shareholder. On April 18, 2022, the Final General Meeting was held wherein the Liquidator presented the Statement of Account showing how the winding up has been conducted and the property of MWTH has been disposed of for the period from June 23, 2021 (commencement of winding up) to April 18, 2022 (close of winding up). On July 18, 2022, MWTH was considered officially dissolved in Singapore by the Accounting and Corporate Regulatory Authority (ACRA).

Other Significant Transactions - Power

SP Tanauan's Power Supply Agreement (PSA) with Manila Electric Company (MERALCO)
On September 12, 2016, Solar Philippines Commercial Rooftop Projects, Inc. (SPCRPI), an affiliate of SP Tanauan, executed a Deed of Assignment transferring all its rights and obligations on Solar Energy Service Contract No. 2017-02-363 for the exclusive right to explore and develop the Calamba-Tanauan Solar Power Project. On February 23, 2017, the Department of Energy acknowledged and approved the Deed of Assignment between SPCRPI and SP Tanauan.

On December 22, 2016, MERALCO also awarded the SPA to SP Tanauan to construct, own, operate, manage and maintain solar power energy plants in Tanauan, Batangas (site 1) and Naic, Cavite (site 2). Each generation facility shall be capable of supplying at least 25 megawatt AC or total of 50 megawatt AC from the solar photovoltaic panels. The obligations of SP Tanauan and MERALCO with respect to the sale and purchase of the power shall be for a duration of 20 years from commercial operations date.

On November 22, 2021, MERALCO agreed to extend the scheduled commercial operations date from January 11, 2022 to January 11, 2023.

Contract with General Company for Ports of Iraq (GCPI)
On May 15, 2018, PMPHC signed contract signed with GCPI (as a grantor and user) for the supply, installation, management and operation of a gas power station with a total capacity of 67.8 MW located in the port of Umm Al-Qasr in Basra Governate. Menatech through its Iraq branch will be operating the power station established by Menatech in Dubai which will work to generate 24/7 with a basic load to Umm Qasr Ports. The period of management and operation of the electric power station is 23 years starting from February 18, 2020, which is the date that all installation works for the station are completed.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency, and all values are rounded to the nearest peso, except when otherwise indicated.

The consolidated financial statements the Group provide comparative information in respect of the previous period. The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern. The consolidated financial statements will be used for inclusion in an offering circular for a planned offering transaction.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements include the financial statements of PICI and the following subsidiaries (collectively referred to as the "Group").

| | Effective Percentage of Ownership | |
|---|---|---|
| | **2022** | 2021 |
| Prime Metroline Infrastructure Holdings Corporation (PMIHC) | **100** | 100 |
| *Ownership through PMIHC* | | |
| Prime Metro BMD Corporation | **60** | 60 |
| Prime Metro BMD Industrial Services Corporation | **60** | 60 |
| Waste Fuel Philippines, Inc. | **60** | 60 |
| Prime Metro Power Holdings Corporation (PMPHC) | **100** | 100 |

*(Forward)*

| | Effective Percentage of Ownership | |
|---|---|---|
| | **2022** | 2021 |
| *Ownership through PMPHC* | | |
| ChicoJVCo | **82** | 82 |
| Menatech Energy Limited | **100** | 100 |
| Prime Metro Power Global Holdings Ltd. | **100** | 100 |
| Prime Exploration PTE. LTD | **100** | – |
| Prime Infrastructure, Inc. (PII) | **100** | 100 |
| *Ownership through PII* | | |
| WawaJVCo Inc. | **82** | 82 |
| Ahunan Power, Inc. | **85** | 85 |
| Solar Philippines Tanauan Corporation | **50** | 50 |
| Terra Renewables Holdings, Inc. | **50** | – |
| Terra Solar Philippines, Inc. | **50** | 50 |
| Torre Inc. | **100** | 100 |
| Prime Integrated Waste Solutions, Inc. | **100** | – |
| Primeres Energy Corporation | **100** | – |
| Trident Water Company Holdings, Inc. (TWCHI) | **100** | 100 |
| Manila Water Company, Inc. (MWCI, through TWCHI) | **36** | 36 |
| *Ownership through MWCI* | | |
| Manila Water Total Solutions Corp. (MWTS) | **36** | 36 |
| Calasiao Water Company, Inc. (Calasiao Water) | **32** | 32 |
| Manila Water Asia Pacific Pte. Ltd. (MWAP) | **36** | 36 |
| Kenh Dong Water Holdings Pte. Ltd. (KDWH) | **36** | 36 |
| Manila Water South Asia Holdings Pte. Ltd. (MWSAH) | **36** | 36 |
| Thu Duc Water Holdings Pte. Ltd. (TDWH) | **36** | 36 |
| Manila Water Thailand Holdings Pte. Ltd. (MWTH) | **36** | 36 |
| Manila Water (Thailand) Co., Ltd. (MWTC) | **36** | 36 |
| Manila South East Asia Water Holdings Pte. Ltd. (MSEA) | **36** | 36 |
| PT Manila Water Indonesia (PTMWI) | **36** | 36 |
| Manila Water Philippine Ventures, Inc. (MWPVI) | **36** | 36 |
| Boracay Island Water Company, Inc. (Boracay Water) | **28** | 28 |
| Calbayog Water Company, Inc. (Calbayog Water) | **21** | 21 |
| Clark Water Corporation (Clark Water) | **36** | 36 |
| Filipinas Water Holdings Corp. (Filipinas Water) | **36** | 36 |
| Bulakan Water Company, Inc. (Bulakan Water) | **32** | 32 |
| Metro Ilagan Water Company, Inc. (Ilagan Water) | **32** | 32 |
| MWPV South Luzon Water Corp. (South Luzon Water) | **36** | 36 |
| Obando Water Company, Inc. (Obando Water) | **32** | 32 |
| Laguna AAAWater Corporation (Laguna Water) | **25** | 25 |
| North Luzon Water Company, Inc. (North Luzon Water) | **36** | 36 |
| Davao del Norte Water Infrastructure Company, Inc. (Davao Water) | **36** | 18 |
| Tagum Water Company, Inc. (Tagum Water) | **32** | 16 |
| Manila Water Consortium, Inc. (MW Consortium) | **28** | 20 |
| Cebu Manila Water Development, Inc. (Cebu Water) | **20** | 14 |
| Aqua Centro MWPV Corp. (Aqua Centro) | **36** | 36 |
| Bulacan MWPV Development Corp. (BMDC) | **36** | 36 |
| EcoWater MWPV Corp. (EcoWater) | **36** | 36 |
| Leyte Water Company, Inc. (Leyte Water) | **36** | 36 |
| Manila Water Technical Ventures, Inc. (MWTV) | **36** | 36 |
| Zamboanga Water Company, Inc. (Zamboanga Water) | **25** | 25 |

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions are eliminated in full.

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:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that majority of voting rights results in control. To support this presumption and when the Group has less than majority of voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders 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 under "Other Equity Reserve" account in the consolidated statement of financial position.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, noncontrolling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

*Non-Controlling Interests*. Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Group.

*Transaction Similar to a Reverse Acquisition*. In December 2020, the Parent Company completed the acquisition of its subsidiaries, PMIHC and PMPHC, pursuant to deeds of assignment between PSHI and the Parent Company. PMIHC and PMPHC, subsidiaries of PSHI since incorporation in 2017, were deemed to be the accounting acquirer for accounting purposes under the principles of PFRS 3, *Business Combinations*. Accordingly, the acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard. In a reverse acquisition, the legal parent is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary is adjudged to be the entity that gained control over the legal parent. The consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of PMIHC and PMPHC. The difference in the legal capital of PICI and its subsidiaries, PMIHC and PMPHC, is presented as "Other equity reserve" in the consolidated statements of financial position. Reverse acquisition applies only to the consolidated financial statements of the Group.

Changes in Accounting Policies and Disclosures
The Group's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements effective January 1, 2022. Except as otherwise indicated, adoption of these new pronouncements has no significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
    - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
    - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

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

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Business Combination Involving Entities under Common Control
Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group may account such business combinations under the acquisition method of accounting or pooling of interests

method, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction. The Group recorded the difference as excess of consideration over carrying amount of disposed subsidiary and presented as separate component of equity in the combined balance sheets.

Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Business Combination 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 noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:
- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts to be recognized at the acquisition date for all of the following:
a. the identifiable assets acquired and liabilities assumed;
b. the noncontrolling interest in the acquiree, if any;
c. for a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and
d. the consideration transferred.

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

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in Joint Operation and Associates

*Investment in Joint Operation.* Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognizes in relation to its interest in a joint operation its:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities held jointly
- Revenue from the sale of its share of output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

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

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

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

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

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

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

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

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

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.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the statement of financial position based on current/noncurrent classification.

An asset is current when:

- It is expected to be realized or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realized within twelve months after the reporting period; or
- It is 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 noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- 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 noncurrent liabilities, respectively.

Fair Value Measurement

The Group measures financial instruments at fair value at each financial reporting date.

Fair value is the price that would be received to sell 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:

- In the principal market for the asset or liability, or
- 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 to 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 sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the 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 date.

For purposes of fair value disclosures, the Group has determined classes of assets and liabilities as the basis of the nature, characteristics and risk of assets and liabilities 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.

Cash in banks earn interest based on their bank deposit rate.

Short-term Investments
These are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments
*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial Assets

*Initial Recognition and Subsequent Measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

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

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

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

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

*Subsequent Measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost
- Financial assets at FVOCI with recycling of cumulative gains and losses
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at FVPL

The Group has no debt instruments at FVOCI as of June 30, 2022 and December 31, 2021.

*Financial Assets at Amortized Cost.* This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's cash and cash equivalents, short-term investments, trade and other receivables and deposits are included in this category as of June 30, 2022 and December 31, 2021.

*Financial Assets designated at FVOCI.* Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's financial asset at FVOCI includes quoted and unquoted equity securities.

*Reclassification of Financial Assets*
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and,
- There is a change in measurement on credit exposures measured at FVPL.

*Modification of financial assets*
The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Group considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Group considers the following factors, among others:
- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Group also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (EIR) (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in profit or loss.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

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

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each financial reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

For cash, short-term investments and security deposits, the Group applies a general approach in calculating ECLs. The Group recognizes a loss allowance based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

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

The Group considers a financial asset in default when contractual payments are ninety (90) up to one hundred eighty (180) days past their due dates for MWCI and subsidiaries and thirty (30) days for PICI and other subsidiaries. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

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

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

After initial recognition, financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in profit or loss.

The Group's financial liabilities include accounts payables and other current liabilities (excluding statutory payables and contract liabilities), short-term loan, due to related parties, long-term loan, lease liability and service concession obligations.

As at June 30, 2022 and December 31, 2021, the Group has no financial liabilities at FVPL.

*Exchange or modification of financial liabilities*
The Group considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Group recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

Derecognition of Financial Instruments
*Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- 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
- the Group has transferred its rights 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights 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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Day 1 Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument 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 difference) in profit or loss unless it qualifies for recognition as some other type of asset. 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 difference amount.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 assets and settle the

liabilities simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derivative Financial Instruments and Hedge Accounting

a. Initial recognition and measurement

The Group uses derivative financial instruments, such as principal only swaps and currency option transactions, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for and further described in the below sections.

b. Fair value hedges

The change in the fair value of the hedging instrument and hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

The Group does not have any derivatives classified as fair value hedges.

c. Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI as part of hedging reserve, while any ineffective portion is recognized immediately in profit or loss. The hedging reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses principal only swaps and currency option transactions as hedges of its exposure to foreign currency risk arising from long-term debts. The ineffective portion of both the principal only swaps and currency option transactions is recognized under "interest expense."

For the Group's cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

The Group's cash flow hedges include the costs of hedging for its principal only swaps and currency option transactions.

d. Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI under "cumulative translation adjustments" while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investment in a foreign subsidiary.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls – through ownership, beneficial entitlement or otherwise -any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this interpretation if the conditions in (a) and (b) are met.

This interpretation applies to both: (a) infrastructure that the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the Group access for the purpose of the service arrangement. Infrastructure within the scope of this interpretation is not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this interpretation, the Group acts as a service provider. The Group constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

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

*Service Concession Asset (SCA) and Service Concession Obligation (SCO)*
The Group accounts for its concession agreements with MWSS, CWD, TIEZA, CDC, OWD, BuWD and PGL; JVAs with CCWD, TnWD, PAGWAD, and LWD; SMA with CIWD; and MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession arrangements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall transfer to MWSS, CWD, TIEZA, CDC, OWD, BuWD, PGL, CCWD, TnWD, PAGWAD, LWD, and CIWD (under the SMA) at the end of the concession period. Meanwhile, the legal title to the assets covered by the MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag shall remain with North Luzon Water.

Amortization of SCA commences when the SCAs are available for use and is calculated using the units of production (UOP) method over the estimated total billable volume for the remaining period of the respective concession agreements to better reflect the usage of these assets, which is directly related to its estimated total billable volume and is aligned with industry practice.

*Contract Asset/Concession Receivable*
The Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

The bulk water sale and purchase agreements with CIWD, TWD, MCWD and the Group's Wawa Offtake Agreement with MWSS; and General Company for Ports of Iraq are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the service concession arrangements, Cebu Water, Tagum Water, Ilagan Water, and WawaJVCo. are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. PMPHC was also awarded the right to receive payments from GCPI for the minimum power quantity at the agreed tariff rate every year under a take-or-pay arrangement on the Umm Qasr power plant.

During the construction phase, the Group is not yet entitled to collect any consideration. As such, revenue from the construction service being provided is recognized as a contract asset. The operator will be able to receive the fixed amount pertaining to the construction service over the term of the service concession arrangement starting when the construction of the infrastructure is completed.

Subsequent to initial recognition, the contract asset is measured at amortized cost using the EIR method. The EIR is the rate that at inception of the contract causes the aggregate present value of the total guaranteed payments to be equal to the fair value of water facility. Upon commencement of the commercial operations date, the Group will recognize a concession receivable equal to the fair value of the contract asset on such date, to recognize the right to receive cash or another financial asset.

When the Group receives a payment during the contract period, it apportions such payment among:
(i) a repayment of the concession receivable, which reduces the carrying amount of the concession receivable on the consolidated statement of financial position; and
(ii) revenues recognized in profit or loss in the consolidated statement of comprehensive income in the form of:
   a. financing income, recognized as “Interest income”;
   b. operating fees for operating the infrastructure; and
   c. water/power revenue delivered in excess of the minimum water/power quantity.

Inventories
Inventories consisting of uninstalled materials for use in the construction, water treatment chemicals, maintenance materials, water meters, connection supplies and spare parts are valued at the lower of cost or net realizable value (NRV).

Cost of the uninstalled materials for use in the construction includes the invoice amount, net of trade and cash discounts determined using the specific identification basis. The NRV is calculated based on the current replacement cost.

Cost of water treatment chemicals, maintenance materials, water meters, connection supplies and spare parts, which comprise of purchase price and other directly attributable cost, is determined using the moving average method, except for raw materials and finished goods. NRV is the estimated selling price less estimated costs to complete and to sell.

Advances to Officers and Employees
Advances to offciers and an employees represent amounts advanced for goods or services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within the normal operating cycle or within 12 months from the end of financial reporting period. These are initially recorded at actual cash advanced to employees and are subsequently applied against actual purchases of related assets, costs or expenses incurred.

Prepayments and Other Current Assets

*Advances to contractors*. Advances to contractors represent advance payments on services to be received in connection with the Group’s operations. These are reclassified to “Cost of services” account upon actual render of services, which is normally within 12 months.

*Creditable withholding tax (CWT)*. CWT represents the amount withheld by the Group’s customers in relation to its sale of services. These are recognized upon collection of the related billings and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations. CWT is stated at its estimated NRV.

*Prepayments.* Prepayments are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

Property, plant and equipment
Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred, and the recognition criteria are met. Property, plant and equipment include, if any, costs of dismantlement, removal or restoration, the obligation for which the entity incurs when it installs or uses the assets.

Depreciation and amortization are computed for each significant item or part of an item of property, plant and equipment on a straight-line basis over the following estimated useful lives of the assets:

| Asset | Estimated Useful Lives |
|---|---|
| Plant and technical equipment | 2 to 5 years or the term of the related management contract, whichever is shorter |
| Office furniture and equipment | 3 to 5 years |
| Transportation equipment | 3 to 5 years |
| Software | 3 to 5 years |
| Building | 5 years |
| Leasehold improvements | 3 to 5 years or lease term, whichever is shorter |

The assets' residual values, useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial reporting date to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to profit or loss.

The Group classifies right-of-use assets as part of property, plant and equipment. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Project Development Cost

Project development costs are expensed as incurred until management determines that the project is technically, commercially and financially viable, at which time, project development costs are capitalized. Project viability generally occurs in tandem with management's determination that a project should be classified as an advanced project, such as when favorable results of a system impact study are received, interconnected agreements are obtained and project financing is in place.

Following initial recognition of the project development cost as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortization and any accumulated impairment losses.  Amortization of the asset begins when the development of the asset is complete and the asset is available for use.  It is amortized using the straight-line method over the period of expected future benefit.  During the period in which the asset is not yet available for use, the project development costs are tested for impairment annually and whenever there is an indication of impairment.

Advances to Suppliers
Advances to suppliers represent advance payments on equipment to be received in connection with the Group's operations.  These are reclassified to the "Property, plant and equipment" account in the consolidated statement of financial position upon actual receipt of equipment.  For Wawa Bulk Water Project, these are reclassified to "Contract assets" account representing the service concession asset upon actual rendering of services.

Software
Software acquired separately is measured on initial recognition at cost including any directly attributable costs with the development of the software that are expected future expected benefits.  All other costs of developing and maintaining software are recognized in profit or loss as incurred.  Software is stated at cost less accumulated amortization and any accumulated impairment loss and amortized over the estimated life of 3 to 5 years using the straight-line method.  If there is an indication that there has been a significant change in the amortization rate, useful life, or residual value of the computer software, the amortization is revised prospectively to reflect the new expectations.

Customer Relationship
Customer relationship is accounted for as an intangible asset with a definite useful life.  The cost of customer relationship acquired in a business combination is the fair value as at the date of acquisition.  Following initial recognition, customer relationship is carried at cost less any accumulated amortization and any accumulated impairment losses.  Customer relationship is amortized over 20 years and assessed for impairment whenever there is an indication that the asset may be impaired.  The amortization period and method for customer relationship is reviewed at least at each financial year-end.  Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.  The amortization of customer relationship is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Water Rights
Water rights are accounted for as an intangible asset with indefinite useful life.  These pertain to the permit acquired separately and are recognized as an intangible asset as these were issued by the NWRB without an explicit provision on the period of effectivity.  Costs incurred for the acquisition of water rights are capitalized and measured on initial recognition at cost.

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

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property, plant, and equipment, SCA, project development cost, advances to suppliers, software, contract assets representing SCA under construction, right-of-use assets, investments in associates, goodwill, customer relationship and water rights. The Group assesses, at each reporting date, these nonfinancial assets, excluding goodwill and water rights, 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.

Goodwill and project development cost are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less cost of disposal and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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.

Deposits for Future Stock Subscription
Deposits for future stock subscription represent funds received by the Group with a view to applying the same as payment for future issuance of shares upon availability of unissued capital stock. This is classified under noncurrent liability section in the consolidated statement of financial position if the following criteria for reporting under the equity section are not met:
- the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- there is Board of Directors' approval on the proposed increase in authorized capital stock;

- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC.

Equity
Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Subscription receivable represents to the uncollected portion of the subscribed capital stock at the end of reporting period receivable pertains.

Equity reserve represents the effect of the reverse acquisition. This includes the difference in the legal capital of the legal acquirer and accounting acquirer.

Retained earnings (deficit) represent the Group's net accumulated earnings (losses) less cumulative dividends declared. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared by the Parent Company's BOD. Dividends for the year that are approved after the financial report date are dealt with as an event after the financial reporting date.

Retained earnings may also include prior year adjustments and the effect of changes in accounting policies as may be required by the standards' traditional provisions. Other equity reserves pertain to the direct interests of the equity holders of the Parent Company in the latter's subsidiaries.

MWCI Stock Incentive Plan (SIP)
On February 24, 2022, the MWCI's BOD approved the Stock Incentive Plan, which is a performance-based bonus extended to the senior leadership, officers, and consultants of Manila Water, its subsidiaries and affiliates, in the form of Manila Water shares as equity-settled transactions, in lieu of cash incentives and bonuses. Shares to be awarded shall vest in three (3) years: 25.00% on the first anniversary date of the award; 25.00% on the second anniversary date of the award; and 50.00% on the third anniversary date of the award. Vesting shall grant the grantee absolute beneficial title and rights over the shares, including full dividend and voting rights. The shares for the SIP will be acquired from the market and held in treasury before they are issued to the SIP grantees. Total number of shares granted amounted to 3,218,130 and the fair value per share at the grant date on April 22, 2022 is ₱19.20. The SIP is in addition to the existing ESOP and ESOWN Plans.

Revenue from Contracts with Customers
The Group recognizes revenue when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the to the customer, if any. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The sales discounts given by the Group to the customers and sales returns by the customers give rise to a variable consideration.

A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements

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

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

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

- *Sale of electricity*
  Revenue from sale of electricity is recognized over time upon supply of power to the customers and is billed monthly based on the actual energy delivered made available to the customers or minimum energy off take or contracted capacity, whichever is higher.

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

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

- *Supervision fees*
  Supervision fees arise from MWPVI, Aqua Centro, EcoWater, and Laguna Water's assurance of potable water and effective used water services for new developments, and performance of certain functions which includes, but is not limited to, the provision of design and project management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time using an output method.

  Revenue from supervision fees is recognized over time using the output method. Supervision fees accounted for as connection fees is recognized and measured using a survey of performance completed to date and milestones reached. Supervision fees accounted for as future water service is recognized as the customer receives and consumes the benefit of water affordability or lower water tariff based on the agreed estimated water demand projections.

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

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

- *Revenue from development and rehabilitation works and Cost of development and rehabilitation works*
  Revenue from development and rehabilitation works is equivalent to the related cost for the development and rehabilitation works for MWCI, and cost for the development and rehabilitation works plus a mark-up ranging from 1%-2% for WawaJVCo. The costs are covered by the service concession arrangements which is recognized as part of contract assets included under SCA or concession financial receivables and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

- *Construction revenue*
  Construction revenue arises from PMBC operations. Revenue from construction services is recognized over time, using input method. Under this method, progress is measured based on actual costs on materials, labor, and overhead relative to the total project costs.

*Revenue recognized at a point in time*

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

*Contract Balances*

*Trade Receivables*. Trade receivables represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract Asset*. A contract asset is the right to consideration, which is conditional, in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. If the construction revenue is recognized which is determined based on the percentage-of-completion for the construction of the property is higher than the amount due (i.e. receivable) as of date arising from the contract with customer, a contract asset is recognized for the difference representing the earned consideration in which the right of the Group on the consideration still conditional. Upon completion and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade receivables

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

Foreign Currency Transactions and Translations
Foreign exchange differentials arising from foreign currency transactions of MWCI's loans and concession fees are credited to or charged against operations. For MWCI, as approved by the MWSS BOT under Amendment No.1 of the Concession Agreement, the following will be recovered or refunded through billings to customers:
a) restatement of foreign currency-denominated loans;
b) difference of actual and twelve (12)-month projected concession fee payments against 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 rates are ₱53.16:US$1.00, ₱0.475: ¥1.00,
c) ₱62.156: €1.00 based on the latest rate rebasing exercise effective January 1, 2018;
d) difference of actual and twelve (12)-month projected interest payments translated using the exchange spot rate on settlement date and average forex of the month immediately preceding the cut-off information date, respectively, against the amount of interest translated at drawdown rate; and
e) difference of actual and twelve (12)-month projected payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date and average forex of the month immediately preceding the cut-off information date, against the amount of other financing charges translated at drawdown rate.

Beginning November 18, 2021, the FCDA was no longer applied to water rates of MWCI's customers. The RCA stipulates the exclusion of FCDA from charges billed to customers. On June 30, 2022, the RCA did not take effect due to the Republic's failure to submit the prescribed Undertaking Letter (see Note 1).

For Boracay Water, its concession agreement with TIEZA allows for the recovery of the following from its customers:
a. restatement of foreign currency-denominated loans;
b. excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at agreed base rate; and
c. excess of actual payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rates on settlement dates over the amount of other financing charges translated at agreed base rate.

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

The functional 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.

The functional currency of MWAP, MWSAH, TDWH, KDWH, MSEA, MWTH, Menatech and Prime Global is the United States Dollar (US$ or USD), while Thu Duc Water, Kenh Dong Water, Saigon Water and Cu Chi Water's functional currency is the Vietnamese Dong (VND), PTMWI and PTSTU's is the Indonesian Rupiah (IDR), MWTC and East Water's is the Thailand Baht (THB), and IWP and IWP 2's is the Saudi Riyal (SAR). As of reporting date, the assets and liabilities of these subsidiaries and associates are translated into the presentation currency of the Group at the rate of exchange at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in OCI and reported as "Cumulative translation adjustment", a separate component of equity. On disposal of a foreign entity, the "Cumulative translation adjustment" relating to that particular foreign operation shall be recognized in profit or loss.

*Transactions and balances.* Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

*Translation and consolidation of foreign subsidiaries.* Upon consolidation, the financial statements of a foreign operation are translated directly into the functional currency of the Parent Company. The assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period.

Translation differences arising on monetary items that form part of the Parent Company's net investment in a foreign operation are recognized initially in OCI in the consolidated financial statements of the Group and reclassified to profit or loss on disposal of the foreign operation.

*Translation of non-monetary items.* Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Interest Income
Interest income is recognized as the interest accrues using the effective interest method. Interest income on deposits with banks is presented net of final tax.

Costs and Expenses
Costs and expenses are recognized in profit or loss utilization of the service or at the date they are incurred. Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in the consolidated statement of comprehensive income upon utilization of the service or at the date they are incurred.

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

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

The capitalization of those borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds and the foreign exchange differences from the Group's foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. Premiums and/or discounts on long-term debt are included in the "Short-term and Long-term debt" account in the consolidated statement of financial position and are amortized using the EIR method.

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

*Group as a Lessee.* The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets.* Refer to policy under "Property, plant and equipment".

*Lease liabilities*
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases of equipment and other rentals (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

*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 authority. The tax rates and laws used to compute the amount are those that have been enacted or substantively enacted as at financial reporting date.

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

temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside the consolidated statement of comprehensive is recognized outside profit or loss or directly in equity. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or in OCI.

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

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

*Value-Added Tax (VAT).* Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

- When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position.
- When input VAT exceeds output VAT, the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment and service concession assets for each month amounting to ₱1.00 million or more. This is amortized over five (5) years or the life of the property, plant and equipment or service concession assets, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepayments and other current assets" or "Accounts payable and other current liabilities" account in the consolidated statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in profit or loss, net of any reimbursement.

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 assessments 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 interest expense.

Segment Reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

Financial information on business segments is presented in Note 35 to the consolidated financial statements. The Group has two geographical segments and derives substantially all of its revenues from domestic operations.

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

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

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

Defined benefit costs comprise the following:
a. service cost,
b. net interest on the net defined benefit liability or asset, and
c. remeasurements of net defined benefit liability or asset.

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

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

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets 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 (12) months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Employee Leave Entitlement
Employee leave entitlements are recognized as a liability when they are accrued to the employees. The undiscounted liability for employee leaves is recognized for services rendered by employees up to the end of the reporting period.

Discontinued Operations
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "net income or loss after tax from discontinued operations" in the consolidated profit or loss. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise. The related results of operations of the disposal group that qualified as a discontinued operation are separated from continuing operations and prior year's consolidated profit or loss have been restated.

Assets Held in Trust
Assets which are owned by MWSS, CWD, TIEZA, CDC, OWD, BuWD, PGL, CCWD, TnWD, PAGWAD, LWD, and CIWD that are operated by the Group under the Group's concession agreements are not reflected in the consolidated statement of financial position but are considered as "Assets held in trust" (see Note 32).

Events after the Reporting Period
Post year-end events that provide additional information about the Group's financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

## 3. Management's Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best estimates and assumptions of certain amounts, giving due consideration to materiality. 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 those estimates, and such estimates will be adjusted accordingly.

Judgments

*Determination of Functional Currency.* Each entity in the Group determines its own functional currency and items included in the separate financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

The presentation currency of the Group is the Philippine Peso, which is the Parent Company's functional currency. The functional currency of each of the Group's subsidiaries, as disclosed in Note 2 to the consolidated financial statements, is determined based on the economic substance of the underlying circumstances relevant to each subsidiary.

*Service Concession Arrangement.* Based on management's judgment, the provisions of Philippine Interpretation from IFRIC 12 apply to the MWSS, CWD, TIEZA, CDC, OWD, BuWD and PGL JVAs with CCWD, TnWD, PAGWAD, and LWD; SMA with CIWD; and MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag qualify under the Intangible Asset model as it receives the right (license) to charge users of public service (see Notes 2 and 10).

On the other hand, the Group has made a judgment that the bulk water sale and purchase agreements with CIWD, TWD and MCWD qualify under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from CIWD, TWD, and MCWD.

For WI's and MWCI's Offtake Agreement with MWSS, management has established that MWSS (1) controls what services the WI must provide with the water facility; (2) regulates pricing by the required review or approval of the total systems cost which include the tariff rates and (3) controls the water facility as WI will not be able to operate the infrastructure independently without government's approval at the end of the contract period. WI Offtake Agreement is accounted for under the financial asset model, as discussed in Note 2.

For PMPHC' Offtake Agreement with GCPI, management has likewise established that GCPI (1) controls usage produced by the Umm Qasr Power Plant Project (the Project); (2) regulates pricing of power produced by virtue of the contract with GCPI, and (3) controls through ownership any significant residual interest of the Project at the end of the contract period. Such agreement was accounted for under the financial asset model.

*PICI's investment in MWCI, TRHI, SP Tanuan and TSPI (through its ownership of PII).* PICI has determined that it has control over MWCI, TRHI, SP Tanauan and TSPI despite holding less than or equal to 50.00% of effective economic interest in their outstanding shares of stock. PICI considers several factors including its representation in the BOD, and its voting power through share ownership and proxy agreement to determine PICI's power to govern in the financial and operating policy decisions of MWCI, TRHI, SP Tanauan and TSPI. PICI's effective voting interest in MWCI is 52.2% as of June 30, 2022 and December 31 2021. PICI also holds the majority of the BOD seats in MWCI, TRHI, SP Tanuan and TSPI as of June 30, 2022 and December 31, 2021.

*Investments in associates.* MWCI has determined that it has significant influence over East Water despite holding less than 20.00% of East Water's outstanding shares of stock. MWCI considers several factors including its representation in East Water's BOD, representation in East Water's Investment Committee, and its voting power through share ownership to determine the Group's power to participate in the financial and operating policy decisions of East Water. As of June 30, 2022, the Group through MWCI owns 6.66% of East Water (see Note 4).

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

*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. For the six months ended June 30, 2022 and 2021, the Group considers the Parent Company and Others, Construction, Water and Power as its operating segments that are aggregated based on the geographical location and source of revenues (see Note 35).

*Determination of lease term of contracts with renewal and termination options – the Group as a lessee.* The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset) (see Note 18).

*Estimates*

*Provisions and contingencies.* The Group is currently involved in various legal proceedings and exposures in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the defense in these matters and is based upon an analysis of potential results (see Note 36).

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

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

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

In compliance with the mandate of MWSS and in line with the Bayanihan to Heal as One Act, MWCI suspended disconnection activities; extended payment terms for specific billing periods covered by the enhanced community quarantine (ECQ) or modified ECQ (MECQ) during 2020; and provided installment payment schemes to customers, as necessary, without incurring interests, penalties and other charges. Similarly, beginning September 16, 2021, the MWSS RO required MWCI to suspend all service disconnection activities in areas under Alert Level 5 or areas under Granular Lockdown, until such time that the Alert Level 5 or Granular Lockdown has been lifted. These factors were incorporated in the Group's determination of historical observed default rates.

As of June 30, 2022 and December 31, 2021, the allowance for expected credit losses of receivables from customers amounted to ₱720.3 million and ₱620.5 million, respectively (see Note 7). The carrying value of trade and other receivables amounted to ₱4,162.0 million and ₱3,863.2 million as of June 30, 2022 and December 31, 2021, respectively.

*Valuation of Investment in SPTC.* When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 12 for the valuation methodology used and key inputs to valuation of the investments in unquoted shares of stock.

*Revenue and cost recognition - development and rehabilitation works.* The Group's revenue from development and rehabilitation works is recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date. Revenue from development and rehabilitation works recognized by the Group is equivalent to the costs of development and rehabilitation works incurred, as these costs are recovered by the Group through its right to charge the customers, plus a mark-up of 1-2% for WawaJVCo. The Group's revenue from development and rehabilitation works amounted to ₱12,740.9 million and ₱1,561.2 million for the six months ended June 30, 2022 and 2021, respectively (see Notes 9 and 10).

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

*Estimating useful lives of water rights.* MW Consortium and MWPVI estimate that the useful lives of the water rights to be indefinite, considering that the water permits remain valid for as long as water is beneficially used. It is possible that future results of operations could be materially affected by changes in MW Consortium and MWPVI's estimates. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

*Impairment of nonfinancial assets.* The Group assesses the impairment of nonfinancial assets (property, plant and equipment, SCA, contract assets representing SCA under construction, right-of-use assets, project development costs, advances to contractors and suppliers, input VAT, investments in associates, customer relationship, water rights, deposits under other current and noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business;
- significant negative industry or economic trends;
- significant decline in net worth or market capitalization; and
- significant decline in distributed profits or increase in losses.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and VIU.

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 June 30, 2022, the Group has not recognized any impairment loss and continue to evaluate any indicators of impairment on its investments in Thu Duc Water, Kenh Dong Water, Saigon Water, East Water, PT STU, IWP, and IWP 2 (see Note 10). The Group continues to evaluate and assess impairment on its Investments in associates.

As of June 30, 2022, the Group recognized an impairment loss for its project and development cost under ChicoJVCo amounting to ₱104.6 million (see Notes 1 and 14).

In 2022, MWCI's market capitalization was below its net book value. However, management determined that as of June 30, 2022, the recoverable amount of MWCI's nonfinancial assets was higher than its net book value. Therefore, the Group did not recognize any impairment loss on MWCI's nonfinancial assets particulary its property, plant and equipment and SCA. The recoverable amount was determined by an external appraiser by considering the fair value of property, plant and equipment and SCA's current highest and best use, taking into consideration recent sales, offering prices or listing of comparable properties registered within the vicinity of the subjected assets and cost to build similar assets, adjustments to sales prices based on internal and external factors including impact of the coronavirus pandemic, and deductions for physical deterioration and all other relevant forms of obsolescence.

As of June 30, 2022 and December 31, 2021, aside from those discussed above, there were no other indicators of impairment on the Group's property, plant and equipment and SCA, contract assets representing SCA under construction, right-of-use assets, input VAT, customer relationship, water rights, and deposits under other current assets and other noncurrent assets (see Notes 9, 10, 11, 13, 14 and 15).

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

No impairment of goodwill arising from the acquisition of SP Tanuan was noted as at June 30, 2022 and December 31, 2021. This is in line with the recent valuation performed to determine the value of goodwill upon acquisition on December 13, 2021. The carrying amount of goodwill amounted to ₱98.8 million (see Note 4).

*Estimating billable water volume.* The SCAs related to the concession agreements of MWCI and subsidiaries are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. MWCI and subsidiaries considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. In 2022, MWCI and subsidiaries also considered the impact on future billable volume considering the ongoing coronavirus pandemic which has affected the billed volume mix and consumption. For the six months ended June 30, 2022 and 2021, the SCA amortization expense based on the UOP method are disclosed in Notes 10 and 24.

*Deferred FCDA.* Under the concession agreements entered into by MWCI and Boracay Water with MWSS and TIEZA, respectively, MWCI and Boracay Water are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWCI and Boracay Water recognized deferred FCDA (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWCI and Boracay Water as a result of past events and from which future economic benefits are expected to flow to MWCI and Boracay Water. Net realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. As of June 30, 2022 and December 31, 2021, MWCI and Boracay Water's deferred FCDA classified under "Other noncurrent assets" amounted to ₱2,699.9 million and ₱528.7 million, respectively (see Note 15).

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.

Beginning November 18, 2021, MWCI's RCA has removed FCDA from the water rates of MWCI's customers. MWCI's profit or loss in 2021 reflects the unrealized and realized foreign exchange gains and losses from long-term debt and service concession obligations which are no longer expected to be recovered under the FCDA recovery mechanism. Any changes adopted by the MWCI in relation to the RCA were reverted to the terms provided in the Original Concession Agreement which includes the recognition of both realized and unrealized foreign exchange gains and losses under the Deferred FCDA account (see Notes 1 and 15).

Boracay Water, on the other hand, still maintains this natural hedge and does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

*Retirement liabilities.* The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, incapacity rates, retirement rate, and termination rates. The amounts of defined benefit obligations are highly sensitive to changes due to the complexity of the valuation and its long-term nature. Discount rate, salary increase rate, retirement rate, and termination rate assumptions are reviewed at each reporting date. The net retirement liability amounted to ₱216.7 million and ₱160.7 million as of June 30, 2022 and December 31, 2021, respectively (see Note 19).

In determining the discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. Retirement and termination rates are based on expected rates at which employees are assumed to retire or leave the employment of the Group.

Further details about the assumptions used are provided in Note 19.

*Estimating the incremental borrowing rate of lease asset.* The Group cannot readily determine the interest rate implicit in the lease of transportation equipment, office space, storage and plant facilities, land, right-of-way and furniture and fixtures, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Group's lease liabilities amounted to ₱425.9 million and ₱497.5 million as of June 30, 2022 and December 31, 2021, respectively (see Note 18).

*Estimating useful lives of property, plant, and equipment and customer relationship.* The Group estimates the useful lives of its property, plant, and equipment and customer relationship based on the period over which these assets are expected to be available for use. The estimated useful lives of property, plant, and equipment and customer relationship are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of property, plant, and equipment and any changes in the agreement for customer relationship. The Group assessed that the customer relationship has a definite useful life based on the term of its supply contract with the customer. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

As at June 30, 2022 and December 31, 2021, the carrying amount of property, plant, and equipment (except land and construction-in-progress) amounted to ₱5,717.7 million and ₱5,519.8 million, respectively (see Note 13). As at June 30, 2022 and December 31, 2021, the carrying amount of customer relationship amounted to ₱1,542.8 million and ₱1,582.0 million, respectively (see Note 15).

*Recognition of Deferred Tax Assets.* The Group reviews the carrying amounts at the end of each reporting period and reduced these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and unused NOLCO is based on the level and timing of forecasted taxable income of the subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized.

The Group has recognized deferred tax assets amounting to ₱4,003.9 million and ₱3,954.6 million as of June 30, 2022 and December 31, 2021, respectively (see Note 26). NOLCO and other temporary differences for which no deferred tax assets have been recognized, since management believes that it is not probable that taxable profit will be available against which the deferred tax assets can be utilized, amounted to ₱1,577.5 million and ₱1,782.5 million as of June 30, 2022 and December 31, 2021, respectively (see Note 26).

*Estimating fair values for the purchase price allocation of MWCI and SP Tanauan.* The Group acquired shares of stocks of MWCI and SP Tanauan in 2021. The fair value of the net assets of the investee company was determined using a combination of multi-period excess earnings valuation method, which assumed expected future earnings stream attributable to the identified income-generating asset discounted using the rate of return commensurate to the asset, and fair value less cost to sell valuation method. The Group estimated the cash flows based on average life of the identified assets.

## 4. Business Combination

<u>MWCI</u>

- On April 14, 2020, TWCHI purchased through BDO Securities Corporation 50,000,000 common shares of MWCI (₱10.48 per share, totaling ₱524.0 million) for a voting interest of 0.73% and economic interest of 1.54%. In 2020, TWCHI accounted this investment as financial asset at FVOCI. The carrying amount of the investment amounted to ₱799.0 million as of December 31, 2020 (see Note 12).

- On February 1, 2020, PSHI signed with MWCI a Subscription Agreement for the acquisition of 820,000,000 common shares of MWCI (₱13.0 per share, totaling ₱10,660.0 million, resulting in a 24.96% economic stake and 11.91% voting stake) subject to certain closing conditions.

- February 15, 2021

  a. TWCHI was included as a party to the Subscription Agreement signed by PSHI with MWCI in 2020 to assume the rights and obligation of PSHI, as well as the updated payment terms of subscription price and other provisions.

     Philwater Holdings Company, Inc. ("Philwater") and TWCHI executed a Share Purchase Agreement (SPA) selling Philwater's 2,691,268,205 preferred shares in MWCI to TWCHI (₱1.8 per share, totaling ₱4,844.28 million resulting in an 8.19% economic stake and 39.09% voting stake). However, all dividend and economic rights accruing on the shares shall be retained by Philwater until full payment of the agreed consideration.

- June 3, 2021

  a. TWCHI tendered a total of 462,660 common shares of MWCI (₱13.0 per share totaling ₱6.0 million)

  b. MWCI issued the 820.0 million common shares subscribed by TWCHI.

  c. AC, Philwater, and Trident executed a Shareholder's Agreement and a Proxy in favor of TWCHI for the 2,691,268,205 preferred shares of MWCI, valid for five (5) years until completion date of the SPA

As at June 3, 2021, TWCHI has acquired cumulative 51.73% of voting rights and 34.69% economic interest.

Further, on June 24, 2021, TWCHI purchased additional 29,589,499 common shares of MWCI from PSHI (₱17.62 per share, totaling ₱521.37 million) for cash and this is accounted for as linked transaction with the June 3, 2021 acquisition.

The total ownership interest acquired by TWCHI in MWCI amounted to 52.16% voting interest and 35.59% economic interest.

The following table summarizes the total purchase consideration for 35.59% interest in MWCI and the amounts of the assets acquired, and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non–controlling interest in MWCI.

| | **At June 3, 2021** |
|---|---|
| **Consideration** | **Amount** |
| Preferred shares | |
| Cash | ₱100,000,000 |
| Share purchase payable | 4,053,261,756 |
| Common shares | |
| Cash | 5,857,381,570 |
| Subscription payable | 5,330,000,000 |
| **Total consideration** | 15,340,643,326 |
| **Fair value of previously held interest** (see Note 12) | 709,000,000 |
| **Total** | ₱16,049,643,326 |

| | At June 3, 2021 |
|---|---|
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | **Amount** |
| Financial assets | ₱32,579,724,631 |
| Inventory | 395,653,895 |
| Other current assets | 2,733,934,835 |
| Service concession assets | 109,502,164,528 |
| Property, plant and equipment | 5,898,663,014 |
| Investment in associate | 10,946,096,667 |
| Right-of-use assets | 382,780,715 |
| Other noncurrent assets | 4,714,340,503 |
| Financial liabilities | (92,295,673,912) |
| Other noncurrent liabilities | (2,287,079,106) |
| **Total identifiable net assets** | 72,570,605,770 |
| **Non-controlling interest** | (47,400,674,492) |
| **Gain on acquisition** | (9,120,287,952) |
| **Total** | ₱16,049,643,326 |

The gain on acquisition recognized on June 3, 2021 largely results from the lower market price associated with the pending approval of MWCI's legislative franchise as of acquisition date. Acquisition related costs amounted to ₱8.4 million in 2021 and was recognized directly to profit and loss.

The net assets recognized as of December 31, 2021 were based on provisional assessment of their fair values. The fair value of the non–controlling interest in MWCI, was valued equal to its proportionate share in MWCI's identifiable net assets at fair value. As of June 30, 2022, the fair value assessment of the net assets was finalized.

The Group recognized an additional loss of ₱90.0 million in 2021 as a result of re-measuring at fair value of less than 1% equity interest in MWCI held at the date of the acquisition. The loss is included in OCI in the consolidated statement of comprehensive income for the year ended December 31, 2021.

MWCI's revenue and net income to be included in the June 2021 consolidated statement of comprehensive income will be ₱10,140.1 million and ₱2,799.2 million, respectively, if it was acquired beginning January 1, 2021. Whereas, MWCI's revenue and net income included in the June 2021 consolidated statement of comprehensive income from the date of acquisition amounted to ₱1,830.7 million and ₱812.0 million, respectively.

<u>SP Tanauan</u>
On December 13, 2021, PII signed a subscription agreement with Solar Philippines Tanauan Corporation (SP Tanauan) for the acquisition of 176,041,000 common shares issued out of its authorized capital of 581,000,000 with a par value of ₱1 per share for a subscription price of ₱2,000,000,000 paid in full upon signing of the subscription agreement. Proceeds were to be used solely to acquire from Solar Philippines Power Projects Holdings, Inc. (Solar) or its affiliates the SP Tanauan Properties to be used for the SP Tanauan Project.

As of the signing date, 352,082,000 common shares have been issued, of which Solar owns 176,041,000 common shares. Upon issuance and delivery, the SP Tanauan shares issued to Prime constitutes fifty percent (50%) of the resulting total issued and outstanding share capital of SP Tanauan.

SP Tanauan also issued a proxy to Prime for 1 share. Under the 1 Share Proxy, Solar nominates Prime to represent and vote 1 share registered in its name at regular and special meetings of the stockholders of the Corporation and at adjournments and postponements thereof, as fully to all intents and purposes as it might and could do if present, and to sign any and all proper written assent of the stockholders; provided that the proxy shall be subject to the terms of the Shareholders' Agreement (SHA) and shall not entitle the Proxy holder to vote the share in respect of any Reserved Matters as defined in the SHA.

The following table summarizes the consideration paid for SP Tanauan and the amounts of the assets acquired, and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non–controlling interest in SP Tanauan.

| | At December 13, 2021 | | |
|---|---|---|---|
| **Consideration** | **Provisional fair values** | **Adjustment** | **Final fair values** |
| Cash | ₱2,000,000,000 | ₱– | ₱2,000,000,000 |
| | | | |
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | | | |
| Financial assets | ₱920,090 | – | ₱920,090 |
| Other current assets | 40,333,568 | – | 40,333,568 |
| Land | 302,217,000 | 236,733,200 | 538,950,200 |
| Customer relationship | 1,783,396,847 | (197,277,780) | 1,586,119,067 |
| Right-of-use assets | 19,645,152 | – | 19,645,152 |
| Other noncurrent assets | 2,064,946,326 | – | 2,064,946,326 |
| Financial liabilities | (164,549,330) | – | (164,549,330) |
| Other noncurrent liabilities | (244,595,552) | (39,455,420) | (284,050,972) |
| **Total identifiable net assets** | 3,802,314,101 | – | 3,802,314,101 |
| **Non-controlling interest** | (1,901,157,050) | – | (1,901,157,050) |
| **Goodwill** | 98,842,949 | – | 98,842,949 |
| **Total** | ₱2,000,000,000 | ₱– | ₱2,000,000,000 |

The net assets recognized as of December 31, 2021 were based on provisional assessment of their fair values. Provisional assessment of SP Tanauan's net assets were made while the assessment for the fair values of land and customer relationship were still ongoing as of December 31, 2021. The fair value assessment was finalized as of June 30, 2022. The adjustments to the provisional fair values are based on the amounts determined by the independent appraiser for the land and the changes in the discount rate for the customer relationship. The fair value of the non-controlling interest in SP Tanauan, was valued equal to its proportionate share in SP Tanauan's identifiable net assets at fair value.

SP Tanauan's revenue and net loss to be included in the June 2021 consolidated statement of comprehensive income will be nil and ₱82.6 million, respectively, if it was acquired beginning January 1 ,2021.

The goodwill amounting to ₱98.8 million arising from the acquisition of SP Tanauan comprises the value of expected synergies.

Notes to cash flow - Acquisition of subsidiaries and effect of business combination

| | MWCI |
|---|---|
| Fair value of identifiable net assets | ₱72,570,605,770 |
| Purchase consideration: | |
| Share purchase payable and subscription payable | (9,383,261,756) |
| Non-controlling interests | (47,400,674,492) |
| Gain on bargain purchase | (9,120,287,952) |
| Previously held interest | (709,000,000) |
| Net cash in subsidiaries acquired | (21,638,562,865) |
| | (₱15,681,181,295) |

5. **Non-controlling Interests**

The summarized financial information (separate financial statements before inter-company eliminations within the Group) of subsidiaries with material non-controlling interests are provided below:

Summarized Statements of Financial Position

| | **June 30, 2022** | |
|---|---|---|
| | **PII** | **PMIHC** |
| Current assets | **₱16,951,774,102** | **₱1,725,570,657** |
| Noncurrent assets | **172,489,635,506** | **863,706,922** |
| Current liabilities | **(23,503,154,704)** | **(1,976,182,504)** |
| Noncurrent liabilities | **(100,356,955,649)** | **(109,228,347)** |
| Net assets | **₱65,581,299,255** | **₱503,866,728** |
| Attributable to: | | |
| Equity holders of the Parent Company | **₱13,570,855,027** | **₱195,152,562** |
| Non-controlling interests | **52,010,444,228** | **308,714,166** |
| | **₱65,581,299,255** | **₱503,866,728** |

| | December 31, 2021 | |
|---|---|---|
| | PII | PMIHC |
| Current assets | ₱20,889,964,724 | ₱1,500,234,590 |
| Noncurrent assets | 150,669,144,870 | 810,283,914 |
| Current liabilities | (20,024,662,891) | (1,406,667,870) |
| Noncurrent liabilities | (90,543,798,327) | (250,044,627) |
| Net assets | ₱60,990,648,376 | ₱653,806,007 |
| Attributable to: | | |
| Equity holders of the Parent Company | ₱11,026,250,255 | ₱412,892,190 |
| Non-controlling interests | 49,964,398,121 | 240,913,817 |
| | ₱60,990,648,376 | ₱653,806,007 |

Summarized Statements of Comprehensive Income

| | **June 30, 2022** | |
|---|---|---|
| | **PII** | **PMIHC** |
| Revenue | **₱10,735,656,108** | **₱1,633,033,517** |
| Cost of services | **(4,845,724,990)** | **(1,255,509,011)** |
| Gross profit | **5,889,931,118** | **377,524,506** |
| General and administrative expense | **(1,783,539,983)** | **(215,476,269)** |
| Other gain (loss) - net | **(618,730,547)** | **33,422,753** |
| Income before income tax | **3,487,660,588** | **195,470,990** |
| Income tax provision | **813,813,954** | **57,898,563** |
| Net income | **2,673,846,634** | **137,572,427** |
| Other comprehensive income | **257,566,827** | **–** |
| Total comprehensive income | **₱2,931,413,461** | **₱137,572,427** |
| Attributable to: | | |
| Equity holders of the Parent Company | **₱730,064,625** | **₱69,171,644** |
| Non-controlling interests | **2,201,257,236** | **68,400,783** |
| | **₱2,931,321,861** | **₱137,572,427** |

| | June 30, 2021 | |
|---|---|---|
| | PII | PMIHC |
| Revenue | ₱1,830,650,187 | ₱1,357,157,275 |
| Cost of services | (663,332,515) | (1,100,110,241) |
| Gross profit | 1,167,317,672 | 257,047,034 |
| General and administrative expense | (405,940,656) | (231,296,309) |
| Other income (loss) - net | 9,317,459,129 | (4,684,827) |
| Income before income tax | 10,078,836,145 | 21,065,898 |
| Income tax provision | 98,000,116 | 57,898,563 |
| Net income (loss) | 9,980,836,029 | (36,832,665) |
| Other comprehensive income | 64,136,362 | – |
| Total comprehensive income (loss) | ₱10,044,972,391 | (₱36,832,665) |
| Attributable to: | | |
| Equity holders of the Parent Company | ₱9,335,532,377 | (₱43,674,634) |
| Non-controlling interests | 709,440,014 | 6,841,969 |
| | ₱10,044,972,391 | (₱36,832,665) |

Summarized Cash Flow Information:

| | **June 30, 2022** | |
|---|---|---|
| | **PII** | **PMIHC** |
| Operating | **(₱5,594,685,475)** | **(₱173,363,901)** |
| Investing | **(447,822,197)** | **(25,603,938)** |
| Financing | **283,966,829** | **111,397,444** |
| Effect of foreign exchange rate changes | **(9,767,343)** | **78,194** |
| Net decrease in cash and cash equivalents | **(₱5,768,308,186)** | **(₱87,492,201)** |

| | June 30, 2021 | |
|---|---|---|
| | PII | PMIHC |
| Operating | ₱693,253,445 | ₱560,753,671 |
| Investing | (907,958,014) | (728,267,404) |
| Financing | 5,484,969,422 | (15,319,728) |
| Effect of foreign exchange rate changes | 199,457,442 | (82,067) |
| Net increase (decrease) in cash and cash equivalents | ₱5,469,722,295 | (₱182,915,528) |

Dividends to Non-controlling Interest
No dividends were declared to non-controlling interest for the six months ended June 30, 2022 and 2021.

## 6. Cash and Cash Equivalents and Short-term Investments

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Cash on hand and in banks | **₱3,664,985,986** | ₱6,481,291,650 |
| Cash equivalents | **7,265,926,974** | 9,421,005,215 |
| | **₱10,930,912,960** | ₱15,902,296,865 |

Cash in banks earn interest at their prevailing bank deposit rates. Cash equivalents are highly liquid investments with varying periods of three (3) months and below and earn interest at their respective short-term rates.

Short-term investments pertain to time deposits with maturities of more than three (3) months up to one (1) year and earn interest ranging from 0.18% to 2.00% and 0.16% to 1.00% in 2022 and 2021, respectively. As of June 30, 2022 and December 31, 2021, short-term investments amounted to ₱350.9 million and ₱458.5 million, respectively.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱28.7 million and ₱8.8 million in June 30, 2022 and June 30, 2021, respectively.

## 7. Trade and Other Receivables

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Trade receivables (see Note 27) | **₱2,570,061,296** | ₱2,727,257,218 |
| Concession receivables | **1,712,730,462** | 1,308,574,541 |
| Retention receivables | **203,666,954** | 92,188,236 |
| Receivable from ZCWD | **39,509,823** | 39,509,823 |
| Advances to officers and employees | **22,040,829** | 23,400,262 |
| Interest from banks | **10,503,101** | 8,149,445 |
| Advances to IWP | **133,728,524** | 87,768,493 |
| Other receivables | **190,119,745** | 196,916,347 |
| | **4,882,360,734** | 4,483,764,365 |
| Less allowance for ECLs | **720,333,149** | 620,536,464 |
| | **₱4,162,027,585** | ₱3,863,227,901 |

The movement in allowance for doubtful accounts for concession receivables are as follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱620,536,465** | ₱160,405,324 |
| Provision (see Note 24) | **2,223,048,386** | 500,547,561 |
| Write-off | **(2,132,852,373)** | (42,993,085) |
| Reversals (see Note 24) | **−** | (10,489,877) |
| Translation adjustment | **9,600,671** | 13,066,541 |
| Balance at end of period | **₱720,333,149** | ₱620,536,464 |

Trade receivables arising from rendering of construction services to the Group's related parties and third-party customers. These are noninterest-bearing and are generally collected on a 30-day term.

Trade receivables arising from water and used water services rendered to customers, also collectible within thirty (30) days from billing date, follow:
- Residential - pertains to receivables from residential households.
- Commercial - pertains to receivables from commercial customers.
- Semi-business - pertains to receivables from small businesses.
- Industrial - pertains to receivables from customers for industrial and manufacturing purposes.

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

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

Concession receivables are contract assets reclassified to receivables upon billing (see Note 9). These are non-interest bearing and are generally collected on a 30-day term.

Receivable from ZCWD pertains to billed charges for service fees, construction revenue, and performance fees arising from Zamboanga Water's NRWRSA.

Advances to officers and employees arise from car, mobile charges, salary, and other loans which are due and demandable based on an agreed payment schedule and are collected through salary deductions.

Interest from banks are accrued interest arising from the Group's cash equivalents and short-term investments.

Retention receivables pertain to the portion of the contract price withheld by the customers as security and shall be released after the completion of the project. The retention serves as security of customers for the discovery of defects and other non-compliance from the specifications indicated.

Other receivables include receivables from associates for advances made to Saigon Water, for cross-border billings, and for shared facilities.

## 8. Inventories

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Water treatment chemicals - at NRV | **₱230,142,480** | ₱216,025,093 |
| Water meters and connection supplies - at NRV | **149,160,247** | 85,889,946 |
| Maintenance materials - at NRV | **147,065,283** | 131,213,239 |
| Construction materials - at cost | **59,658,286** | 51,526,886 |
| Spare parts - at NRV | **44,253,824** | 17,564,238 |
| | **₱630,280,120** | ₱502,219,402 |

As of June 30, 2022 and December 31, 2021, the cost of inventories carried at NRV amounted to ₱641.7 million and ₱513.4 million, respectively, while allowance for obsolescence amounted to ₱11.4 and ₱11.2 million, respectively. Loss from inventory obsolescence is presented in "Other expenses" under operating expenses in the consolidated statements of comprehensive income (see Note 24).

Total cost of inventories used and charged to cost of services amounted to to ₱567.7 million, and ₱442.8 million for the six months ended June 30, 2022 and 2021, respectively (see Note 23).

## 9. Prepayments and Other Current Assets and Contract Assets

a. Prepayment and other current assets

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Input VAT – net | **₱997,178,688** | ₱995,447,660 |
| Prepaid expenses | **931,174,633** | 816,386,191 |
| Advances to suppliers and contractors | **656,135,909** | 589,429,519 |
| Creditable withholding tax | **359,539,706** | 88,853,537 |
| Current portion of deferred input VAT | **24,047,189** | 18,111,969 |
| Advances to officers and employees | **5,989,345** | 273,075 |
| Others | **51,465,110** | 48,123,822 |
| | **₱3,025,530,580** | ₱2,556,625,773 |

Prepaid expenses consist of advance payments for business taxes, regulatory costs, insurance, interest and employee health care expenses and other employee benefits.

Advances to suppliers, contractors, and deposits pertain to the Group's advance payments for various contractual projects and other advance payments for goods and services that can be recovered within one (1) year.

Creditable withholding taxes will be utilized through application against the Group's future income tax payable.

b. Contract assets

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Supervision fees | **₱397,440,961** | ₱440,253,955 |
| Pipeworks and integrated used water services | **67,227,854** | 102,492,770 |
| Bulk water contracts: | | |
| MCWD | **186,625,445** | 186,625,445 |
| TWD | **88,727,273** | 92,755,188 |
| Construction revenue | **310,115,395** | 588,470,158 |
| Current portion | **1,050,136,928** | 1,410,597,516 |
| Bulk water contracts: | | |
| MCWD | **863,058,895** | 899,444,330 |
| TWD | **800,543,557** | 770,329,761 |
| CIWD | **37,101,222** | 9,249,943 |
| MWSS | **5,795,967,892** | 3,478,482,689 |
| Contract with GCPI | **1,739,163,923** | 1,795,083,345 |
| Noncurrent portion | **9,235,835,489** | 6,952,590,068 |
| | **10,285,972,417** | 8,363,187,584 |
| Less allowance for ECLs | **14,913,345** | 13,711,636 |
| | **₱10,271,059,072** | ₱8,349,475,948 |

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

Contract assets from pipeworks and integrated used water services are initially recognized for revenue earned arising from water and wastewater network related services. These contract assets are reclassified to "Receivables" upon acceptance of and billings to customers of MWTS and MWTV.

Contract assets arising from the Bulk Water Supply Agreement with MCWD and the BWSPA with TWD and CIWD consist of the cost of rehabilitation works.

In 2020, Tagum Water was not able to meet the contractual obligations under the Bulk Water Sales and Purchase Agreement due to the low yield of the Riverbank Filtration Intake structures and delay in the construction of the artificial recharge structure which resulted to intermittent delivery of the required twenty-six (26) million liters of water per day to TWD. Starting December 14, 2021, Tagum Water was able to meet its contractual delivery volume of twenty-six (26) million liters of water per day. However, for the six months ended June 30, 2022, Tagum Water's emergency leak repairs and plant maintenance resulted to a shortfall in the contractual delivery volume to TWD for the period and as a result, Tagum Water recognized impairment loss of ₱1.20 million.

For the WawaJVCo offtake agreement, the contract asset represents the excess of recognized revenues from contracts with customers determined based on percentage-of-completion against amounts billed to customers and the discounted value of minimum volume multiplied by the fixed tariff rate determined at the inception of the contract. As of June 30, 2022 and December 31, 2021, ₱356.6 million consists of the fair value of WawaJVCo's service concession obligation at the contract inception date relative to the annual right to use fee for the 80 MLD of raw water from the Tayabasan River for the 30-year concession period.

Under the contract, the Group's future minimum undiscounted guaranteed cash payment as of June 30, 2022 are as follows:

| | |
|---|---|
| 1 year | ₱284,700,000 |
| more than 1 year to 2 years | 592,176,000 |
| more than 2 years to 3 years | 615,863,040 |
| more than 3 years to 4 years | 4,147,221,711 |
| more than 4 years | 168,852,293,327 |
| | ₱174,492,254,078 |

Contract asset pertaining to PMPHC's offtake agreement was partially reclassified to "Concession receivable" starting February 18, 2020 when the commercial operation of the power plant commenced and monthly billings for the supplied power were billed to GCPI.

Under the contract, the Group's future minimum undiscounted guaranteed cash payment as of June 30, 2022 are as follows:

| | |
|---|---|
| 1 year | ₱801,222,356 |
| more than 1 years to 2 years | 801,222,356 |
| more than 2 years to 3 years | 801,222,356 |
| more than 3 years to 4 years | 801,222,356 |
| more than 4 years | 12,755,173,755 |
| | ₱15,960,063,179 |

The rollforward of Cebu Water, Tagum Water, Ilagan Water, WawaJVCo and PMPHC's contract assets follows (see Note 33):

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Cost | | |
| Balance at beginning of period | **₱7,820,440,860** | ₱3,495,817,374 |
| Addition resulting from business combination (see Note 4) | **–** | 1,925,386,164 |
| Development and rehabilitation works | **2,316,315,434** | 2,255,912,228 |
| Construction revenue | **31,260,147** | 588,470,159 |
| Operating revenue (see Note 22) | **233,109,813** | 493,778,098 |
| Reclassification to concession receivables/ collections | **(956,093,345)** | (1,452,444,314) |
| Service income | **85,567,314** | 27,916,622 |
| Accretion of financing income (see Note 24) | **244,997,332** | 345,158,539 |
| Translation adjustment | **45,706,047** | 140,445,990 |
| Balance at end of period | **9,821,303,602** | 7,820,440,860 |
| Less allowance for ECL | **14,913,345** | 13,711,636 |
| Net book value | **₱9,806,390,257** | ₱7,806,729,224 |
| | | |
| Balance at end of period | **₱13,711,636** | ₱– |
| Provisions (Note 24) | **1,201,709** | 13,711,636 |
| Balance at end of period | **₱14,913,345** | ₱13,711,636 |

The contract assets will be reclassified to "Receivables" when Cebu Water, Tagum Water, and Ilagan Water's performance obligations are completed under its concession arrangements with MCWD, TWD, and CIWD, respectively, and once monthly billings for the supplied power were billed by PMPHC to GCPI.

## 10. Service Concession Asset and Service Concession Obligation

*Service Concession Asset (SCA)*

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of period | **₱121,605,402,935** | ₱– |
| Addition resulting from business combination (see Note 4) | – | 109,502,164,528 |
| Additions: | | |
| Rehabilitation works | **10,379,177,419** | 12,099,837,220 |
| Local component cost | **14,214,052** | 3,401,187 |
| Concession fees | **14,071,895** | – |
| Balance at end of period | **132,012,866,301** | 121,605,402,935 |
| **Accumulated amortization** | | |
| Balance at beginning of period | **1,784,871,644** | – |
| Amortization (see Notes 23 and 24) | **1,566,493,056** | 1,784,871,644 |
| Balance at end of period | **3,351,364,700** | 1,784,871,644 |
| **Net book value** | **₱128,661,501,601** | ₱119,820,531,291 |

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, of Manila Water Company, Inc., Calasiao Water, Boracay Water, Calbayog Water, Clark Water, Obando Water, Bulakan Water, Ilagan Water (septage management), South Luzon Water, Laguna Water, and Aqua Centro (Lambunao Project) pursuant to the Group's concession agreements, JVAs and SMA; the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the concession arrangements, JVAs and SMA, and WawaJVCo.'s service concession obligation at the contract inception date relative to the annual right to use fee for the 80 MLD of raw water from the Tayabasan River for the 30-year concession period. As of June 30, 2022 and December 31, 2021, the SCA account includes MWCI and subsidiaries' assets under construction amounting to ₱35,909.2 million and ₱27,680.8 million, respectively.

Contract assets shown as part of SCA arising from concession agreements consist of the cost of rehabilitation works covered by the respective concession agreements, JVAs and SMAs of MWCI, Calasiao Water, Boracay Water, Calbayog Water, Clark Water, Obando Water, Bulakan Water, Ilagan Water, South Luzon Water, Laguna Water, Tagum Water, Cebu Water, and Aqua Centro (Lambunao Project).

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱805.42 million and ₱1,881.14 million for the period ended June 30, 2022 and for the year December 31, 2021, respectively. The capitalization rates used ranged from 0.87% to 9.37% in 2022 and 2021.

As of June 30, 2022 and December 31, 2021, noncash acquisitions of SCA by MWCI and subsidiaries amounted to ₱90.14 million and ₱362.66 million, respectively.

*Service Concession Obligation (SCO)*

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Current | **₱632,353,311** | ₱626,529,444 |
| Noncurrent | **9,105,648,861** | 8,840,974,693 |
| | **₱9,738,002,172** | ₱9,467,504,137 |

<u>MWSS Concession Fees</u>
The aggregate concession fees of MWCI are equal to the sum of the following:

i. 10.0% 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. 10.0% 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. 10.0% of the local component costs and cost overruns related to the UATP;
iv. 100.0% 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 MWCI for continuation;
v. 100.0% of the local component costs and cost overruns related to existing projects; and
vi. one-half of MWSS annual corporate operating budget provided that such annual budget shall not, for any year, exceed ₱200.00 million, subject to annual CPI adjustments.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II. Total loan facility amounted to $116.6 million with a maturity of twenty (20) years including a five (5)-year grace period. The interest rate is 3.0% per annum.

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

On May 12, 2015, MWSS entered into a MOA with MWCI and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered into a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.3 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, MWCI and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2020, a supplemental MOA was entered into by MWSS with MWCI and Maynilad for the separate loan to be obtained by MWSS to finance the construction of Aqueduct No. 7, which is a new and seventh aqueduct downstream of Ipo Dam from Bigte Basin to Novaliches Portal that will convey the additional output to further strengthen the reliability and adequacy of the water supply system. The loan amounts to US$126.0 million. As stipulated in the MOA, all expenses to be incurred by the Concessionaires in connection with the Angat Water Transmission Improvement Project and Aqueduct No. 7, including the amortization payment as well as the local counterpart funds, shall be part of the Concessionaire's respective business plans which shall be considered in the next rate rebasing exercise.

In 2016, MWCI paid MWSS ₱500.00 million as compensation for additional water allocation in the Angat reservoir.

In 2016, MWSS entered into a MOA with MWCI and Maynilad which was subsequently amended in 2018 for the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP aims to develop a new water source in order to meet the increasing water demand by constructing a dam for MWSS service area's domestic water supply.

To partially finance the NCWS-KDP, MWSS entered into a Preferential Buyer's Credit Loan Agreement with The Export-Import Bank of China in 2018 amounting to US$211.2 million with a maturity of twenty (20) years including a seven (7)-year grace period. As stipulated in the MOA, MWCI and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

The schedule of undiscounted future concession fee payments follows:

| Year | Foreign Currency-Denominated Loans (Translated to US$) | Peso Loans/ Project Local Support | Total Peso Equivalent* |
|---|---|---|---|
| 2022 | $3,610,495 | ₱395,714,907 | ₱594,201,870 |
| 2023 | 8,673,190 | 395,714,907 | 872,523,527 |
| 2024 | 8,510,585 | 395,714,907 | 863,584,317 |
| 2025 | 8,089,349 | 395,714,907 | 840,426,868 |
| 2026 | 7,644,432 | 395,714,906 | 815,967,556 |
| 2027 onwards | 67,071,931 | 3,957,149,068 | 7,644,428,475 |
| | $103,599,982 | ₱5,935,723,602 | ₱11,631,132,613 |

**Peso equivalent is translated using the closing rate as of June 30, 2022 amounting to ₱54.9750 to US$1.*

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

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

i. servicing the aggregate Peso equivalent of all liabilities of BWSS as of commencement date;
ii. 5.0% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes which are for the account of Boracay Water; and
iii. payment of annual operating budget of the TIEZA-RO starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, Boracay Water shall pay ₱20.0 million, subject to annual CPI adjustments.

CCWD Revenue Share
Under Calbayog Water's JVA with CCWD, Calbayog Water is required to pay, on a monthly basis, an annual revenue share, amounting to ₱18.0 million subject to an increase of ₱1.00 million every five (5) years, conditioned upon the approval by the CCWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱18.0 million |
| Years 6 to 10 | ₱19.0 million |
| Years 11 to 25 | ₱20.0 million |
| Years 16 to 20 | ₱21.0 million |
| Years 21 to 25 | ₱22.0 million |

Subject to the provision of the JVA on EPA, Calbayog Water shall increase the revenue share due to CCWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

CDC Concession Fees
The aggregate concession fees pursuant to Clark Water's concession agreement with CDC is equal to the sum of the following:
i. annual franchise fee of ₱1.5 million; and
ii. semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

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

OWD Concession Fees
The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:
i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD (which includes OWD's loan with LWUA) and 2.00% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer impose penalties from OWD.

As of June 30, 2022 and December 31, 2021, concession fees recognized as part of SCA arising from the concession agreement with OWD amounted to ₱412.3 million. As of June 30, 2022 and December 31, 2021, concession fees recognized as part of SCO arising from the concession agreement with OWD amounted to ₱402.5 million and ₱399.2 million, respectively.

BuWD Concession Fees
The aggregate concession fee pursuant to Bulakan Water's concession agreement with BuWD is equal to the sum of the following:
i. base concession fee which shall be used for operations of the BuWD; and
ii. additional concession fees composed of:
   - 2.00% of the gross monthly water sales of Bulakan Water,

- one-time expenditures and payables applicable only for Year 1 of the concession agreement, and
- an amount equivalent to the monthly consumption of BuWD under a bulk water supply agreement with Luzon Clean Water Development Corporation, including any minimum guaranteed volume consumption.

Any loss or reduction in profit for any given year as a result of the operation of the facilities in the service area of BuWD shall not in any way affect or reduce the payment of the base concession fee.

TnWD Fees

Under South Luzon Water's JVA with TnWD, South Luzon Water is required to pay, on an annual basis, a revenue share, amounting to ₱17.5 million subject to an increase of ₱1.00 million every five (5) years, conditioned upon the approval by the TnWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱17.5 million |
| Years 6 to 10 | ₱18.5 million |
| Years 11 to 25 | ₱19.5 million |
| Years 16 to 20 | ₱20.5 million |
| Years 21 to 25 | ₱21.5 million |

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 | 4.0% |
| Years 6 to 25 | 3.0% |

Seventy percent (70.00%) of the concession fees shall be applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30.00%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, starting on the first operational period, which begins upon the expiration of the transition period.

PAGWAD Revenue Share

Under Laguna Water's JVA with PAGWAD, Laguna Water is required to pay, on a calendar year basis, an annual revenue share, amounting to the higher of:

i. ₱10.5 million for a twelve (12)-month period or the proportionate amount for those years with less than twelve (12) months (the "base revenue share"); or
ii. seven percent (7.00%) of the annual gross operating revenues for the immediately preceding year based on the audited financial statements (the "variable revenue share").

The revenue share shall be payable by Laguna Water in advance at the start of the relevant year. The base revenue share shall be payable within fifteen (15) calendar days from the start of the relevant year. In the event the variable revenue share is higher than the base revenue share, the difference between the variable revenue share and the base revenue share shall be payable to PAGWAD within fifteen (15) calendar days after the approval of Laguna Water's audited financial statements.

Subject to the provision of the JVA on EPA, Laguna Water shall increase the revenue share due to PAGWAD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the period of the JVA.

On July 19, 2021 and February 20, 2020, the annual revenue share was increased to ₱12.0 million and ₱11.5 million, respectively, to provide additional provision for government mandated salary increases as stated in Section 9.3.1 of its JVA.

Municipalities of Sta. Barbara, San Fabian, and Manaoag Fees
Under North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag, North Luzon Water is required to pay a royalty amounting to:

| Municipality | Percentage of Gross Sales* |
|---|---|
| Sta. Barbara | Not exceeding 0.6% |
| San Fabian | Not exceeding 0.5% |
| Manaoag | Not exceeding 0.5% |

**Gross sales from water supply or distribution less VAT*

LWD Fees
Under Aqua Centro's JVA with LWD, Aqua Centro is required to pay, on a monthly basis, an annual revenue share, amounting to ₱15.8 million, conditioned upon the approval by the LWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share shall no longer be guaranteed and shall be subject to adjustment by mutual agreement and discussion of Aqua Centro and LWD if the tariff adjustment is not secured or obtained from LWUA. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱15.8 million |
| Years 6 to 10 | ₱17.5 million |
| Years 11 to 25 | ₱17.5 million |
| Years 16 to 20 | ₱17.5 million |
| Years 21 to 25 | ₱20.7 million |
| Years 26 to 30 | ₱25.8 million |
| Years 31 to 35 | ₱35.3 million |

Subject to the provision of the JVA on EPA, Aqua Centro shall increase the revenue share due to LWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

WawaJVCo.'s Annual Royalty Fees
WawaJVCo. recognized at the inception of the contract a service concession obligation equal to the present value of the annual royalty fees to MWSS for the right-to-use the Tayabasan River. MWSS shall be entitled to receive a fixed annual royalty fee amounting to ₱26.1 million.

*Performance Security*
On August 7, 2019, the Group acquired a Domestic Standby Letter of Credit from BDO Unibank, Inc. amounting to ₱23.0 million assigning MWCI as the beneficiary with an expiry date of December 31, 2025. On January 24, 2020, the Group increased the Domestic Standby Letter of Credit by an additional amount of ₱23.0 million.

The letter of credit was issued to secure the obligations of the Group pursuant to the Offtake Agreement with MWCI and MWSS. As at June 30, 2022 and December 31, 2021, the performance security amounting to ₱46.0 million is presented as part of "Other noncurrent assets" in the consolidated statements of financial position (see Note 15).

The performance security will be increased further to ₱150.0 million after full commercial operations date, which shall not be later than December 31, 2025 and shall be maintained at all times, throughout the term of the Offtake Agreement.

The Group's interest expense on its service concession obligations amounted to ₱392.5 million and ₱59.7 million for the six months ended June 30, 2022 and 2021, respectively (see Note 24).

## 11. Investments in Associates

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Acquired cost | **₱10,949,441,068** | ₱10,947,377,468 |
| Accumulated equity in net earnings (losses) | **44,118,320** | (147,860,679) |
| Cumulative translation adjustments | **1,160,166,600** | 652,929,148 |
| | **₱12,153,725,988** | ₱11,452,445,937 |

*Thu Duc Water*

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

On October 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 (equivalent to 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.

MWCI's acquisition cost of the investment amounted to ₱1,788.0 million (VND857.50 billion). The investments in associate account includes a notional goodwill amounting to ₱1,455.51 million (VND698.04 billion) arising from the acquisition of shares of stock in Thu Duc Water.

The financial information of Thu Duc Water as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱163,934,830** | ₱155,901,844 |
| Noncurrent assets | **4,019,264,678** | 3,722,525,351 |
| Current liabilities | **236,973,261** | 449,061,340 |
| Noncurrent liabilities | **239,069,071** | 226,209,213 |

*The conversion rates used was ₱0.0024 to VND1.00 and ₱0.0022 to VND1.00 as of June 30, 2022 and December 31, 2021, respectively.*

The revenue and net income of Thu Duc Water amounted to ₱475.93 million and ₱310.04 million, respectively, for the six months ended June 30, 2022 and ₱74.32 million and ₱47.17 million, respectively, for the six months ended June 30, 2021. The share of the Group in the net income of Thu Duc Water for the six months ended June 30, 2022 and 2021 amounted to ₱152.2 million and ₱23.1 million, respectively.

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

On May 17, 2012, MWCI, through KDWH, entered into a sale and purchase agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The payment for the shares was done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱1,659.89 million.

As of December 31, 2012, considerations paid by MWCI for its investment in Kenh Dong Water amounted to ₱1,571.92 million (VND785.24 billion). 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 ₱1,373.57 million (VND650.85 billion).

The financial information of Kenh Dong Water as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱619,739,652** | ₱401,733,323 |
| Noncurrent assets | **2,543,624,400** | 2,396,171,907 |
| Current liabilities | **47,137,176** | 59,354,923 |
| Noncurrent liabilities | **64,309,532** | 60,850,233 |

*The conversion rates used was ₱0.0024 to VND1.00 and ₱0.0022 to VND1.00 as of June 30, 2022 and December 31, 2021, respectively.*

The revenue and net income of Kenh Dong Water amounted to ₱363.98 million and ₱213.89 million, respectively, for the six months ended June 30, 2022 and ₱55.75 million and ₱32.86 million, respectively, for the six months ended June 30, 2021. The share of the Group in the net income of Kenh Dong Water for the six months ended June 30, 2022 and 2021 amounted to ₱101.3 million and ₱15.6 million, respectively.

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

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

On October 8, 2013, MWCI, 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 ₱293.65 million (VND139.51 billion) arising from the acquisition of shares of stock in Saigon Water by the Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water for ₱229.16 million (VND103.87 billion), which increased MWSAH's holding in Saigon Water's outstanding capital stock from 31.47% to 37.99%. The notional goodwill arising from the additional subscription amounted to ₱42.05 million (VND19.06 billion).

No impairment loss was recognized for the six months ended June 30, 2022 and 2021.

The financial information of Saigon Water as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱426,462,943** | ₱256,189,029 |
| Noncurrent assets | **3,522,427,443** | 3,676,562,180 |
| Current liabilities | **1,036,157,086** | 1,033,425,310 |
| Noncurrent liabilities | **1,129,689,156** | 1,165,015,858 |

*The conversion rates used was ₱0.0024 to VND1.00 and ₱0.0022 to VND1.00 as of June 30, 2022 and December 31, 2021, respectively.*

The revenue and net loss of Saigon Water amounted to ₱349.76 million and ₱48.02 million, respectively, for the six months ended June 30, 2022 and ₱50.97 million and ₱80.70 million, respectively, for the six months ended June 30, 2021. The share of the Group in the consolidated net loss of Saigon Water for the six months ended June 30, 2022 and 2021 amounted to ₱17.7 million and ₱30.7 million, respectively. The closing share price of Saigon Water as of June 30, 2022 was VND15,350 per share.

*Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)*
Cu Chi Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam. As of June 30, 2022, Cu Chi has no commercial operations.

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water in the total amount of ₱318.16 million (VND154.35 billion). Pursuant to the Capital Transfer Agreement, Saigon Water granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. On October 29, 2021, the Capital Transfer Agreement has been extended for one (1) year. As of June 30, 2022, no trigger event has occurred and the value of the put option was determined to be nil.

In 2020, MWSAH fully impaired its investment in Cu Chi Water amounting to ₱336.67 million due to the current and prospective financial performance and condition of Cu Chi Water.

The financial information of Cu Chi Water as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱103,273** | ₱104,859 |
| Noncurrent assets | **1,487,784,183** | 1,407,735,887 |
| Current liabilities | **259,739** | 234,596 |

*The conversion rates used was ₱0.0024 to VND1.00 and ₱0.0022 to VND1.00 as of June 30, 2022 and December 31, 2021, respectively.*

PT. Triguna Rapindo Mandiri (PT STU)
PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia. PT STU is a bulk water supply company servicing Perusahaan Daerah Air Minum (PDAM) Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.50 million liters per day.

On March 6, 2018, PTMWI signed a SPA with PT. Triguna Rapindo Mandiri to acquire 4,478 ordinary shares in PT STU to own 20.00% of its outstanding capital stock.

The financial information of PT STU as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱70,592,799** | ₱62,758,176 |
| Noncurrent assets | **137,686,914** | 141,219,958 |
| Current liabilities | **6,066,373** | 6,560,034 |

*The conversion rates used was ₱0.0037 to IDR1.00 and ₱0.00364 to IDR1.00 as of June 30, 2022 and December 31, 2021, respectively.*

MWCI's acquisition cost of the investment amounted to ₱37.00 million (IDR10.00 billion). The investment in associate account includes a notional goodwill amounting to ₱1.01 million (IDR295.46 million) arising from the acquisition of shares of stock in PT STU. The share in the net identifiable assets of PT STU on the date of acquisition amounted to ₱35.91 million.

The revenue and net loss of PT STU amounted to ₱48.77 million and ₱1.91 million, respectively, for the six months ended June 30, 2022 and ₱7.07 million and ₱0.01 million, respectively, for the six months ended June 30, 2021. The share of the Group in the net income of PT STU for the six months ended June 30, 2022 and 2021 amounted to ₱0.4 million and nil, respectively.

Eastern Water Resources Development and Management Public Company Limite (East Water)
East Water is incorporated in Thailand with principal place of business in Bangkok, Thailand. East Water is listed in the Stock Exchange of Thailand.

On February 19, 2018, MWCI signed a SPA with Electricity Generating Public Company Limited (EGCO) to acquire EGCO's 18.72% equity in East Water. East Water is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 14, 2018, MWTC acquired 311.44 million ordinary shares in East Water representing 18.72% equity of East Water.

The financial information of East Water as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱726,023,191** | ₱1,040,481,650 |
| Noncurrent assets | **56,688,376,230** | 56,138,786,968 |
| Current liabilities | **2,802,633,989** | 4,415,645,975 |
| Noncurrent liabilities | **19,579,752,019** | 18,010,456,003 |

*The conversion rates used was ₱1.5502 to THB1.00 and ₱1.5277 to THB1.00 as of June 30, 2022 and December 31, 2021, respectively.*

MWCI's acquisition cost of the investment amounted to ₱8,834.04 million (THB5.29 billion). As of June 30, 2022 and December 31, 2021, the investment in associate account includes a notional goodwill amounting to ₱1,257.7 million (THB 811.3 million).

The revenue and net income of East Water amounted to ₱2,787.87 million and ₱384.52 million, respectively, for the six months ended June 30, 2022 and ₱499.43 million and ₱101.95 million, respectively, for the six months ended June 30, 2021. The share of the Group in the net income (loss), after fair value adjustments of East Water for the six months ended June 30, 2022 and 2021 amounted to ₱72.2 million and ₱19.1 million, respectively. The closing share price of East Water as of June 30, 2022 was THB6.30 per share.

*IWP*
IWP is incorporated in Saudi Arabia with principal place of business in the city of Madinah, Kingdom of Saudi Arabia. IWP is a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 40.00%, 40.00%, and 20.00%, respectively.

The financial information of IWP as of June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 follows:

| | **2022** | 2021 |
|---|---|---|
| Current assets | **₱606,475,088** | ₱619,349,328 |
| Noncurrent assets | **5,928,053** | 5,659,914 |
| Current liabilities | **383,656,644** | 425,951,211 |
| Noncurrent liabilities | **75,226,455** | 62,250,517 |

*The conversion rate used was ₱14.66 to SAR1.00 and ₱13.60 to SAR1.00 as of June 30, 2022 and December 31, 2021, respectively.*

The revenue and net income of IWP amounted to ₱296.06 million and ₱5.74 million, respectively, for the six months ended June 30, 2022 and nil, for the six months ended June 30, 2021. The share of the Group in the net income of IWP for the six months ended June 30, 2022 and 2021 amounted to ₱1.8 million and ₱2.1 million, respectively.

IWP2
IWP2 is incorporated in Saudi Arabia with principal place of business in the city of Dammam, Kingdom of Saudi Arabia. IWP2 is a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 35.00%, 35.00%, and 30.00%, respectively. IWP2 started commercial operations on April 1, 2022.

The financial information of IWP2 as of June 30, 2022 and for the six months ended June 30, 2022 follows:

| | 2022 |
|---|---|
| Current assets | ₱252,198,163 |
| Noncurrent assets | 3,660,127 |
| Current liabilities | 225,377,123 |
| Noncurrent liabilities | 36,223,394 |
| Revenue | 95,828,693 |
| Net loss | (12,402,220) |

*The conversion rate used was ₱14.66 to SAR1.00 as of June 30, 2022*

The share of the Group in the net loss of IWP2 for the six months ended June 30, 2022 amounted to ₱2.1 million.

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:

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| **Associate** | **Net Assets of Associate*** | **Proportionate Ownership Interest** | **Share in Net Identifiable Assets** | **Notional Goodwill (Impairment)** | **Fair value adjustment**** | **Carrying Values** |
| **Thu Duc Water** | **₱3,707,157,175** | **49.00%** | **₱1,816,507,016** | **₱1,648,254,934** | **₱–** | **₱3,464,761,950** |
| **Kenh Dong Water** | **3,051,917,343** | **47.35%** | **1,445,082,862** | **1,536,826,769** | **–** | **2,981,909,631** |
| **Saigon Water** | **1,783,044,144** | **37.99%** | **677,378,470** | **225,231,881** | **–** | **902,610,351** |
| **Cu Chi Water** | **1,487,627,717** | **24.50%** | **364,468,791** | **(364,468,791)** | **–** | **–** |
| **PT STU** | **202,213,340** | **20.00%** | **40,442,668** | **1,091,462** | **–** | **41,534,130** |
| **East Water** | **35,043,318,391** | **18.72%** | **6,560,109,203** | **1,257,658,996** | **(3,083,839,613)** | **4,733,928,586** |
| **IWP** | **153,520,042** | **20.00%** | **30,704,008** | **–** | **–** | **30,704,008** |
| **IWP2** | **(5,742,226)** | **30.00%** | **(1,722,668)** | **–** | **–** | **(1,722,668)** |
| **Total** | **₱45,423,055,926** | | **₱10,932,970,350** | **₱4,304,595,251** | **(₱3,083,839,613)** | **₱12,153,725,988** |

**Attributable to common shareholders.*
***Fair value adjustment was made to obtain the fair value of MWCI's net assets at acquisition date.*

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| Associate | Net Assets of Associate* | Proportionate Ownership Interest | Share in Net Identifiable Assets | Notional Goodwill (Impairment) | Fair value adjustment** | Carrying Values |
| Thu Duc Water | ₱3,203,156,642 | 49.00% | ₱1,569,546,755 | ₱1,559,593,006 | ₱– | ₱3,129,139,761 |
| Kenh Dong Water | 2,677,700,074 | 47.35% | 1,267,890,985 | 1,454,158,716 | – | 2,722,049,701 |
| Saigon Water | 1,734,310,041 | 37.99% | 658,864,385 | 213,116,345 | – | 871,980,730 |
| Cu Chi Water | 1,407,606,150 | 24.50% | 344,863,507 | (344,863,507) | – | – |
| PT STU | 197,418,100 | 20.00% | 39,483,620 | 1,055,355 | – | 40,538,975 |
| East Water | 34,753,166,640 | 18.72% | 6,505,792,795 | 1,239,422,085 | (3,083,839,613) | 4,661,375,267 |
| IWP | 136,807,516 | 20.00% | 27,361,503 | – | – | 27,361,503 |
| Total | ₱44,110,165,163 | | ₱10,413,803,550 | ₱4,122,482,000 | (₱3,083,839,613) | ₱11,452,445,937 |

**Attributable to common shareholders.*
***Fair value adjustment was made to obtain the fair value of MWCI's net assets at acquisition date.*

The rollforward of acquired cost follow:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱10,947,377,468** | ₱– |
| Acquired from business combination (see Note 4) | **–** | 10,946,096,667 |
| Additions | **2,063,600** | 1,280,801 |
| Balance at end of period | **₱10,949,441,068** | ₱10,947,377,468 |

The rollforward of accumulated equity in net earnings follow:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **(₱147,860,679)** | ₱– |
| Equity in net earnings | **307,270,402** | 270,439,725 |
| Dividend income | **(115,291,403)** | (418,300,404) |
| Balance at end of period | **₱44,118,320** | (₱147,860,679) |

Share in net income (loss) per associate for the six months ended June 30, 2022 and 2021 is as follows:

| Associate | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Thu Duc Water | **₱152,234,383** | ₱23,110,975 |
| Kenh Dong Water | **101,280,994** | 15,559,308 |
| East Water | **72,161,524** | 19,085,235 |
| Saigon Water | **(17,729,092)** | (30,657,291) |
| IWP2 | **(2,139,374)** | – |
| IWP | **1,844,769** | 2,149,344 |
| PT STU | **(382,802)** | (1,560) |
| Total | **₱307,270,402** | ₱29,246,011 |

12. **Financial Asset at FVOCI**

As at June 30, 2022 and December 31, 2021, this account represents the Group's investment in unlisted corporate preferred shares of Solar Philippines Tarlac Corporation (SPTC) and unlisted preferred shares of Wastefuel Global LLC amounting to ₱2,030.5 million and ₱1,617.0 million as of June 30, 2022 and December 31, 2021, respectively.

Movements in the account are as follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱1,617,040,000** | ₱1,885,168,729 |
| Unrealized gain (loss) on fair value changes | **413,475,407** | (155,268,729) |
| Additions | – | 596,140,000 |
| Derecognition due to step-acquisition (see Note 4) | – | (709,000,000) |
| Balance at end of period | **₱2,030,515,407** | ₱1,617,040,000 |

Wastefuel Global LLC

On February 1, 2021 and on March 17, 2021, PICI purchased and subscribed 2,000,000 Class A and 589,544 Class C shares, respectively, for a total purchase price of $2.0 million from Wastefuel Global, LLC, a newly-incorporated entity in 2021. The investment balance amounted to ₱509.6 million and ₱96.1 million as at June 30, 2022 and December 31, 2021, respectively.

The Group determined the fair value of the non-quoted equity investments using the share price of the preferred shares sold in the second batch of fund raising on December 31, 2021 valued at USD4.63 per share.

SPTC

Investment in unquoted shares of stock represent corporate preferred shares in SPTC. The preferred shares have the following features:

1. Fixed rate of 12% per annum on its issue price and cumulative
2. The preferred shares may be redeemed at the option of SPTC subject to the following conditions:
   a. the redemption price shall be the issue price
   b. the right of redemption can only be exercised commencing on the $5^{th}$ anniversary of the execution of the subscription agreement for the first trance of the redeemable preferred shares
   c. the right of redemption of redemption can only be exercised if PMPHC does not exercise its right to convert its redeemable preferred shares to common shares
   d. nothwithstanding the exercise of the right of redemption, all accrued dividends on such redeemable preferred shares to be redeemed are fully paid prior to any redemption
3. Starting on the date after the first eighteen (18) months from the date of the subscription by PMPHC to the first tranche of redeemable preferred shares and up to the fifth (5th) year from the issuance of the first tranche of the redeemable preferred shares, PMPHC may choose to convert all of its redeemable preferred shares into common shares.

On June 3, 2020, PMPHC entered into an investment agreement with SPTC for a 150MW solar power plant in Concepcion, Tarlac. The Group paid ₱535.0 million, ₱465.0 million and ₱500.0 million on July 6, 2020, August 14, 2020, and January 15, 2021, respectively, for the three (3) tranches of 1.5 billion preferred shares investment.

The Group determined the fair value of the non-quoted equity investment using the DCF method. Under the DCF method, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset .

*Valuation inputs and assumptions:*

| Inputs | Assumptions |
|---|---|
| Risk-free rate | Philippine peso (₱) risk-free rate matched to maturity as of valuation date |
| Dividend | Fixed rate of 12% per annum on its issue price and cumulative |
| Implied credit spread | 6.88% |

No dividend income was earned for the six months ended June 30, 2022 and 2021. The fair value of investment amounted to ₱1,520.9 million as of June 30, 2022 and December 31, 2021.

## 13. Property, Plant and Equipment

| | June 30, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant and Technical Equipment | Office Furniture and Equipment | Transportation Equipment (see Note 18) | Building and Leasehold Improvements | Construction-in-Progress | Software | Right-of-use Assets (ROU) (see Note 18) | Total |
| **Cost:** | | | | | | | | | |
| Balance at beginning of period | ₱801,295,931 | ₱4,516,794,442 | ₱284,690,407 | ₱743,524,883 | ₱104,213,166 | ₱1,384,209,344 | ₱76,151,885 | ₱615,240,111 | ₱8,526,120,169 |
| Additions | 40,732,856 | 393,069,754 | 72,897,678 | 16,787,204 | 43,261,679 | 170,468,488 | 2,945,769 | 37,663,603 | 777,827,031 |
| Lease modification | – | – | – | – | – | – | – | (33,572) | (33,572) |
| Transfers | – | 184,686,049 | – | – | – | (184,686,049) | – | – | – |
| Disposals/ retirement | – | (1,242,427) | (86,976,039) | (2,696,308) | (2,813,132) | – | – | – | (93,727,906) |
| Lease derecognition | – | – | – | – | – | – | – | (20,496,548) | (20,496,548) |
| Balance at end of period | 842,028,787 | 5,093,307,818 | 270,612,046 | 757,615,779 | 144,661,713 | 1,369,991,783 | 79,097,654 | 632,373,594 | 9,189,689,174 |
| **Accumulated Depreciation:** | | | | | | | | | |
| Balance at beginning of period | – | 368,337,441 | 117,244,938 | 136,983,469 | 22,823,461 | – | 19,470,030 | 155,969,215 | 820,828,554 |
| Depreciation (see Notes 18, 23 and 24) | – | 282,557,539 | 35,643,245 | 119,830,829 | 20,482,765 | – | 8,300,442 | 68,366,949 | 535,181,769 |
| Disposals/ retirement | – | (304,254) | (71,755,030) | (1,684,009) | (2,813,131) | – | – | – | (76,556,424) |
| Lease derecognition | – | – | – | – | – | – | – | (19,477,913) | (19,477,913) |
| **Balance at end of period** | – | 650,590,726 | 81,133,153 | 255,130,289 | 40,493,095 | – | 27,770,472 | 204,858,251 | 1,259,975,986 |
| | ₱842,028,787 | ₱4,442,717,092 | ₱189,478,893 | ₱502,485,490 | ₱104,168,618 | ₱1,369,991,783 | ₱51,327,182 | ₱427,515,343 | ₱7,929,713,188 |

| | December 31, 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant and Technical Equipment | Office Furniture and Equipment | Transportation Equipment (see Note 18) | Building and Leasehold Improvements | Construction-in-Progress | Software | Right-of-use Assets (ROU) (see Note 18) | Total |
| Cost: | | | | | | | | | |
| Balance at beginning of year | ₱2,447,934 | ₱561,313,680 | ₱56,236,730 | ₱32,866,105 | ₱1,090,796 | ₱– | ₱6,663,640 | ₱90,124,867 | ₱750,743,752 |
| Additions resulting from business combination – (see Note 4) | 765,341,750 | 2,768,190,492 | 120,634,856 | 710,518,724 | 85,747,005 | 1,945,063,879 | 42,116,508 | 402,425,867 | 6,840,039,081 |
| Additions | 33,506,247 | 529,403,351 | 108,235,213 | 80,406,233 | 13,722,196 | 184,221,920 | 27,371,737 | 130,506,948 | 1,107,373,845 |
| Lease modification | – | – | – | – | – | – | – | (7,817,571) | (7,817,571) |
| Transfers | – | 743,399,866 | 6,286 | – | 3,812,763 | (745,076,455) | – | – | 2,142,460 |
| Disposals | – | (85,274,760) | (422,678) | (80,266,179) | – | – | – | – | (165,963,617) |
| Retirement | – | (238,187) | – | – | (159,594) | – | – | – | (397,781) |
| Balance at end of year | 801,295,931 | 4,516,794,442 | 284,690,407 | 743,524,883 | 104,213,166 | 1,384,209,344 | 76,151,885 | 615,240,111 | 8,526,120,169 |
| Accumulated Depreciation: | | | | | | | | | |
| Balance at beginning of year | – | 136,021,154 | 33,909,023 | 11,326,516 | 33,707 | – | 5,716,448 | 47,169,223 | 234,176,071 |
| Depreciation (see Notes 18, 23 and 24) | – | 245,678,146 | 83,608,536 | 131,535,589 | 22,949,348 | – | 13,753,582 | 108,799,992 | 606,325,193 |
| Disposals | – | (13,123,672) | (272,621) | (5,878,636) | – | – | – | – | (19,274,929) |
| Retirement | – | (238,187) | – | – | (159,594) | – | – | – | (397,781) |
| Balance at end of year | – | 368,337,441 | 117,244,938 | 136,983,469 | 22,823,461 | – | 19,470,030 | 155,969,215 | 820,828,554 |
| | ₱801,295,931 | ₱4,148,457,001 | ₱167,445,469 | ₱606,541,414 | ₱81,389,705 | ₱1,384,209,344 | ₱56,681,855 | ₱459,270,896 | ₱7,705,291,615 |

14. **Project Development Cost**

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Ahunan Hydropower Project | **₱273,450,307** | ₱107,852,882 |
| Wastefuel Project | **25,108,320** | 10,393,343 |
| Solar Power Tanauan Project | **15,053,839** | – |
| Terra Solar Power Project | **1,684,918** | – |
| Chico Hydropower Project | **104,649,206** | 104,649,206 |
| | **419,946,590** | 222,895,431 |
| Less allowance for impairment losses | **104,649,206** | – |
| | **₱315,297,384** | ₱222,895,431 |

Ahunan Hydropower Project
This is composed of amounts paid to various service providers for the pre-development of 1,400 MW pumped-storage hydropower project in Laguna. Out of the total amount capitalized, ₱27.9 million pertains to amount paid to JBD Management and Consulting Services, Inc. for the achievement of milestone in relation to incorporation of API and issuance of Certificate of Non-Overlap by the National Commission on Indigenous People. API capitalized additional ₱165.6 million and ₱74.3 million for the six months ended June 30, 2022 and the year ended December 31, 2021, respectively.

Wastefuel Project
This is mainly composed of amounts paid for waste analysis and characterization study as part of the feasibility study for the Wastefuel project. Wastefuel Philippines, Inc. capitalized additional ₱14.7 million and ₱10.4 million for the six months ended June 30, 2022 and the year ended December 31, 2021, respectively.

Solar Power Tanauan Project
This is composed of amounts paid to various service providers for the pre-development of the Company's power plants. SP Tanauan capitalized ₱15.1 million for the six months ended June 30, 2022.

Terra Solar Power Project
This is composed of software subscription and other costs incurred for developing utility-scale renewable projects. TSPI capitalized ₱1.8 million for the six months ended June 30, 2022.

Chico Hydropower Project
This pertains to the payments to San Lorenzo Ruiz Piat Energy and Water, Inc. (SLRPEWI) as part of the total consideration for the assignment of the Chico Hydropower Service Contract (CHSC) and Chico Hydropower Project (CHP) to ChicoJVCo in accordance with the Joint Venture Agreement (JVA) entered into by PMPHC and SLRPEWI for the development of CHP.

As of June 30, 2022, ChicoJVCo's BOD intends to wind up or shorten its corporate life. The BOD recognized the non-viability of the Chico Hydropower Project due to the termination of its joint venture agreement with SLRPEWI when the irrevocable option to study, consider and pursue the commercial development of the said project has expired. ChicoJVCo recognized an impairment loss amounting to ₱104.6 million for the six months ended June 30, 2022 (see Notes 1 and 24).

## 15. **Goodwill, Intangible Assets and Other Noncurrent Assets**

Goodwill and other intangible assets

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Goodwill (see Note 4) | **₱98,842,949** | ₱98,842,949 |
| Customer relationship (see Note 4) | **1,542,841,893** | 1,582,044,101 |
| Water rights (see Note 4) | **192,802,741** | 182,247,140 |
| Others | **–** | 930,000 |
| | **₱1,834,487,583** | ₱1,864,064,190 |

Customer relationship

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| **Cost:** | | |
| Balance at beginning of period | **₱1,586,119,067** | ₱– |
| Acquired from business combination (see Note 4) | **–** | 1,586,119,067 |
| Balance at end of period | **1,586,119,067** | 1,586,119,067 |
| **Accumulated Amortization:** | | |
| Balance at beginning of period | **4,074,966** | – |
| Amortization (see Note 24) | **39,202,208** | 4,074,966 |
| Balance at end of period | **43,277,174** | 4,074,966 |
| **Net Book Value** | **₱1,542,841,893** | ₱1,582,044,101 |

The fair value of customer relationship resulting from the acquisition of SP Tanauan on December 13, 2021 has been estimated using the income approach and DCF method, specifically the With-and-Without method. The fair value measurements are based on significant inputs that are not observable in the market which includes a discount rate of 13.2% and revenue growth rate of 4.8%.

The remaining life of the customer relationship is 19.46 years as of June 30, 2022.

Water rights
Water rights pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River, Agno River, and Cagayan River.

On August 22, 2012, the NWRB approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows Cebu Water to use for its project. As of June 30, 2022 and December 31, 2021, Cebu Water's water right amounted to ₱45.00 million.

MWPVI incurred costs to acquire water permits from the NWRB amounting to ₱147.80 million and ₱137.25 million as of June 30, 2022 and December 31, 2021, respectively.

*Cagayan River*
In 2022, MWPVI incurred additional costs of ₱10.56 million for the issuance of the final water permit for the Cagayan River. On March 15, 2022, NWRB granted MWPVI the permit to use water from the Cagayan River. This superseded the conditional water permits granted on September 20, 2021.

*Pampanga River*
On April 23, 2018, the NWRB granted MWPVI the permit to use the water from the Pampanga River which superseded the conditional water permit granted to MWPVI on April 20, 2017.

*Abacan River and Pasig-Potrero River*
On September 24, 2018, granted permits to use the water from the Abacan River and Pasig-Potrero River which superseded the conditional water permits both granted on September 20, 2017.

*Agno River*
On August 27, 2019, the NWRB granted MWPVI the permit to use water from the Agno River which superseded the conditional water permit granted on March 21, 2018.

Other noncurrent assets

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Advances to contractors and suppliers | **₱5,761,085,727** | ₱5,430,980,000 |
| Deferred FCDA | **2,699,894,556** | 528,692,315 |
| Security deposits and deposit for land acquisition | **2,482,331,461** | 2,450,297,664 |
| Derivative assets | **975,972,260** | 386,711,746 |
| Deferred input VAT | **927,488,734** | 665,653,137 |
| Prepaid debt issue costs (see Note 17) | **311,068,614** | 299,265,590 |
| Restricted cash (see Note 17) | **287,954,934** | 225,403,315 |
| Escrow fund | **225,000,000** | 225,000,000 |
| Receivable from Ayala Multi-Purpose Cooperative (AMPC) | **33,272,975** | 37,554,385 |
| Deposit for future investment | **–** | 25,000,000 |
| Retention receivables from: | | |
| Related parties (see Note 27) | **–** | 66,377,324 |
| Third-party customers | **–** | 45,110,610 |
| Others | **67,840,624** | 68,028,958 |
| | **₱13,771,909,885** | ₱10,454,075,044 |

Advances to contractors and suppliers are advance payments for the construction and development of the Group’s property and equipment and SCA or contract assets representing SCA under construction.

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 revaluations (see Note 1).

Deposits pertain to those made for land acquisition, for leased properties, for environmental guaranty funds, and for guaranty deposits with Manila Electric Company for electric connections and its related deferred charges.

Derivative assets consist of principal only swap and currency option agreements used to hedge MWCI's exposure to foreign currency risk on its long-term debt.

Prepaid debt issue costs primarily pertain to documentary stamp tax and other fees on the undrawn balance of the loan facility. Such amount will be presented in the consolidated statement of financial position as reduction from long-term debt upon drawdown and will be amortized over the term of the loan using the EIR method.

Escrow fund was established by Laguna Water to facilitate the repurchase of its redeemable preferred shares to comply with the pertinent rules of the SEC.

Restricted cash pertains to the debt collateral accounts required for the loans (see Note 17).

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

Noncurrent portion of retention receivables pertain to portion of progress billings withheld by the customers. These are expected to be released after period allotted for the rectification of defects and other noncompliance from the specifications indicated. Retention related to the projects will usually be released one year after completion.

Other noncurrent assets include Cebu Water's advances to the Carmen Development Fund for its permit to extract water at the Carmen property in Cebu, long-term prepayments, and time deposits with maturities of more than one (1) year.

## 16. Accounts Payable and Other Current Liabilities and Contract Liabilities

a. Accounts payable and other current liabilities

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Trade payables (see Note 27) | **₱9,468,116,828** | ₱9,603,892,952 |
| Accrued expenses: | | |
| Contractual and other outsourced services | **768,634,888** | 956,291,615 |
| Salaries, wages, and employee benefits | **498,929,477** | 471,460,358 |
| Repairs and maintenance | **336,404,670** | 301,973,726 |
| Water and used water service costs | **187,291,369** | 187,378,073 |
| Utilities | **158,420,813** | 145,575,816 |
| Occupancy costs | **100,500,114** | 113,449,983 |
| Miscellaneous | **152,784,741** | 266,350,511 |
| Interest payable (Note 17) | **1,105,768,450** | 1,035,544,483 |
| Contractors' payable | **1,008,582,274** | 1,016,752,846 |
| Statutory payables | **89,104,863** | 91,248,586 |
| Deferred output VAT payable | **85,713,031** | 40,503,964 |
| Retention payables | **38,774,661** | 34,697,563 |
| Others | **324,498,259** | 560,102,547 |
| | **₱14,323,524,438** | ₱14,825,223,023 |

Trade payables and accrued expenses are noninterest-bearing and are due for payment within 15-120 days term.

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

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

Retention payables pertain to the portion of the contract price withheld from the contractors until the activities required of them under the contract are properly completed or delivered.

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

b. Contract liabilities

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Supervision fees | **₱602,686,354** | ₱521,261,203 |
| Connection fees | **174,344,875** | 152,602,059 |
| Construction contracts | **136,185,401** | 361,106,053 |
| Total | **913,216,630** | 1,034,969,315 |
| Current | **342,391,535** | 883,420,581 |
| Noncurrent | **₱570,825,095** | ₱151,548,734 |

Contract liabilities from supervision fees consist of advance customer payments for the provision of design and project management services in the development of water and used water facilities and for future water service. Contract liabilities are reclassified to "Supervision fees" under "Other operating income" upon completion of performance milestones for these services throughout the concession period.

Contract liabilities from connection fees pertain to customer payments for the set-up of a connection from the customer's establishment to the Group's water or used water network. These are initially recognized at the time of receipt of customer payments and reclassified to "Connection fees from water and service connections" under "Other operating income" upon provision of the related water and used water services to customers.

Contract liabilities from construction contracts represents excess of advance payments against revenue recognized from contracts with construction customers which are determined based on percentage-of-completion against amounts billed to customers. These are normally paid at the commencement of construction to be applied at each progress billing.

Revenue recognized from amounts included in contract liabilities at the beginning of the six months ended June 30, 2022 and 2021 amounted to ₱239.9 million and ₱155.8 million, respectively.

## 17. **Loans**

a. Short-term loans

*₱1.0 billion MWCI SBC loan*
On March 29, 2022, MWCI entered into loan agreement with Security Bank Corp. (SBC) for a short-term loan amounting to ₱1.00 billion to be used as a bridge loan to finance various capital expenditures of East Zone projects. Interest and principal payments were due on June 27, 2022. Upon maturity, the principal was subsequently extended for sixty (60) days to August 26, 2022. The loan can be extended up to a maximum 360 days from the original date of the loan agreement. As of June 30, 2022, the carrying value of the loan amounted to ₱998.83 million.

*₱950.0 million MWCI PNB loan*
On April 26, 2022, MWCI entered into loan agreement with Philippine National Bank (PNB) for a short-term loan amounting to ₱950.00 million to be used as a bridge loan to finance various capital expenditures of East Zone projects. Interest is payable quarterly and principal payment is due on or before August 16, 2022. The loan can be extended up to a maximum of one (1) year. As of June 30, 2022, carrying value of the loan amounted to ₱949.52 million.

*₱1.0 billion MWCI RCBC loan*
On April 26, 2022, MWCI entered into loan agreement with Rizal Commercial Banking Corporation (RCBC) for a short-term loan amounting to ₱1.00 billion to be used as a bridge loan to finance various capital expenditures of East Zone projects. Interest is payable quarterly and principal payment is due on or before August 16, 2022. The loan can be extended up to a maximum of one (1) year. As of June 30, 2022, carrying value of the loan amounted to ₱999.49 million.

*₱10.0 million Bulakan Water BPI loan*
On May 30, 2022, Bulakan Water drew a 150-day short-term loan with Bank of the Philippine Islands (BPI) amounting to ₱10.00 million. The proceeds of the loan will be used to finance Bulakan Water's capital expenditures in relation to its capital expenditures and its working capital requirements. As of June 30, 2022, carrying value of the loan amounted to ₱10.00 million.

*₱40.0 million Clark Water BPI loan*
On April 25, 2022, Clark Water was granted a ₱140.00 million credit facility by BPI to finance and refinance its capital expenditure projects. The first drawdown of Clark Water amounting to ₱40.00 million was made on May 30, 2022 and proceeds from the loan were used to finance capital expenditure projects. As of June 30, 2022, carrying value of the loan amounted to ₱40.00 million.

*₱30.0 million Calasiao Water BPI loan*
On May 30, 2022, Calasiao Water drew a 150-day short-term loan with BPI amounting to ₱30.00 million. The proceeds of the loan will be used to finance Calasiao Water's capital expenditures and its working capital requirements. As of June 30, 2022, carrying value of the loan amounted to ₱30.00 million.

*₱275.0 million MWPVI SBC loan*
On June 27, 2022, MWPVI availed of a 60-day short-term loan amounting to ₱275.00 million with SBC. The proceeds of the loan will be used to finance the company's working capital and/or for general corporate purposes. As of June 30, 2022, carrying value of the loan amounted to ₱275.00 million.

*₱300.0 million PICI RCBC loan*
On March 10, 2022, PICI established an omnibus line, issuer line, domestic foreign bills purchased line, FX settlement line, FX pre-settlement risk line and corporate credit card line at an aggregate amount of ₱3.00 billion with RCBC.

a. The omnibus line provides a credit facility up to ₱3.00 billion as clean loan lines via promissory notes with a maximum term of up to 365 days and domestic/foreign standby LC/ bank guaranty line to serve as performance or bid bonds.

b. The issuer line provides a credit facility up to ₱3.00 billion for purchase of corporate notes or bonds with maturity of up to 12 years.

c. The domestic foreign bills purchased line provides up to ₱50.00 million available for local, regional and out-of-town checks

d. FX settlement line provides up to ₱260.00 million for intra-day late settlement of forex-trading related transactions, fixed income transactions, and other Treasury product-related transactions

e. FX Pre-settlement risk line provides up to ₱26.00 million available for forward contracts

f. Corporate credit card line provides up to ₱5.00 million available for bankard corporate card usage

The loan availments of PICI will be combined to the aggregate loan availments of other companies under ICTSI/ Razon Group with approved credit facilities subject to a single borrower's limit.

On May 18, 2022, PICI made a drawdown of ₱150.00 million maturing on July 19, 2022 at an interest rate of 4.0% payable on maturity. On May 24, 2022, PICI made another drawdown of ₱150.00 million maturing on August 22, 2022 at an interest rate of 4.25% payable on maturity. As of June 30, 2022, the carrying value of the loan amounted to ₱300.00 million.

*₱110.0 million PICI HSBC loan*
On June 1, 2022, PICI entered into loan facility with Hongkong and Shanghai Banking Corporation Limited (HSBC) for ₱2.00 billion to be used for working capital, bridge financing and other general corporate purposes. On June 15, 2022, PICI made a drawdown of ₱110.00 million maturing on December 12, 2022 at an interest rate of 4.15% payable on maturity. As of June 30, 2022, the carrying value of the loan amounted to ₱110.00 million.

*₱150.0 million PMBC Eastwest loan*
On April 6, 2022, PMBC availed of a short-term loan from Eastwest Bank (Eastwest) amounting to ₱150.00 million maturing on August 4, 2022 and bearing an annual interest rate of 4.00%. As of June 30, 2022, the carrying value of the loan amounted to ₱150.00 million.

*₱170.0 million PMBC BPI loan*
On April 27, 2022, PMBC availed of a short-term loan from Bank of the Philippine Islands (BPI) amounting to ₱170.00 million maturing on October 24, 2022 and bearing an annual interest rate of 3.75%. As of June 30, 2022, the carrying value of the loan amounted to ₱170.00 million.

*₱34.1 million PMBC Bangkok loan*
On May 31, 2022 and June 30, 2022, PMBC availed of a short-term loans from Bangkok Bank Public Company Limited (Bangkok) for working capital purposes amounting to ₱21.30 million and ₱12.80 million, respectively, maturing on July 1, 2022 and bearing an annual interest rate of 4.25%. As of June 30, 2022, the carrying value of the loan amounted to ₱34.10 million.

*₱52.5 million TWCHI BPI loan*
This account pertains to an unsecured loan obtained from Bank of the Philippine Islands with interests at 3.5% in 2021. The loan was fully settled on January 3, 2022. Interest expense amounted to nil for the six months ended June 30, 2022 and 2021, respectively.

*₱50.0 million SP Tanauan PNB loan*
On March 16, 2022, SP Tanauan availed of a short-term loan from Philippine National Bank (PNB) amounting to ₱50.00 million to be used as a bridge loan to finance various expenditures of SPTC while the project loan is being set-up. Interest is 4.75% payable monthly and principal payment is due on or before May 16, 2022. As of June 30, 2022, the loan was fully settled by SP Tanauan.

The short-term loans are unsecured as of June 30, 2022 and December 31, 2021. Interest expense recognized related to short-term loans amounted to ₱5.8 million and nil for the six months ended June 30, 2022 and 2021, respectively.

b. Long-term loans

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| **MWCI loans:** | | |
| USD bonds - | | |
| US$500.00 million sustainability bonds | **₱26,958,821,969** | ₱24,988,118,390 |
| USD loan - | | |
| MWMP Loan | **6,324,255,878** | 6,061,670,460 |
| Japanese Yen (JP¥) loan - | | |
| JP¥40.00 billion Loan | – | 1,495,423,436 |
| MTSP Loan | – | 74,158,057 |
| European (EUR) loan: | | |
| EUR250.00 million Loan | **6,812,786,258** | 6,792,854,823 |
| PHP loans: | | |
| ₱5.00 billion PNB Loan | **3,376,607,383** | 3,661,967,363 |
| ₱5.00 billion BDO Loan | **5,046,747,296** | 5,052,719,329 |
| **MWCI Subsidiaries' loans:** | | |
| Thailand Baht (THB) loan - | | |
| THB5.30 billion MWTC Loan | **8,197,966,398** | 8,074,043,037 |
| Canadian Dollar (CAD) loan - | | |
| CAD0.87 million Laguna Water Loan | **37,252,481** | 34,792,542 |
| PHP loans: | | |
| ₱0.50 billion Laguna Water DBP Loan | **330,336,788** | 344,999,590 |
| ₱0.83 billion Laguna Water DBP Loan | **567,006,530** | 592,174,094 |
| ₱2.50 billion Laguna Water SBC Loan | **1,626,992,559** | 1,722,318,958 |
| ₱2.50 billion Laguna Water BPI Loan | **1,273,093,160** | 1,291,374,036 |
| ₱0.50 billion Boracay Water DBP-SBC Loan | **292,174,476** | 292,041,983 |
| ₱0.50 billion Boracay Water DBP-SBC Loan | **312,596,553** | 312,447,740 |

*(Forward)*

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| ₱0.65 billion Boracay Water DBP-SBC Loan | **₱537,360,234** | ₱537,048,270 |
| ₱2.40 billion Boracay Water BPI Loan | **1,509,094,051** | 1,409,578,349 |
| ₱1.15 billion Clark Water RCBC Loan | **786,691,282** | 834,170,452 |
| ₱0.54 billion Clark Water DBP Loan | **520,489,349** | 531,361,311 |
| ₱0.80 billion Cebu Water DBP Loan | **503,351,146** | 525,120,750 |
| ₱7.00 billion MWPVI Loan | **6,960,980,906** | 6,361,442,784 |
| ₱0.45 billion Tagum Water PNB Loan | **343,392,783** | 360,079,276 |
| ₱0.15 billion Tagum Water PNB Loan | **133,291,207** | 139,659,451 |
| ₱0.23 billion Aqua Centro BPI Loan | **166,868,602** | 106,264,735 |
| ₱0.47 billion South Luzon Water BPI Loan | **168,823,009** | 100,000,000 |
| ₱0.39 billion Calbayog Water BPI Loan | **70,000,000** | 70,000,000 |
| **Other loans** | | |
| ₱20.0 billion Wawa loan facility | **7,500,124,338** | 4,888,784,917 |
| ₱5.5 billion TWCHI BPI loan facility | **5,355,428,321** | 5,341,871,851 |
| ₱3.5 billion PII Unionbank loan facility | **2,336,331,911** | 1,985,313,777 |
| ₱1.5 billion PMPHC Unionbank loan facility | **1,490,870,042** | 1,490,026,524 |
| ₱1.0 billion PII HSBC loan facility | **989,498,509** | 987,426,086 |
| ₱178.7 million PMBC BDOLFI and BOTLFPI loan facility | **145,910,185** | 149,180,386 |
| | **90,675,143,604** | 86,608,432,757 |
| Less current portion of long-term debt | **6,134,996,938** | 5,371,667,319 |
| | **₱84,540,146,666** | ₱81,236,765,438 |

Unamortized debt discounts (premiums) and issuance costs of the Group's long-term debt are as follows:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| USD loans | **₱567,086,370** | ₱549,106,279 |
| PHP loans | **5,895,535** | (37,471,563) |
| EUR loan | **82,221,742** | 108,549,177 |
| THB loan | **17,946,729** | 22,733,766 |
| JPY loans | **–** | 4,126,240 |
| | **₱673,150,376** | ₱647,043,899 |

The movements in unamortized net debt discount follow:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Balance at beginning of year | **₱647,043,899** | ₱21,121,132 |
| Additions resulting from business combination (see Note 4) | **–** | 526,960,007 |
| Additions | **193,573,037** | 199,614,953 |
| Amortization | **(167,466,560)** | (100,652,193) |
| Balance at end of year | **₱673,150,376** | ₱647,043,899 |

Future repayment of the principal follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Within 1 year | **₱5,564,045,064** | ₱6,016,267,397 |
| After 1 year but not more than 5 years | **34,251,181,870** | 36,034,025,794 |
| Beyond 5 years | **51,533,067,046** | 45,205,183,465 |
| | **₱91,348,293,980** | ₱87,255,476,656 |

Interest expense recognized related to long-term loans amounted to ₱1,139.7 million and ₱200.2 million for the six months ended June 30, 2022 and 2021, respectively.

All proceeds from loan drawdowns of MWCI were used for the East Zone business.

<u>MWCI Bonds</u>

*US$500.00 million sustainability bonds*
On July 22, 2020, MWCI announced its plan to issue an offering of USD-denominated senior unsecured notes, which qualified as ASEAN sustainability bonds. Proceeds from the issuance of the bond were intended to refinance debt and finance programmed capital expenditures for 2020 to 2021 of the East Zone, pursuant to the Sustainability Financing Framework (SFF) which MWCI established; proceeds are targeted towards financing projects related to (1) Sustainable water and wastewater management, (2) Terrestrial and aquatic biodiversity conservation, and (3) Affordable basic infrastructure categories. MWCI's SFF is aligned with the Green Bond Principles 2018 and Social Bond Principles 2018 and likewise complies with the ASEAN Sustainability Bond Standards 2018 and SEC Memorandum Circular No. 8, series of 2019.

On July 23, 2020, MWCI successfully issued the US$500.00 million ASEAN sustainability bonds, debuting in the international debt capital markets. MWCI is the first Philippine Corporate to issue an ASEAN sustainability bond. Equally important, this issuance is the single largest green, social or sustainability bond issued by a listed private water utility in Asia.

The ten (10)-year bond was priced at 99.002 with a coupon rate of 4.375% p.a. payable in equal installments semi-annually in arrear, on January 30 and July 30 of each year. The bonds will be redeemed at their principal amount on July 30, 2030 unless previously redeemed or repurchased and cancelled as provided in the following conditions:

*Gross-up Event*
- If a Gross-up Event occurs, MWCI may redeem the Notes (in whole but not in part) at 100% of the principal amount of the Notes plus any accrued but unpaid interest, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Noteholders.

*Change of Control Event*
- Following the occurrence of a Change of Control triggering event, each bondholder will have a right at such bondholder's option to require MWCI to redeem in whole but not in part such bondholder's notes on the change of control triggering event put date at 101% of the principal amount plus any accrued but unpaid interest.

*Regulatory Redemption Event*
- Upon a regulatory redemption triggering event, each bondholder will have the right to require MWCI to repurchase all or any part of such holder's bonds pursuant to a Special Repurchase

Offer. In the Special Repurchase Offer, MWCI will offer to purchase the bonds at a purchase price in cash equal to the special redemption price and additional amounts, if any, to but excluding the date of repurchase (subject to the right of bondholders of record on the relevant record date to receive interest due on the relevant interest payment date), except to the extent MWCI has previously or concurrently elected to redeem the Notes in full as described under the conditions of an early redemption due to a gross-up event.

*Redemption at the Option of the Issuer*

- On any payment business day on or after July 30, 2025, and up to but excluding the maturity date, MWCI may on one or more occasions redeem all or a part of the bonds, at the redemption prices plus accrued and unpaid interest, if any, to the date of redemption, if redeemed during the twelve (12)-month period commencing on the call dates set forth below:

| Call Dates | Prices |
|---|---|
| July 30, 2025 | 102.188% |
| July 30, 2026 | 101.094% |
| July 30, 2027 | 100.547% |
| July 30, 2028 and thereafter | 100.000% |

The successful bond issuance enabled MWCI to diversify its fund sources, to refinance maturing obligations, as well as fund its committed water and wastewater infrastructure projects in the East Zone concession. The carrying value of the bonds as of June 30, 2022 and December 31, 2021 amounted to US$490.38 million and US$489.97 million, respectively.

MWCI Loans

*MWMP Loan*
On October 2, 2012, MWCI entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank (MWMP Loan). The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty-five (25) years and was made available in United States Dollar in the aggregated principal amount of US$137.50 million, payable via semi-annual installments after the seven (7)-year grace period. MWCI has made four (4) drawdowns in 2015 with an aggregate amount of US$22.60 million, three (3) drawdowns in 2016 with an aggregate amount of US$17.46 million, three (3) drawdowns in 2017 with a total amount of US$22.40 million, one (1) drawdown in 2018 amounting to US$8.88 million, and four (4) drawdowns in 2019 with an aggregate amount of US$41.68 million. In 2020, MWCI made three (3) additional drawdowns with a total amount of US$24.48 million to fully utilize the facility. The carrying value of the MWMP loan as of June 30, 2022 and December 31, 2021 amounted to US$115.04 million and US$118.86 million, respectively.

*JP¥40.00 billion Loan*
On September 30, 2015, MWCI signed a seven (7)-year JP¥40.00 billion term loan facility, payable semi-annually, with three (3) international banks: MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan were used to finance the East Zone's capital expenditures. MWCI made its first drawdown on March 9, 2016 amounting to JP¥13.40 billion. In 2017, MWCI made two (2) additional drawdowns totaling JP¥26.60 billion. The loan's carrying value as of December 31, 2021 amounted to JP¥3,388.68 million. On March 29, 2022, the loan was fully settled by MWCI.

*MTSP Loan*
On October 20, 2005, MWCI entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (MTSP Loan) to finance the improvement of the sewerage and sanitation conditions in the Manila Concession. The loan has a term of seventeen (17) years and was made available in JP¥ in the aggregate principal amount of JP¥6.59 billion payable via semi-annual installments after the five (5)-year grace period.

MWCI made its last drawdown on October 26, 2012. Total drawn amount from the loan is JP¥3.99 billion. In April 2022, the PMWCI fully paid the remaining balance of the MTSP Loan. As of June 30, 2022 and December 31, 2021, the outstanding balance of the MTSP loan amounted to nil and JP¥168.04 million, respectively.

*EUR250.00 million Loan*
On August 27, 2019, MWCI entered into a syndicated loan agreement amounting to €250.00 million to fund the capital investment program of the East Zone starting in 2019. The loan will be prepaid in eight (8) installments starting April 2023 and is financed by a syndicate of two (2) banks namely Bank of China (Hong Kong) Limited and Bank of China Limited, Manila Branch. MWCI has made a drawdown amounting to €40.00 million in 2019, and €90.00 million in 2020. In August 2021, MWCI prepaid the outstanding loan amounting to €130.00 million with a prepayment cost of ₱7.74 million (see Note 24). In the same month, MWCI drew €120.00 million which it will use to continue funding its capital investment program. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to €118.57 million and €118.11 million, respectively.

*₱5.00 billion PNB Loan*
On May 11, 2018, MWCI signed a ₱5.00 billion, ten (10)-year term loan facility with the PNB. The loan will be used to finance general corporate requirements and capital investment programs in the East Zone as well as to refinance existing concessionaire loans. On July 31, 2018, MWCI made its first and only drawdown amounting to ₱5.00 billion. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱3,376.6 million and ₱3,662.0 million, respectively.

*₱5.00 billion BDO Unibank, Inc. (BDO) Loan*
On November 13, 2019, MWCI signed a ₱5.00 billion, five (5)-year term, revolver loan facility with BDO with principal payable at bullet after sixty (60) months. The loan proceeds were used for the expansion and improvement of the water source, distribution and sewerage systems, and other general corporate requirements as well as to refinance existing concessionaire loans. MWCI made two (2) drawdowns in 2019 with an aggregate amount of ₱3,800.00 million, and an additional drawdown in 2020 amounting to ₱1,200.00 million. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱5,046.7 million and ₱5,052.7 million, respectively.

*Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements*
On July 17, 2008, MWCI, 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 MWCI 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 MWCI 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 MWCI, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWCI 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 DOF Undertaking Letter), all insurance policies where MWCI 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, MWCI 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 MWCI or MWSS. Currently, all lenders of MWCI are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWCI signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWCI more operational and financial flexibility. The loan amendments include the shift to the use of MWCI from consolidated financial statements to stand-alone 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.

*MWTC Loan*
On February 27, 2019, MWTC signed a THB5.30 billion, five (5)-year term loan facility with Mizuho Bank Ltd. – Bangkok Branch and Bank of Ayudhya Public Company Limited to refinance the previous bridge loan used for the acquisition of an 18.72% equity stake in East Water. This loan bears interest of BIBOR plus margin and is guaranteed by MWCI. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to THB5,286.78 million and THB5,285.12 million, respectively.

*Laguna Water Loans*
On April 29, 2013, Laguna Water entered into a loan agreement with DBP to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.00 million. The first and second drawdowns were made in July and November 2013 which amounted to ₱250.00 million each. The carrying value of this loan as of June 30, 2022 and December 31, 2021 amounted to ₱330.34 million and ₱345.00 million, respectively.

On January 9, 2014, Laguna Water exercised its option to avail of the second tranche of its loan agreement with DBP, to finance its water network and supply projects, including the development of a well-field network in the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, the lender provided additional loans to Laguna Water in the aggregate principal amount of ₱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 loan amounted to ₱567.01 million and ₱592.17 million as of June 30, 2022 and December 31, 2021, respectively.

On October 23, 2015, Laguna Water entered into a loan agreement with Security Bank Corp. (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.50 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015 amounting to ₱600.00 million. The second drawdown was made in two tranches in April 2016 amounting to ₱150.00 million and ₱300.00 million. The third drawdown was made in September 2016 amounting to ₱400.00 million. The fourth drawdown was made in three (3) tranches, the first tranche in March amounting to ₱100.00 million and the second and third tranches in April 2017 amounting to ₱50.00 million and ₱350.00 million. The fifth drawdown was made in two (2) tranches in September 2017 amounting to ₱150.00 million and ₱400.00 million. The carrying value of the loan amounted to ₱1,626.99 million and ₱1,722.32 million as of June 30, 2022 and December 31, 2021, respectively.

On March 29, 2017, Laguna Water entered into a loan agreement with Grand Challenges Canada to fund a project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CAD873,000. The project supported by the loan is the "Bundling water and sanitation services for the poor in informal urban communities". As of June 30, 2022 and December 31, 2021, the carrying value of the loan amounted to CAD873,000.

On June 28, 2019, Laguna Water signed a ten (10)-year term loan facility amounting to ₱2.50 billion with BPI. The loan will be used to partially finance Laguna Water's capital expenditure program. The first drawdown was made in July 2019 amounting to ₱200.00 million. The second drawdown was made in December 2019 amounting to ₱500.00 million. The third drawdown was made in March 2020 amounting to ₱400.00 million. The fourth drawdown was made in December 2021 amounting to ₱200.00 million. The carrying value of the loan amounted to ₱1,273.09 million and ₱1,291.37 million as of June 30, 2022 and December 31, 2021, respectively.

Boracay Water entered into various Omnibus Loan and Security Agreements with DBP, SBC, and BPI to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and wastewater services for its service area under its concession agreement with TIEZA, as well as the operation and maintenance of the completed drainage system.

*Omnibus loan and security agreement - Sub-tranche 1*
On July 29, 2011, Boracay Water entered into an Omnibus Loan and Security Agreement with DBP and SBC. The loan shall not exceed the principal amount of ₱500.00 million and is payable in twenty (20) years inclusive of a three (3)-year grace period. 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, second, and final loan drawdowns amounted to ₱150.00 million on August 25, 2011, ₱155.00 million on August 25, 2012, and ₱195.00 million on August 23, 2013, respectively. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱292.17 million and ₱292.04 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 its internally-generated funds.

In consideration of DBP undertaking to purchase sub-tranches 1C and 2C, Boracay Water will pay DBP purchase commitment fee which is equivalent to 0.25% per annum of the purchase price on a quarterly basis. Purchase commitment fee payable amounted to nil and ₱0.35 million as of June 30, 2022 and December 31, 2021, respectively.

The first, second, and final loan drawdowns amounted to ₱75.00 million on November 23, 2012, ₱200.00 million on August 26, 2014, and ₱225.00 million on November 25, 2015, respectively. The carrying value of the loan amounted to ₱312.60 million and ₱312.45 million as of June 30, 2022 and December 31, 2021, respectively.

*Omnibus Loan and Security Agreement – Sub-tranche 3*
On October 9, 2014, Boracay Water signed a Third Omnibus Loan and Security Agreement amounting to ₱650.00 million with SBC. The first, second, and third drawdowns on this loan were made on November 25, 2016, May 25, 2017, and September 25, 2017, amounting to ₱200.00 million, ₱250.00 million, ₱200.00 million, respectively. The carrying value of the loan amounted to ₱537.36 million and ₱537.05 million as of June 30, 2022 and December 31, 2021, respectively.

*Omnibus Loan and Security Agreement – BPI*
On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The drawdowns on this loan made on April 30, 2018, September 25, 2018, and December 20, 2018 amounted to ₱250.00 million, ₱250.00 million and ₱100.00 million respectively. On February 13, 2020, March 31, 2020, April 7, 2020, and December 22, 2020, additional drawdowns were made amounting to ₱50.00 million, ₱30.00 million, ₱520.00 million, and ₱50.00 million respectively. On January 28, 2021 and May 26, 2021, drawdowns were made amounting to ₱100.00 million and ₱70.00 million, respectively. On January 21, 2022, a drawdown was made amounting to ₱100.00 million. The carrying value of loan amounted to ₱1,509.09 million and ₱1,409.58 million as of June 30, 2022 and December 31, 2021, respectively.

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

The first and second drawdowns on the loan were made on September 29, 2015 and December 29, 2015, amounting to ₱800.00 million and ₱200.00 million, respectively. The last drawdown was made on August 29, 2016 amounting to ₱150.00 million. The carrying value of the loan amounted to ₱786.69 million and ₱834.17 million as of June 30, 2022 and December 31, 2021, respectively.

On March 11, 2019, Clark Water signed a term loan agreement amounting to ₱535.00 million with the DBP. The proceeds of the loan will be used to partially finance Clark Water's capital expenditure programs. Under the agreement, principal payments will be made in forty-eight (48) consecutive equal quarterly installments starting March 2022. The first, second, third, and fourth drawdowns on this loan were made on March 22, 2019, December 20, 2019, April 24, 2020, and December 23, 2020 amounting to ₱100.00 million, ₱80.00 million, ₱80.00 million, and ₱60.00 million, respectively. The last drawdown was made on May 7, 2021 amounting to ₱215.00 million. The carrying value of the loan amounted to ₱520.49 million and ₱531.36 million as of June 30, 2022 and December 31, 2021, respectively.

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

In 2013, MW Consortium entered into a real estate mortgage agreement with the DBP, as third-party mortgagor, in consideration for this Cebu Water loan.

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 ₱14.79 million on November 14, 2014, respectively. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱503.35 million and ₱525.12 million, respectively.

*MWPVI Loan*
On October 5, 2016, MWPVI signed a fifteen (15)-year fixed rate term loan facility amounting to ₱4.00 billion with SBC and Metrobank. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.00 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements.

On February 24, 2017, MWPVI made a bridge loan drawdown amounting to ₱150.00 million each from SBC and Metrobank. These bridge loans had a 119-day term. On June 23, 2017, these bridge loans were rolled-over for additional 180 days, repriced monthly. On November 9, 2017, MWPVI repaid its ₱300.00 million bridge loan and made the first drawdown on its loan facility amounting to ₱450.00 million from each bank.

On October 5 and December 19, 2018, MWPVI made its subsequent drawdowns amounting to ₱50.00 million and ₱175.00 million from each bank, respectively. In 2019, MWPVI made additional drawdowns totaling to ₱800.00 million from each bank. These loan drawdowns have a term of thirteen (13) to fifteen (15) years, with interest payable semi-annually and principal repayments starting on November 9, 2022.

On January 15, February 19, and April 7, 2020, MWPVI made additional drawdowns amounting to ₱150.00 million, ₱200.00 million and ₱175.00 million from each bank, respectively.

MWPVI has exercised its option to borrow an additional ₱3.00 billion under the Greenshoe Option of the Omnibus Loan and Security Agreement (OLSA) with SCB and Metrobank. MWPVI signed the Second OLSA on May 22, 2020 and made the first drawdown of ₱750.00 million from each lender. The proceeds of the loan will be used to finance MWPVI's capital expenditures, existing projects of subsidiaries or equity investments, and other general corporate requirements.

On March 12, August 10 and October 5, 2021, MWPVI made additional drawdowns in equal tranches of ₱150.00 million from each bank. On February 28, 2022, MWPVI made additional drawdowns in equal tranches of ₱300.00 million from SBC and Metrobank. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱6,960.98 million and ₱6,361.44 million, respectively.

*Tagum Water Loan*
On October 6, 2016, Tagum Water signed an OLSA in the amount of ₱450.00 million with PNB. The loan will be used to partially finance the construction works in relation to the Tagum Bulk Water Supply Project. Principal payments will be made in forty-eight (48) equal quarterly installments starting December 2020. The first, second, and third drawdowns on this loan were made on September 25, 2017, April 18, 2018, and November 23, 2018, amounting to ₱130.00 million, ₱120.00 million, and ₱154.00 million, respectively. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱343.39 million and ₱360.08 million, respectively.

On April 22, 2021, the OLSA was amended for the loan upsize request to fund the additional construction works for the bulk water supply project. The lender has agreed to grant an additional loan in the principal amount of ₱150.00 million under the same payment terms of the initial loan. The first drawdown was made on August 2, 2021 amounting to ₱150.00 million, payable quarterly. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱133.29 million and ₱139.66 million, respectively.

*Aqua Centro Loan*
On March 1, 2021, Aqua Centro signed a ₱233.00 million ten (10)-year term loan facility with BPI to partially finance its capital expenditures, future acquisitions and other general corporate requirements. On March 19 and November 26, 2021, Aqua Centro made its first and second drawdown amounting to ₱80.00 million and ₱27.00 million, respectively. These loan drawdowns have a term of nine (9) to ten (10) years, with interest payable quarterly and principal repayments starting on March 19, 2024. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱166.87 million and ₱106.26 million, respectively.

*South Luzon Water Loan*
On August 18, 2021, South Luzon Water signed a ₱465.00 million term loan facility with BPI to partially finance its capital expenditure projects. Under the agreement, principal payments will be made in fifteen (15) consecutive equal semi-annual installments starting August 2024. The first and second drawdowns were made on August 25, 2021 and December 6, 2021, respectively, amounting to ₱50.00 million each. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱168.82 million and ₱100.00 million, respectively.

*Calbayog Water Loan*
On October 12, 2021, Calbayog Water signed a ₱393.00 million term loan facility with BPI to partially finance its capital expenditure projects. Under the agreement, principal payments will be made in fifteen (15) equal semi-annual payments starting October 24, 2024. The first drawdown was made on October 22, 2021 amounting to ₱70.00 million. The carrying value of the loan as of June 30, 2022 and December 31, 2021 amounted to ₱70.00 million.

South Luzon Water, Aqua Centro, Boracay Water, Laguna Water, Clark Water, and MWPVI have assigned their rights under their respective concession agreements or project documents as their loan collateral, while Cebu Water and Tagum Water's loans are secured by real estate mortgages on real assets with total carrying value amounting to ₱53.60 million as of June 30, 2022 and December 31, 2021.

Other loans

*Wawa loan*
On November 7, 2019, Wawa (the "Borrower") entered into a ₱20.00 billion five-year term loan facility with BDO Unibank, Inc. (the "Lender" or "BDO"). The purpose of the loan is to finance 75% of the total project cost of the Wawa Bulk Water Supply Project.

As of June 30, 2022, the Borrower has made the following drawdowns:

| Drawdown Date | Amount |
|---|---|
| October 30, 2020 | ₱720,000,000 |
| November 13, 2020 | 845,000,000 |
| May 26, 2021 | 2,178,000,000 |
| September 1, 2021 | 1,257,000,000 |
| February 2, 2022 | 2,598,000,000 |
| | ₱7,598,000,000 |

Interest on the unpaid principal amount shall be paid on quarterly payments from the initial drawdown date while the principal amount is payable over 10 years in quarterly installments commencing July 30, 2025 ($60^{th}$ month from initial drawdown date) as follows:

| Principal Repayment Date (Month from Initial Drawdown Date) | Installment Due for Each Facility on Each Repayment date |
|---|---|
| $60^{th}$, $63^{rd}$, $66^{th}$, $69^{th}$ and $72^{nd}$ | 0.900% |
| $75^{th}$, $78^{th}$, $81^{st}$ and $84^{th}$ | 1.375% |
| s$87^{th}$, $90^{th}$, $93^{rd}$ and $96^{th}$ | 1.625% |
| $99^{th}$, $102^{nd}$, $105^{th}$ and $108^{th}$ | 2.000% |
| $111^{th}$, $114^{th}$, $117^{th}$ and $120^{th}$ | 2.250% |
| $123^{rd}$, $126^{th}$, $129^{th}$ and $132^{nd}$ | 2.500% |
| $135^{th}$, $138^{th}$, $141^{st}$ and $144^{th}$ | 2.875% |
| $147^{th}$, $150^{th}$, $153^{rd}$ and $156^{th}$ | 3.250% |
| $159^{th}$, $162^{nd}$, $165^{th}$ and $168^{th}$ | 3.750% |
| $171^{st}$, $174^{th}$, $177^{th}$, and $180^{th}$ | 4.250% |

The loans under this facility, by default, are subject to a floating interest rate. However, the Borrower may exercise its one-time interest rate conversion option and avail a fixed interest rate. The Borrower has not elected to exercise its conversion option. Floating interest rate is the higher of the sum of a floating interest benchmark rate equal to the simple average of the closing PHP BVAL reference rate with a tenor of 3 months or a Minimum Interest Rate equal to the sum of the prevailing BSP term deposit with the longest tenor, plus a spread of either 2.25% or 1.75%, divided by an interest premium factor of either 0.99 or 0.95. The carrying value of the loan amounted to P7,500.12 million and ₱4,888.78 million as of June 30, 2022 and December 31, 2021, respectively.

*Prepayment Option*
The Borrower also has the option to prepay the loan after the Full Commercial Operations Date of the Wawa Bulk Water Supply Project, in whole or in part, together with the accrued interest thereon, subject to further conditions. There will be no prepayment penalties charged in case of a floating interest, provided that the prepayment is made on an interest payment date. In case of a fixed interest rate, prepayment penalty based on the amount of the loan to be prepaid is 1% during the 6th to 10th year and 0.5% on the 11th to 14th year. The prepayment option was assessed as clearly and closely related to the loan and does not require bifurcation.

*Debt Covenants*
- The Borrower's loan facility contains certain restrictive covenants that require the Borrower to comply with specified financial ratios such as debt-to-equity ratio of a maximum of 3 times and debt service coverage ratio of a minimum of 1.1 times, commencing one year after the Full Commercial Operations Date until the loans' final repayment date.
- The Borrower also may not declare or pay dividends on shares (whether common or preferred), return capital or make any other distributions to its stockholders, until the later of the Full Commercial Operations Date or beginning the 61st month from the initial drawdown date. Provided further that, among others, a debt service coverage ratio not greater than 1.10 times prior to payment and 1.25 times after payment is maintained.

*Collateral*

i) Security Interest

*On Personal Properties*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes in favor of the BDO Unibank, Inc. – Trust and Investments Group (Security Trustee) for the benefit of the Lender, a first ranking security interest on its future personal properties excluding (a) vehicles owned by WawaJVCo and (b) supplies and consumables which are used by the Borrower in the ordinary course of business. The security interest over the personal properties shall stand as security for the Secured Indebtedness in the aggregate principal amount of up to ₱10.0 billion, and all penalties, default interests, and interest accrued.

*On Project Accounts and Receivables*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes, in favor of the Security Trustee, for the benefit of the Lender, a security interest over its rights, title, and interests in, to, and under the following:

a. Wawa Water Project Receivables;
b. Dividend Receivables;
c. All monies standing in the Project Accounts, to the extent they are not effectively assigned under Assignment of Collateral Accounts;
d. Proceeds of any asset and business continuity insurance obtained by the Grantor after application of the same to complete, repair, rehabilitate, replace or reconstruct such assets of the Wawa Water Project; and
e. The proceeds, products, and fruits of (a) – (d) above.

The security interest over the project accounts and receivables shall constitute as a security for all amounts payable.

*On Project Agreements and Permits*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes, in favor of the Security Trustee, for the benefit of the Lender, a security interest over all of WawaJVCo's right, title, and interest, present and future, in and to the Project Agreements (i.e. the Raw Water Supply and Offtake Agreement, dated August 6, 2019) including that of the Wawa Water Permit.

ii) Assignment

*Collateral Accounts*. The Borrower establishes in favor of the Security Trustee and shall maintain thereafter so long as any Secured Obligation shall remain outstanding in whole or in part, the following accounts (Project Accounts) which shall be under the control of the Security Trustee:

a. *Loan Proceeds Account (LPA)*. The LPA shall be used as the repository of the proceeds of loan drawdowns and equity infusion.

b. *Revenue and Insurance Proceeds Account (RIPA)*. The RIPA shall be used as the repository of the revenue to be generated from the Wawa Water Project, proceeds from insurance claims, liquidated damages, and all other amounts received by the Borrower from counterparties under Project Arrangements.

c. *Operating and Maintenance Account (OMA)*. This account shall be funded from transfers made by the Security Trustee on the first day of each calendar month from RIPA from and after the Tayabasan Multi-basin System Commercial Operation date.

d. *Debt Service Reserve Account (DSRA)*. The level of funds standing in the DSRA (DSRA Maintaining Balance) on any date prior to Full Commercial Operations Date shall be at least the amount of the interest due on the immediately two succeeding repayment date while from and after Full Commercial Operations Date, at least the amount of principal due on the twice the amount of the interest due on the immediately succeeding principal payment date and at least the amount of the interest due on the immediately two succeeding repayment date.

e. *Debt Service Payment Account (DSPA)*. The level of funds standing in the DSPA (DSPA Maintaining Balance) at least five banking days from a payment date shall at least equal to the amount of the principal and interest due on such payment date.

f. *Balance Account (BA)*. The BA, otherwise known as "Borrower-Controlled Account" contains the excess funds in the Project Accounts. Funds therein may be used by the Security Trustee to fund any other Project Accounts or used by the Borrower to fund dividend payments or make voluntary prepayments of the Loan, upon the same's written instruction, subject to further conditions.

The Borrower's debt collateral account related to the ₱20.0 billion Omnibus Loan Facility amounted to ₱156.7 million and ₱103.1 million, presented under "Restricted Cash" under "Other noncurrent assets account" in the consolidated statements of financial position (see Note 15).

*Project Agreements*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower assign, convey, set over and transfer to the Security Trustee absolutely and unconditionally, for the benefit of the Lender, its successors and assigns, all of the Borrower's right, title, and interest in, to and under the following:

a. All monies standing in the Project Accounts;
b. The proceeds of any asset and business continuity insurance obtained by the Borrower except for proceeds of insurance policies arising from damage to or destruction of any of

the assets of the Wawa Water Project, to the extent that such proceeds shall first be used to complete, repair, rehabilitate, replace or reconstruct such assets of the Wawa Water Project, as may be necessary as a result of the incident or event giving rise to a claim under the relevant insurance policy; and

c. The proceeds, products and fruits of all the forgoing (all of the above, collectively, the "Collateral Accounts").

The Borrower's security interest on project accounts and receivables is nil as at June 30, 2022 and December 31, 2021 since Wawa's commercial operations have not yet commenced (see Note 1).

iii) Real Estate Mortgage

As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes in favor of the BDO Unibank, Inc. – Trust and Investments Group (Security Trustee) for the benefit of the Lender, a first ranking real estate mortgage on the present real assets, i.e. the land owned by the Borrower located in Brgy. San Isidro, Montalban, Rizal and future real assets.

The Borrower's land subject to real estate mortgage amounted to ₱2.4 million as at June 30, 2022 and December 31, 2021, respectively (see Note 13).

*TWCHI loan*
On May 20, 2021, TWCHI entered into 3-year term loan facility agreement with BPI having an aggregate amount of ₱5.50 billion to be used in financing MWCI acquisition.

On June 3, 2021, TWCHI made an initial drawdown of ₱5.40 billion. The principal amount of the loan shall be fully paid on the maturity date, June 3, 2024, while the interest on the unpaid principal amount shall be paid in quarterly payments from the initial drawdown date. The loan bears an interest rate based on the higher of PHP BVAL reference rates plus a spread of 2.5% and O/N RRP ("Overnight Reverse Restriction Repurchase") rate of BSP plus a spread of 0.95%.

For a floating rate loan, TWCHI is permitted to make prepayments in part or in full without penalty if made on interest payment date and subject to thirty (30) calendar day's prior notice.

TWCHI's loan arrangement with the bank is secured by a collateral comprising rights, title and interest to the 820,000,000 common shares of MWCI and the 2,691,268,205 preferred shares mentioned in Note 4. It is also subject to compliance with certain financial ratios such as debt-to-equity ratio of 3.0:1.0 (computed as total liabilities divided by total equity) by TWCHI's Surety (PSHI). The carrying value of the loan amounted to ₱5,355.43 million and ₱5,341.87 million as of June 30, 2022 and December 31, 2021, respectively.

*PII loans*

*₱3.5 billion PII Unionbank*
On December 10, 2021, PII entered into a 7 year term loan facility agreement with Union Bank of the Philippines (Union Bank) having an aggregate amount of ₱3.5 billion to be used in partially financing PII's investment in WawaJVCo, Inc.

On December 13, 2021, PII made an initial drawdown of ₱2.0 billion. On January 27, 2022, PII made an additional drawdown of ₱350.0 million. The principal amount and interest of the loan shall be paid quarterly with principal payments starting on the 8th quarter following the initial drawdown date. The loan bears a fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum. PII's loan arrangement is secured by the full and unconditional guaranty of PII's parent company, PICI and the ultimate parent, PSHI.

The following cash waterfall accounts were also established subject to hold-out rights, control and security interest of the bank:

(a) Management fee deposit account (MFDA) was established where consultancy fees assigned by PICI to PII shall be deposited into. PII has a right of withdrawal over the MFDA only if the balance has exceeded ₱10.0 million.

(b) DSRA and DSPA were also established. DSRA shall be funded in an amount equivalent to the debt service due and payable for the subsequent interest or principal payment dates at anytime during the lifetime of the loan and DSPA shall be deposited the amount of applicable debt service for each repayment date at least 10 days prior to each relevant interest payment date or principal repayment date.

The Borrower's debt collateral account related to the ₱3.5 billion 7-year term loan facility amounted to ₱85.3 million and ₱76.3 million as of June 30, 2022 and December 31, 2021, respectively, presented under "Restricted Cash" under "Other noncurrent assets account" in the consolidated statements of financial position (see Note 15).

It is also subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1.2x and debt to Equity of 2.5x. The foregoing ratios shall be computed on the basis of PII's annual audited financial statements beginning December 31, 2022.

The carrying value of the loan amounted to ₱2,336.33 million and ₱1,985.31 million as of June 30, 2022 and December 31, 2021, respectively.

<u>*PMPHC loan*</u>
On April 21, 2021. PMPHC signed a 7-year term loan facility agreement with Union Bank for an aggregate amount of ₱1.5 billion to finance the investment in Solar Philippines Tarlac Corporation (SPTC) via the purchase of SPTC's redeemable preferred shares. Drawdown was made on May 18, 2021.

The principal amount of the loan shall be repaid through sculpted quarterly principal amortizations in five years after a two-year grace period from initial drawdown date. Interest on the loan shall also be paid quarterly from initial drawdown date. The loan interest is fixed at 7-year BVAL plus 200 basis points. The loan is secured by a full and unconditional guaranty of Prime Strategic Holdings, Inc. (PSHI). The carrying value of the loan amounted to ₱1,490.87 million and ₱1,490.03 million as of June 30, 2022 and December 31, 2021, respectively.

*Debt Covenants*
PMPHC is subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1. The ratio shall be computed based on PMPHC's annual audited financial statements beginning December 31, 2021.PMPHC is subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) of 1.2x and debt to equity (DE) ratio of 2.5x. The ratio shall be computed based on PMPHC's annual audited financial statements beginning December 31, 2021. As at December 31, 2021, the Company was in compliance with the debt covenants.

*₱1.0 billion PII HSBC loan*
On October 19, 2021, PII entered into a 5-year term loan facility agreement with HSBC having an aggregate amount of ₱1.0 billion to be used in financing the equity infusion into, or provide advances in relation to, a solar power project.

The principal amount of the loan shall be paid in equal quarterly payments over the last 4 years of the loan for the drawdowns of ₱500.0 million on October 27, 2021 and December 9, 2021. Whereas interest on the unpaid principal amount shall be paid in quarterly payments from the initial drawdown date. The loan bears an interest rate of either a 3-month PHP BVAL plus a spread of 2.35% to be reset every three months or a 5-year PHP BVAL plus a spread of 2.35% fixed for the duration of the loan at the option of PII which is to be communicated to the bank prior to the drawdown date and is applicable for the entire life of the facility. PII's loan arrangement is secured by a corporate guarantee issued by PICI covering all obligations of PII under the term loan. As of date, PII has opted for the 5-year PHP BVAL rate plus a spread of 2.35% fixed for the duration of the loan.

It is also subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1.0x to be tested annually beginning on the first year of principal repayment in 2023. The carrying value of the loan amounted to ₱989.50 million and ₱987.43 million as of June 30, 2022 and December 31, 2021, respectively.

*PMBC loan*

*BDO Leasing and Finance, Inc. (BDOLFI)*
On March 18, 2019, BDO Leasing and Finance Inc. (BDOLFI) approved the conversion of the remaining finance lease obligation amounting to ₱178.7 million (arising from Sale and Leaseback Agreement entered into by PMBC and BDOLFI in 2018) into a commercial loan facility (see Note 13). The conversion indicates a modification of a debt and did not result to extinguishment of an old loan and recognition of a new loan. Accordingly, PMBC reclassified the finance lease obligation to long-term loan and capitalized the related debt transaction cost amounting to ₱2.2 million. Interest rate upon conversion is 6.5% per annum, subject to annual reprising. As of June 30, 2022, the loan was fully settled by PMBC.

*BOT Lease and Finance Philippines, Inc. (BOTLFPI)*
On January 5, 2021, PMBC secured a credit line facility covering finance lease and loans with chattel mortgage, sale and lease back from BOTLFPI. The facility covers construction related equipment, with 36 to 60 month terms.

In 2021 and 2022, PMBC obtained various long-term loans from BOTLFPI amounting to ₱100.2 million and ₱63.1 million, respectively. The long-term loans come with a chattel mortgage as security for the unpaid balance of the loans. The principal amounts due bear an annual interest of 8.7% in 2021 and 2022, subject to annual repricing. There were no loan covenants that PMBC is required to comply.

As of June 30, 2022 and December 31, 2021, the carrying amount of the above PMBC loans amounted to ₱145.9 million and ₱149.2 million, respectively.

*Debt Covenant and Collateral*
There were no loan covenants that PMBC is required to comply. The long-term loan with BOTLFPI is secured by the construction equipment with a carrying value of ₱151.3 million and ₱184.9 million as of June 30, 2022 and December 31, 2021, respectively, and will mature in 2027.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Group which include compliance with certain financial ratios such as the debt-to-equity, debt-service-coverage and early termination, as well as limitations in the declaration of dividends to stockholders in some of the subsidiaries. As of June 30, 2022 and December 31, 2021, the Group is in compliance with all the loan covenants required by the creditors.

## 18. Lease Arrangements

The Group has lease contracts related to its transportation equipment, office space, storage and plant facilities, land, right-of-way and furniture and fixtures (see Note 1 and 29). The Group's obligations under these leases are secured by the lessor's title to the leased assets. Extension and termination options are normally mutually agreed by lessor and lessee.

Set out below are the carrying amounts of right-of-use assets recognized as "Properties and equipment" in the consolidated statements of financial position (see Note 13) and the movements during the year:

| | **June 30, 2022** | | | | | |
|---|---|---|---|---|---|---|
| | **Office Space and Parking** | **Storage and Plant Facilities** | **Land and Right-of-Way** | **Transportation equipment** | **Furniture and fixtures** | **Total** |
| **Cost** | | | | | | |
| Balance at beginning of period | **₱345,563,934** | **₱175,829,291** | **₱32,428,428** | **₱40,921,910** | **₱20,496,548** | **₱615,240,111** |
| Additions | **3,520,543** | **11,902,417** | **–** | **22,240,643** | **–** | **37,663,603** |
| Lease modification | **–** | **–** | **(33,572)** | **–** | **–** | **(33,572)** |
| Lease derecognition | **–** | **–** | **–** | **–** | **(20,496,548)** | **(20,496,548)** |
| Balance at end of period | **349,084,477** | **187,731,708** | **32,394,856** | **63,162,553** | **–** | **632,373,594** |
| **Accumulated amortization** | | | | | | |
| Balance at beginning of period | **84,049,118** | **34,423,707** | **1,677,315** | **16,341,162** | **19,477,913** | **155,969,215** |
| Amortization | **41,120,787** | **19,152,658** | **1,748,171** | **6,345,333** | **–** | **68,366,949** |
| Lease derecognition | **–** | **–** | **–** | **–** | **(19,477,913)** | **(19,477,913)** |
| Balance at end of period | **125,169,905** | **53,576,365** | **3,425,486** | **22,686,495** | **–** | **204,858,251** |
| **Net book value** | **₱223,914,572** | **₱134,155,343** | **₱28,969,370** | **₱40,476,058** | **₱–** | **₱427,515,343** |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Office Space and Parking | Storage and Plant Facilities | Land and Right-of-Way | Transportation equipment | Furniture and fixtures | Total |
| Cost | | | | | | |
| Balance at beginning of year | ₱58,464,553 | ₱– | ₱– | ₱11,163,766 | ₱20,496,548 | ₱90,124,867 |
| Acquired from business combination (see Note 4) | 199,375,703 | 175,829,291 | 27,220,873 | – | – | 402,425,867 |
| Additions | 95,541,249 | – | 5,207,555 | 29,758,144 | – | 130,506,948 |
| Lease modification | (7,817,571) | – | – | – | – | (7,817,571) |
| Balance at end of year | 345,563,934 | 175,829,291 | 32,428,428 | 40,921,910 | 20,496,548 | 615,240,111 |
| Accumulated amortization | | | | | | |
| Balance at beginning of year | 27,533,653 | – | – | 9,472,404 | 10,163,166 | 47,169,223 |
| Amortization | 56,515,465 | 34,423,707 | 1,677,315 | 6,868,758 | 9,314,747 | 108,799,992 |
| Balance at end of year | 84,049,118 | 34,423,707 | 1,677,315 | 16,341,162 | 19,477,913 | 155,969,215 |
| Net book value | ₱261,514,816 | ₱141,405,584 | ₱30,751,113 | ₱24,580,748 | ₱1,018,635 | ₱459,270,896 |

Amortization of plant facilities used for construction amounting to ₱13.37 million and ₱27.09 million was capitalized as of June 30, 2022 and December 31, 2021, respectively.

The rollforward analysis of lease liabilities follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱497,547,185** | ₱61,180,947 |
| Addition resulting from business combination (see Note 4) | **–** | 397,925,758 |
| Additions | **36,081,133** | 125,850,765 |
| Interest expense | **7,643,485** | 15,328,459 |
| Lease modification | **–** | (7,662,917) |
| Derecognition | **(10,929,842)** | – |
| Lease payments | **(104,462,178)** | (95,075,827) |
| Balance at end of period | **425,879,783** | 497,547,185 |
| Less current portion | **102,587,399** | 168,612,103 |
| Noncurrent portion | **₱323,292,384** | ₱328,935,082 |

The maturity analysis of lease liabilities is disclosed in Note 33.

The following are the amounts recognized in consolidated statements of comprehensive income for the six months ended June 30:

| | **2022** | 2021 |
|---|---|---|
| Depreciation expense of ROU assets (Notes 23 and 24) | **₱68,366,949** | ₱16,404,782 |
| Interest expense on lease liabilities (Notes 23 and 24) | **7,643,485** | 2,559,095 |
| Expenses relating to short-term leases and lease of low-value assets (Notes 23 and 24) | **32,192,156** | 6,435,793 |
| | **₱108,202,590** | ₱25,399,670 |

## 19. **Retirement Liability**

MWCI, MWPVI, Boracay Water, Clark Water, and Laguna Water have funded noncontributory defined benefit pension plans while PMBC, MWTS, Obando Water, BMDC, and MWTV have unfunded, noncontributory defined benefit pension plans covering all of its regular employees.

MWCI's funding policies state that equivalent target funding ratio must always be at least 80% and should the ratio reach 120.00%, 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, MWCI has a maximum of three (3) years to comply with the required minimum funding ratio of 80.00%.

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

Changes in the net defined benefit liability of retirement plans are as follow:

| | **June 30, 2022** | | |
|---|---|---|---|
| | **Present value of defined benefit obligations** | **Fair value of plan assets** | **Net defined benefit liabilities** |
| Balance at beginning of period | **₱973,500,626** | **₱812,802,276** | **₱160,698,350** |
| Net benefit costs in profit or loss: | | | |
| Current service cost | **52,924,554** | **–** | **52,924,554** |
| Net interest (see Note 24) | **3,059,969** | **–** | **3,059,969** |
| | **55,984,523** | **–** | **55,984,523** |
| Balance at end of period | **₱1,029,485,149** | **₱812,802,276** | **₱216,682,873** |

| | December 31, 2021 | | |
|---|---|---|---|
| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liabilities |
| Balance at beginning of period | ₱27,502,184 | ₱– | ₱27,502,184 |
| Addition resulting from business combination (see Note 4) | 1,103,990,954 | 841,281,950 | 262,709,004 |
| Net benefit costs in profit or loss: | | | |
| Current service cost | 51,023,625 | – | 51,023,625 |
| Net interest (see Note 24) | 45,392,698 | 41,500,274 | 3,892,424 |
| | 96,416,323 | 41,500,274 | 54,916,049 |
| Remeasurements in OCI: | | | |
| Return on plan assets (excluding amount included in interest) | ₱– | ₱6,718,388 | (₱6,718,388) |
| Actuarial changes arising from: | | | |
| Experience adjustments | 2,325,504 | – | 2,325,504 |
| Changes in demographic assumptions | 1,545,514 | – | 1,545,514 |
| Changes in financial assumptions | (121,177,379) | – | (121,177,379) |
| | (117,306,361) | 6,718,388 | (124,024,749) |
| Benefits paid | (137,102,474) | (135,158,336) | (1,944,138) |
| Contributions | – | 58,460,000 | (58,460,000) |
| Balance at end of period | ₱973,500,626 | ₱812,802,276 | ₱160,698,350 |

The components of the fair value of plan assets as of June 30, 2022 and December 31, 2021 are as follows:

| | Amount |
|---|---|
| Assets: | |
| Cash and cash equivalents | ₱3,635,181 |
| Debt investments - domestic | 628,622,969 |
| Equity investments - domestic | 197,659,965 |
| Interest receivable | 2,782,036 |
| Other receivable | 14,241,213 |
| | 846,941,364 |
| Liabilities: | |
| Accrued trust fees | 436,201 |
| Other payables | 33,702,887 |
| | 34,139,088 |
| | ₱812,802,276 |

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

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

The cost of defined benefit pension plans, 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 as of June 30, 2022 and December 31, 2021 used in determining pension obligations for the defined benefit plans are shown below:

| | Rate |
|---|---|
| Discount rate | 4.90% to 5.26% |
| Salary increase rate | 2.00% to 5.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of as of June 30, 2022 and December 31, 2021, assuming all other assumptions were held constant:

| | Increase (Decrease) | Effect on Defined Benefit Obligation |
|---|---|---|
| Discount rate | 1.00% | (₱85,050,877) |
| | (1.00%) | 101,641,027 |
| Salary increase rate | 1.00% | 101,105,069 |
| | (1.00%) | (86,148,542) |

Shown below is the maturity analysis of the undiscounted benefit payments as of June 30, 2022 and December 31, 2021:

| | Amount |
|---|---|
| Less than 1 year | ₱159,607,263 |
| More than 1 year and up to 5 years | 394,313,518 |
| More than 5 years and up to 10 years | 363,634,906 |
| | ₱917,555,687 |

The average duration of the defined benefit obligation at the end of the reporting period is 13.07 years as of June 30, 2022.

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 MWCI, MWPVI, Boracay Water, Clark Water, Laguna Water, Obando Water, and BMDC in consideration of the contribution advice from the actuary. MWCI and Clark Water expect to make an additional contribution in 2022 amounting to ₱71.0 million. Boracay Water also expects to make a contribution in the fourth quarter of 2022. Whereas MWPVI, and Laguna Water have no expected contributions to their respective defined benefit pension plans in 2022.

As of June 30, 2022 and December 31, 2021, the plan assets include shares of stock of Bloomberry Resorts Corporation and International Container Terminal Services, Inc. (ICTSI) with a total fair value of ₱4.79 million.

The latest actuarial valuation reports are dated as of December 31, 2021.

## 20. Other noncurrent liabilities

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Share purchase payable (see Note 4) | **₱4,220,814,816** | ₱4,143,482,635 |
| Deferred credits | **446,422,967** | 446,422,967 |
| Customers' guaranty deposits and other deposits | **457,561,973** | 424,557,898 |
| Long-term sick and vacation leave liability | **119,562,339** | 136,515,807 |
| Retention payable | **153,686,582** | – |
| | **₱5,398,048,677** | ₱5,150,979,307 |

Share purchase payable pertains to the amount due to Philwater for the purchase of MWCI's preferred shares. The rollforward analysis of this account follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱4,143,482,635** | ₱– |
| Consideration for MWCI's shares (see Note 4) | – | 4,053,261,756 |
| Accretion (see Note 24) | **77,332,181** | 90,220,879 |
| Balance at end of period | **₱4,220,814,816** | ₱4,143,482,635 |

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

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance at beginning of period | **₱446,422,967** | ₱– |
| Acquired from business combination (see Note 4) | – | 445,365,847 |
| Additions | – | 18,053,690 |
| Amortization | – | (16,996,570) |
| Balance at end of period | **₱446,422,967** | ₱446,422,967 |

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.

Retention payable pertains to the portion of the contract price withheld by the Group as security and shall be released after the guarantee period, which is one year after the completion of the project. The retention serves as security for the Group for the discovery of defects and other non-compliance from the specifications indicated after the construction of the property.

## 21. **Equity**

Capital Stock and Additional Paid-in Capital

| | **June 30, 2022** | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Number of Shares - ₱0.10 par value | **Capital Stock** | **Additional Paid-in Capital** | Number of Shares - ₱1.00 par value | Capital Stock | Additional Paid-in Capital |
| Authorized shares | 13,300,000,000 | **₱1,330,000,000** | **₱–** | 50,000,000 | ₱50,000,000 | ₱– |
| Issued and subscribed: | | | | | | |
| Issued shares | 6,847,541,980 | **₱684,754,198** | **₱6,300,032,147** | 50,000,000 | ₱50,000,000 | ₱6,318,588,499 |

Upon incorporation, the Parent Company issued 2.5 million shares with a par value of ₱1.0 per share or an aggregate amount of ₱2.5 million to the Parent's incorporators, of which PSHI is the controlling shareholder.

On December 4, 2020, PSHI subscribed to 20.0 million shares of the Parent Company at par value, which was paid by way of assignment of deposits to PMIHC and PMPHC amounting to ₱10.0 million each.

On December 29, 2020, PSHI subscribed to an additional 10,335,470 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱2,385.1 million. The said subscription was paid by way of assignment of deposits to PMIHC of ₱726.8 million, PMPHC of ₱1,109.7 million, and TWCHI of ₱539.8 million, and PII of ₱6.3 million; and by way of assignment of PSHI's receivable from the Parent amounting to ₱2.5 million. As a result, additional paid-in capital of ₱2,374.8 million was recognized on this subscription.

On the same date, PSHI subscribed to an additional 14,581,300 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱3,364.9 million. The said subscription was paid by way of assignment of deposits to PMPHC and PMIHC amounting to ₱2,973.5 million and ₱391.4 million, respectively. As a result, additional paid-in capital of ₱3,350.3 million was recognized on this subscription.

On the same date, PSHI subscribed to an additional 2,583,230 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱596.1 million. As a result, additional paid-in capital of ₱593.5 million was recognized on this subscription. As of December 31, 2020, the said subscription remains unpaid and is presented as "Subscription receivable" in the 2020 statement of financial position.

On November 19, 2021, the BOD and stockholders of PICI approved the increase in PICI's authorized capital stock from ₱50.0 million divided into 50.0 million shares with a par value of ₱1.00 per share to ₱1.4 billion divided into (a) 13.3 billion common shares with a par value of ₱0.1 per share and (b) 7.0 billion preferred shares with par value of ₱0.01 per share.

On November 19, 2021, PSHI subscribed to an additional 6,347,541,980 common shares of the Company at a subscription price of ₱0.10 per share for an aggregate consideration of ₱634,754,198. Pending the SEC approval for the increase in PIHI's authorized capital stock, the total deposits received from PSHI were recognized as "Deposit for future stock subscription" under the equity section, in the consolidated statement of financial position as of December 31, 2021. On December 15, 2021 the SEC received the certificate of increase in capital stock of the Company. On June 8, 2022, the SEC approved PICI's application for capital increase.

| | **June 30, 2022** | | | |
|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Subscription Receivable** | **Paid-in Capital** |
| Balance at beginning of year | **₱50,000,000** | **₱6,318,588,499** | **₱–** | **₱6,368,588,499** |
| Application of deposits for future stock subscription | **634,754,198** | – | – | **634,754,198** |
| Stock issuance cost | – | **(18,556,352)** | – | **(18,556,352)** |
| Balance at end of year | **₱684,754,198** | **₱6,300,032,147** | **₱–** | **₱6,984,786,345** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Subscription Receivable | Paid-in Capital |
| Balance at beginning of year | ₱50,000,000 | ₱6,318,588,499 | (₱596,123,815) | ₱5,772,464,684 |
| Collection of subscription receivable | – | – | 596,123,815 | 596,123,815 |
| Balance at end of year | ₱50,000,000 | ₱6,318,588,499 | ₱– | ₱6,368,588,499 |

In June 2022, PICI incurred share issuance costs for SEC registration fees, documentary stamp tax, and professional audit fees amounting to ₱18.6 million which was deducted from additional paid-in capital.

Subscription Receivable
On December 29, 2020, PSHI made a subscription to 2,583,230 common shares of the Group at ₱230.77 per share or an aggregate amount of ₱596.1 million. The subscription receivable was fully settled in February 2021.

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates accounted for under the equity method amounting to ₱2,600.2 million, and ₱1,389.4 million as of June 30, 2022 and December 31, 2021, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies. The Group's retained earnings as of June 30, 2022 and December 31, 2021 also includes gain on acquisition of a subsidiary amounting to ₱9,120.3 million which is not available for dividend declaration (see Note 4).

## 22. **Revenue from Contracts with Customers**

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Water and other related revenues | **₱10,735,656,108** | ₱1,830,650,187 |
| Construction revenue | **1,633,033,517** | 1,357,157,275 |
| Sale of electricity | **233,109,813** | 233,560,503 |
| | **₱12,601,799,438** | ₱3,421,367,965 |

Other operating income included under water and other related revenues above are as follows:

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Pipeworks and integrated used water services | **₱206,074,265** | ₱3,823,286 |
| Connection fees from water and service connections | **155,317,428** | 21,487,463 |
| Service income from bulk water contracts (Note 9) | **96,723,642** | 11,606,890 |
| Supervision fees (Notes 9 and 16) | **84,187,599** | 28,257,347 |
| Operations and maintenance services | **58,741,427** | 7,780,954 |
| Cross border billings | **30,929,139** | – |
| Reconnection fee | **20,392,760** | 3,259,547 |
| Income from customer late payments | **17,712,813** | 3,275,391 |
| Recovery of expenses | **17,228,253** | – |
| Septic sludge disposal and bacteriological water analysis | **16,666,947** | 3,000,330 |
| Miscellaneous | **31,082,384** | 1,760,539 |
| | **₱735,056,657** | ₱84,251,747 |

Disaggregated revenue information

The following are the disaggregation of the Group's revenue from contracts with customers for the six months ended June 30, 2022 and 2021:

| | **2022** | | | |
|---|---|---|---|---|
| | **Manila Concession and MWCI Head Office** | **Domestic Subsidiaries** | **Foreign Subsidiaries** | **Total** |
| | | *(In Thousands)* | | |
| **Revenue from contracts with customers:** | | | | |
| Water and other related revenues | **₱8,197,092** | **₱2,538,564** | **₱–** | **₱10,735,656** |
| Construction revenue | **–** | **1,633,033** | **–** | **1,633,033** |
| Sale of electricity | **–** | **–** | **233,110** | **233,110** |
| | **₱8,197,092** | **₱4,171,597** | **₱233,110** | **₱12,601,799** |
| **Timing of revenue recognition:** | | | | |
| Over time | **₱8,119,936** | **₱4,011,235** | **₱233,110** | **₱12,364,281** |
| Point in time | **77,156** | **160,362** | **–** | **237,518** |
| | **₱8,197,092** | **₱4,171,597** | **₱233,110** | **₱12,601,799** |

| | 2021 | | | |
|---|---|---|---|---|
| | Manila Concession and MWCI Head Office | Domestic Subsidiaries | Foreign Subsidiaries | Total |
| | | *(In Thousands)* | | |
| Revenue from contracts with customers: | | | | |
| Water and other related revenues | ₱1,468,117 | ₱362,533 | ₱– | ₱1,830,650 |
| Construction revenue | – | 1,357,157 | – | 1,357,157 |
| Sale of electricity | – | – | 233,561 | 233,561 |
| | ₱1,468,117 | ₱1,719,690 | ₱233,561 | ₱3,421,368 |
| Timing of revenue recognition: | | | | |
| Over time | ₱1,462,034 | ₱1,703,049 | ₱233,561 | ₱3,398,644 |
| Point in time | 6,083 | 16,641 | – | 22,724 |
| | ₱1,468,117 | ₱1,719,690 | ₱233,561 | ₱3,421,368 |

## 23. **Cost of Services**

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Depreciation and amortization (Note 10, 13, and 18) | **₱1,887,489,884** | ₱285,926,002 |
| Personnel cost | **1,366,480,309** | 407,496,253 |
| Power, light and water | **855,838,307** | 127,633,435 |
| Contractual and and other outsourced services | **852,467,862** | 418,574,877 |
| Water and used water service costs | **435,308,095** | 77,184,137 |
| Repairs and maintenance | **330,488,592** | 6,264,274 |
| Direct materials | **221,375,602** | 379,065,235 |
| Regulatory costs | **164,738,999** | 23,557,044 |
| Overhead | **180,143,349** | 90,736,979 |
| | **₱6,294,330,999** | ₱1,816,438,236 |

Overhead includes vehicle and equipment rental, indirect labor, repairs and maintenance, supplies, indirect labor and other overhead costs.

## 24. **Operating Expenses, Interest Income and Interest Expense**

a. Operating expenses consist of:

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Personnel cost (Notes 19 and 27) | **₱816,621,360** | ₱210,105,447 |
| Depreciation and amortization (Notes 10, 13 and 15) | **240,017,143** | 103,346,707 |
| Technical and professional fees (Note 27) | **199,815,899** | 101,096,436 |
| Outside services | **149,636,784** | 29,661,239 |
| Repairs and maintenance | **127,657,049** | 54,568,070 |
| Replacement energy cost | **119,078,524** | – |
| Taxes and licenses | **112,292,022** | 32,693,982 |
| Provision for impairment loss (Notes 1 and 14) | **104,649,206** | 3,585,305 |
| Provision for ECL - net (Notes 7 and 9) | **91,397,722** | 159,275,049 |
| Insurance | **83,575,658** | 15,485,145 |
| Business development expense | **39,001,852** | 26,326,115 |
| Donations | **32,568,708** | 343,377 |
| Rent | **32,192,156** | 21,006,995 |
| Transportation and travel | **15,757,414** | 15,269,865 |
| Bank charges | **15,268,025** | 572,065 |
| Communication, printing, light and water | **11,160,064** | 14,529,146 |
| Representation and entertainment | **9,893,241** | 4,561,528 |
| Provisions and MWSS penalty - net (Notes 1 and 36) | **7,238,606** | 8,445,493 |
| Others | **109,479,964** | 13,626,170 |
| | **₱2,317,301,397** | ₱814,498,134 |

Others include water supply shortage expenses, transportation and travel, advertising and promotions, and other miscellaneous items, among others.

b. Interest income is earned from the following:

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Finance income from contract assets (Note 9) | **₱244,997,332** | ₱119,846,006 |
| Cash and cash equivalents and short-term investments (Note 6) | **28,652,227** | 8,753,512 |
| Others | **925,100** | 134,741 |
| | **₱274,574,659** | ₱128,734,259 |

c. Interest expense is incurred from the following:

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Long-term debt (Note 17): | | |
| Coupon interest | **₱972,254,638** | ₱189,069,995 |
| Amortization of debt discount, issuance costs and premium | **167,466,560** | 11,085,279 |
| Service concession obligations (Note 10) | **392,494,296** | 59,682,054 |
| Share purchase payable (Note 20) | **77,332,181** | 12,888,697 |
| Lease liabilities (Note 18) | **7,643,485** | 2,559,095 |
| Retirement liability (Note 19) | **3,059,969** | 646,462 |
| Short-term loan | **5,807,336** | – |
| Other financing charges (Notes 17 and 20) | **171,596,966** | – |
| | **₱1,797,655,431** | ₱275,931,582 |

Other financing charges consist of interest expense on short-term loans, hedging costs, hedging ineffectiveness, amortization of guaranty deposits, and loan pre-termination fees.

## 25. Discontinued Operations

*MWTS Healthy Family*

On August 26, 2020, MWTS announced the permanent closure of its Healthy Family business division effective October 31, 2020 due to its recurring losses and inability to financially sustain business operations, which qualified the MWTS Healthy Family division as a discontinued operation for the period ended June 30, 2022 and the year ended December 31, 2021.

For the six months ended June 30, 2022 and 2021, MWTS Healthy Family division net income amounted to nil and with net cash flows from operations amounting to nil and ₱13.0 million, respectively.

*Zamboanga Water*

On April 3, 2020, the ZCWD requested for the termination of the NRWRSA citing the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the DMAs established by Zamboanga Water has rendered the NRWRSA impractical and unworkable. On April 30, 2020, Zamboanga Water approved the termination of the NRWRSA, without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRWRSA, which qualified Zamboanga Water as a discontinued operation.

The results of operations of Zamboanga Water for the six months ended June 30, 2022 and 2021 are as follows:

| | **2022** | 2021 |
|---|---|---|
| Operating expenses | **(₱693,290)** | (₱86,345) |
| Interest income | **201** | 192 |
| Other income | **125,437** | 530,338 |
| Provision for income tax | **(2,417)** | (18,440) |
| Net income (loss) from discontinued operations | **(₱570,069)** | ₱425,745 |

The net cash flows of Zamboanga Water for the six months ended June 30, 2022 and 2021 are as follows:

| | **2022** | 2021 |
|---|---|---|
| Operating | **₱1,454,921** | (₱2,228,814) |
| Investing | **–** | (19,271) |
| Financing | **201** | 3,226,927 |
| Net increase in cash and cash equivalents | **₱1,455,122** | ₱978,842 |

26. **Income Taxes**

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Current | **₱758,844,258** | ₱279,712,393 |
| Deferred | **146,852,605** | (112,160,353) |
| Final | **1,327,324** | 237,855 |
| | **₱907,024,187** | ₱167,789,895 |

The Group used the Itemized Deduction in determining the amount of their deductible expenses for income tax purposes except for the Parent Company. Meanwhile, the Parent Company used the Optional Standard Deductions (OSD), which shall be in an amount not exceeding forty percent (40.00%) of the gross income. As a result, the applicable income tax rate is the Regular Corporate Income Tax rate of 25.00% and Minimum Corporate Income Tax rate of 1.00%, while foreign subsidiaries are subject to tax rates applicable in their respective countries.

A reconciliation of provision for income tax at the statutory income tax rate to provision for income tax as shown in the consolidated statements of comprehensive income follows:

| | **June 30, 2022** | June 30, 2021 |
|---|---|---|
| Provision for income tax computed at statutory rate | **25.00%** | 30.00% |
| Income tax effects of: | | |
| Income exempt from income tax | **(98.62)** | (70.34) |
| Interest income subject to final tax | **(0.19)** | (0.98) |
| Change in unrecognized deferred tax assets | **0.27** | 15.24 |
| Nondeductible expense | **98.14** | 25.36 |
| Translation adjustments | **1.92** | 2.37 |
| Others | **(0.28)** | – |
| | **26.24%** | 1.65% |

On March 26, 2021, President Rodrigo Duterte signed the RA No. 11534, the Corporate Recovery and Tax Incentives for Enterprises Act, (the "CREATE Law") which became effective on April 11, 2021. The CREATE Law intends to incentivize businesses by reducing corporate income tax, among others. The following are the key changes to the Philippine tax law pursuant to the CREATE Law which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.
- Foreign-sourced dividends shall only be exempt from taxation if (1) the funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation within the next taxable year from the time the foreign-sourced dividends were received; (2) shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure projects; (3) provided that the said domestic corporation holds directly at least 20.00% of the outstanding shares of the foreign corporation and has held the shares for at least two (2) years at the time of the dividend distribution.
- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.

The CREATE Law likewise rationalizes income fiscal incentives, making them time-bound, targeted, and performance-based. Holders of tax incentives are given a sunset period to adjust to the tax regime changes that will be brought about by the CREATE Law. Consequently, upon the effectivity of the CREATE Law, some tax exemptions or tax incentives enjoyed by certain members of the Group have expired, will be revoked, or have been repealed, or, if other new laws are enacted, the income from these sources will be subject to the regular corporate income tax rate after the lapse of the sunset period.

As of December 31, 2021, the CREATE Law's retrospective and 5% income tax rate reduction impact on the Group's current income tax expense amounted to a ₱231.7 million reduction, ₱145.7 million additional expense arising from deferred income taxes in the profit or loss, and ₱5.0 million additional expense from deferred income taxes in the OCI.

The component of the Group's net deferred tax assets follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Deferred tax assets: | | |
| Service concession liability, net of service concession asset | **₱1,924,025,277** | ₱1,720,907,947 |
| Business acquisition fair value adjustments: | | |
| Investment in associates | **770,959,903** | 770,959,903 |
| Loans | **82,115,040** | 94,271,806 |
| Property, plant and equipment | **38,104,592** | 45,558,602 |
| Service concession obligations | **23,436,937** | 25,940,248 |
| Provision and accruals | **487,641,555** | 573,691,653 |
| Allowance for ECL | **322,216,163** | 111,441,555 |
| Advances from customers/ contract liabilities | **139,349,044** | 128,747,630 |

*(Forward)*

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Retirement liability | **₱42,240,145** | ₱36,693,658 |
| Unrealized forex loss | **9,997,432** | 164,671,598 |
| NOLCO and MCIT | **10,206** | 141,464,697 |
| Others | **83,212,225** | 12,419,139 |
| | **3,923,308,519** | 3,826,768,436 |
| Deferred tax liabilities: | | |
| Difference between amortization expense of SCA per straight line method and per UOP | **(1,479,763,730)** | (1,324,896,862) |
| Business acquisition fair value adjustments: | | |
| Service concession assets | **(655,135,894)** | (668,449,500) |
| Right-of-use assets | **(173,961)** | (1,035,756) |
| Derivatives | **(191,655,848)** | (140,746,814) |
| Bond discount | **(73,996,509)** | (71,266,284) |
| Right-of-use assets-net | **(10,345,976)** | (8,658,121) |
| Advances to contractors | **(15,881,667)** | (9,807,070) |
| Others | **2,970,682** | (11,185,565) |
| | **(2,423,982,903)** | (2,236,045,972) |
| | **₱1,499,325,616** | ₱1,590,722,464 |

The components of the Group's net deferred tax liabilities are as follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Deferred tax liabilities | | |
| Difference between amortization expense of SCA per straight-line method and per UOP | **₱204,371,453** | ₱170,151,426 |
| Revaluation surplus on land | **184,622,366** | 99,706,312 |
| Customer relationship (see Note 4) | **154,284,189** | 217,387,608 |
| Contract assets from bulk water arrangements | **131,425,915** | 110,032,005 |
| Unrealized gain on financial asset at FVOCI | **103,368,852** | 3,135,000 |
| Unrealized gain on bargain purchase | **9,358,885** | 11,633,709 |
| Accrued receivables | **–** | 57,551,112 |
| Advances to contractors/contract assets | **–** | 11,879,944 |
| Others | **14,458,321** | 30,221,638 |
| | **801,889,981** | 711,698,754 |
| Deferred tax assets: | | |
| Advances from customers/ contract liabilities | **(30,416,204)** | – |
| Allowance for ECL | **(22,615,148)** | (89,104,777) |
| Provision and accruals | **(16,661,831)** | (15,411,592) |
| NOLCO | **(6,978,970)** | (11,884,242) |
| Retirement liability | **(3,915,368)** | (11,401,978) |
| | **(80,587,521)** | (127,802,589) |
| | **₱721,302,460** | ₱583,896,165 |

Deferred tax assets on the following NOLCO and other temporary differences were not recognized since management believes that it is not probable that sufficient future taxable income will be available against which these can be utilized:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| | *(in millions)* | |
| NOLCO | **₱1,472.9** | ₱1,467.3 |
| Allowance for impairment losses | **104.6** | – |
| Lease liability, net of right-of-use assets | – | 2.8 |
| Allowance for ECL | – | 312.4 |
| | **₱1,577.5** | ₱1,782.5 |

*MWCI*
Deferred tax on allowance for ECL was not recognized by MWCI. The net reduction in deferred tax assets from applying the effective income 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 MWCI. As of June 30, 2022 and December 31, 2021, deferred taxes on allowance for ECL amounting to nil and ₱312.4 million was not recognized, respectively.

*NOLCO*
On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of June 30, 2022, the Group has incurred NOLCO before taxable year 2020 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years, as follows:

| Year Incurred | Availment Period | Amount | Applied/Expired | Unapplied |
|---|---|---|---|---|
| 2019 | 2020 to 2022 | ₱342,169,680 | ₱125,816,823 | ₱216,352,857 |
| 2022 | 2023 to 2025 | 544,410,958 | – | 544,410,958 |
| | | ₱886,580,638 | ₱125,816,823 | ₱760,763,815 |

As of June 30, 2022, the Group has incurred NOLCO in taxable years 2020 and 2021 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

| Year Incurred | Availment Period | Amount | Applied/Expired | Unapplied |
|---|---|---|---|---|
| 2020 | 2021 to 2025 | ₱705,502,708 | ₱645,680 | ₱704,857,028 |
| 2021 | 2022 to 2026 | 1,200,543,235 | – | 1,200,543,235 |
| | | ₱1,906,045,943 | ₱645,680 | ₱1,905,400,263 |

*MCIT*
As of June 30, 2022, the Group's MCIT which can be claimed against future Regular Corporate Income Tax due on taxable income, but not beyond three (3) succeeding taxable years from the year the excess MCIT arose, are as follows:

| Year Incurred | Amount | Applied/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2020 | ₱15,834,448 | – | ₱15,834,448 | 2022 |
| 2021 | 14,352,546 | – | 14,352,546 | 2023 |
| 2022 | 3,939,197 | – | 3,939,197 | 2024 |
| | ₱34,126,191 | – | ₱34,126,191 | |

## 27. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant transactions with related parties include the following:

| Category | Period | Amount of Transactions | Outstanding Balance of Receivable (Payable) | Terms | Conditions |
|---|---|---|---|---|---|
| ***Subsidiaries' Stockholders*** | | | | | |
| ***Ultimate Parent*** | | | | | |
| **Prime Strategic Holdings Inc. (PSHI)** | | | | | |
| *formerly Prime Metroline Holdings, Inc.* | | | | | |
| Deposits received for future stock subscription | **2022** | **₱–** | **₱–** | To be applied to future stock subscription | Unsecured |
| | 2021 | 634,754,198 | (634,754,198) | | |
| ***Affiliates*** | | | | | |
| **Sureste Properties, Inc. (SPI)** | | | | | |
| Advances made | **2022** | **391,870** | – | No definite payment terms | Unsecured, no impairment |
| | 2021 | – | – | | |
| **International Container Terminal Services, Inc. (ICTSI)-RHQ** | | | | | |
| Construction and project management revenue | **2022** | **231,771,829** | **110,417,951** | 30 days; noninterest bearing | Unsecured, no impairment |
| | 2021 | 805,980,226 | 17,260,232 | | |
| Retention receivable | **2022** | **(9,141,766)** | **78,832,816** | Shall be released upon lapse of period allotted; noninterest bearing | Unsecured, no impairment |
| | 2021 | – | 87,974,582 | | |
| Utilities charges | **2022** | **2,199,000** | **(6,047,250)** | No definite payment terms | Unsecured, no impairment |
| | 2021 | 1,486,038 | (3,583,952) | | |
| Lease liabilities* | **2022** | **12,580,905** | **(8,349,037)** | Payable for the lease period, noninterest bearing | Unsecured, no impairment |
| | 2021 | 4,628,829 | (26,507,324) | | |
| Trade receivables from related parties (see Note 7) | **2022** | | **₱110,417,951** | | |
| | 2021 | | 17,260,232 | | |
| Retention receivables from related parties (see Notes 7 and 15) | **2022** | | **₱78,832,816** | | |
| | 2021 | | 87,974,582 | | |
| Lease liabilities | **2022** | | **(₱8,349,037)** | | |
| | 2021 | | (26,507,324) | | |
| Accounts payable and other liabilities (see Note 16) | **2022** | | **(₱6,047,250)** | | |
| | 2021 | | (3,583,952) | | |
| Deposits received for future stock subscription | **2022** | | **₱–** | | |
| | 2021 | | (634,754,198) | | |

**Amount of transactions disclosed pertain to ROU asset amortization and interest accretion on lease liabilities.*

The transactions are generally settled in cash. Other significant transactions with related parties follow:

a. Total remuneration of key management personnel, consisting of short-term benefits, amounted to ₱47.7 million and ₱15.9 million for the six months ended June 30, 2022 and 2021. There are no long-term benefits for key management personnel.

b. The Group has outstanding advances subject to liquidation from key management personnel recorded under "Trade and other receivables" in the consolidated statements of financial position amounting to nil and ₱0.2 million as at June 30, 2022 and December 31, 2021, respectively.

## 28. Earnings per share

Earnings per share amounts attributable to equity holders of the Parent Company for the six months ended June 30, 2022 and 2021 were computed as follows:

| | **2022** | 2021 |
|---|---|---|
| Net income attributable to common shareholders for basic and diluted earnings per share | **₱464,468,964** | ₱9,408,937,756 |
| Weighted average number of common shares for basic earnings per share | **1,275,810,686** | 500,000,000 |
| Dilutive common shares arising from stock options | **–** | – |
| Adjusted weighted average number of common stocks for diluted earnings per share | **1,275,810,686** | 500,000,000 |
| **EPS** | | |
| Basic/Diluted earnings per share | **₱0.4** | ₱18.8 |

The Group's decrease in par value resulted in a share split of 10:1 for its issued shares of 50,000,000. In accordance with PAS 33 *Earnings per share*, the weighted average number of common shares was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

## 29. Commitments

EPC Turnkey Contract with Butec S.A.L., and Payment Assignment Agreement with Butec S.A.L. and Wartsila Finland Oy

On October 11, 2018, the PMPHC entered into an Engineering, Procurement and Construction (EPC) Turnkey Contract with Butec S.A.L (Butec) for the Project.

On the same day, Butec and Wartsila Finland Oy (Wartsila) signed a supply contract for Butec to buy and for Wartsila to deliver equipment specified in the supply contract at the Port of Umm Qasr, Basra, Iraq, and to provide technical assistance during the installation and commissioning of the Project.

For consideration in ensuring efficiencies in the management of the Project, the Group entered into a payment assignment agreement with Butec and Wartsila so that certain payments under the EPC Turnkey Contract can be paid directly by the Group to Wartsila.

On February 18, 2020, the construction of the project was completed and a certificate of completion was issued by the Group. Additional construction cost incurred for 2020 amounted to ₱133.3 million.

As at June 30, 2022 and December 31, 2021, the total fees paid and outstanding payable to Butec amounted to ₱12.6 million and nil and ₱860.5 million and ₱12.6 million, respectively.

Joint Venture Agreement with San Lorenzo Ruiz Builders and Developers Group, Inc. (SLRBDGI)
On January 2, 2018, PSHI entered into a JVA with SLRBDGI for the development of the WWP.

In accordance with the JVA, SLRBDGI shall apply for and obtain the required government approval for the assignment of the Wawa Water Permit (and the application for the volume increase) to WawaJVCo in exchange for the issuance of fully paid common shares of WawaJVCo equivalent to 18% of the outstanding common shares and the right to receive additional considerations from WawaJVCo. SLRBDGI shall also turn-over to WawaJVCo all permits and licenses that it has relating to the WWP. Under the JVA, PSHI shall undertake the necessary due diligence review and feasibility of the WWP and also cooperate and assist SLRBDGI in obtaining the required government approval for the assignment of the Wawa Water Permit (and the application for the volume increase) to WawaJVCo. In addition, PSHI shall subscribe to and pay for in cash 82% of the outstanding common shareholdings of the WawaJVCo.

Pursuant to the JVA, PSHI paid a down payment in the amount of ₱50.0 million to study, consider and pursue the commercial development of the WWP under WawaJVCo for 18 months (irrevocable option period).

On April 11, 2019, WawaJVCo, the resulting entity of the JVA, was incorporated with the Group owning 82% while the remaining 18% is owned by SLRBDGI.

On June 3, 2019, PSHI assigned its 82% ownership in WawaJVCo to PMIHC for ₱2.5 million.

On December 5, 2019, PMIHC and WawaJVCo entered into a reimbursement agreement wherein WawaJVCo will pay ₱100.0 million to the PMIHC, in connection with the down payment paid by the Group to SLRBDGI for the irrevocable option to study, consider and pursue the commercial development of the WWP, and for the payments made in accommodation and for the benefit of WawaJVCo.

MWCI Concession Agreement
The significant commitments under the Concession Agreement and Extension are as follows:
a. To pay MWSS concession fees;
b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of MWCI obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

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

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

With a minimum of ten (10)-day written notice period to the MWC, 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 MWCI 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;

a. With the Extension, MWCI agreed to increase its annual share in MWSS operating budget by 100% from ₱100.00 million to ₱395.00 million, subject to annual CPI;
b. 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;
c. 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 MWCI);
d. 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;
e. To ensure that at all times, MWCI has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and
f. To ensure that no debt or liability that would mature after the life of the Concession Agreement will be incurred unless with the approval of MWSS.

MWCI is committed to perform its obligations under the RCA to safeguard its continued right to operate the East Zone concession.

MWCI continues to commit to the following significant obligations upon effectivity of the RCA:

a. Offer water supply services to all existing customers in the East Zone;
b. Ensure availability of uninterrupted twenty-four (24) hour supply of water to all connected customers in the East Zone;
c. Connect customers to a water main upon request from the owner or occupant of the premises;
d. Ensure at all times that the water supplied to customers in the East Zone complies with the Philippine National Drinking Water Standards;
e. Ensure availability of an adequate supply of water for public purposes within the East Zone;
f. Make water supply available to customers other than through a water main whenever (i) the supplies through the water main have been interrupted for more than twenty-four (24) hours, or (ii) supplies through the water main have been or will be subject to contamination;
g. Maintain the non-revenue water (NRW) at acceptable industry standard;
h. Offer and supply sewerage services to all customers in the East Zone and to meet the coverage target percentages of the total population in the designated municipality;
i. Make a sewer connection to a public sewer upon request from the owner or occupant of the premises;
j. Comply with all national and local environmental laws and standards relating to treated wastewater; and
k. Offer septic and sanitation cleaning services in the East Zone and meet the coverage target percentages of the total population in the designated municipality.

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

a. Finance, design, engineer, and construct new facilities for water;
b. Upgrade existing water facilities;
c. Operate, manage, and maintain water facilities and services; and
d. Bill and collect tariff for water services.

Calbayog Water's JVA with CCWD
The significant commitments of Calbayog Water under its JVA are as follows:

a. Develop, improve, and expand the water infrastructure of CCWD;
b. Provide water supply and install new water service connections;
c. Ensure continuous water supply and appropriate pressure;
d. Connect water service connections to the water main;
e. Ensure potability of water supply and compliance with drinking water quality standards;
f. Provide high quality customer/after-sales service; and
g. Payment of revenue share of CCWD.

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-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, MWCI, as the main proponent of Boracay Water, shall post a bank security in the amount of US$2.50 million to secure MWCI's and Boracay Water's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWCI 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.

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

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

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

<u>Clark Water's Concession Agreement</u>
The significant commitments of Clark Water under its concession agreement with CDC are follows:
a. Pay franchise and lease fees of CDC;
b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;
c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the

account of the Clark Water; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;
d. Treat raw water and wastewater in CFZ;
e. Provide and manage all water and wastewater related services like assisting locator in relocating of pipes and assess internal leaks;
f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of RA No. 9400 effective 2007 even if it is located within the franchise area; and
g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

On August 15, 2014, the Clark Water and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:
a. Extension of the original concession period for another fifteen (15) years up to October 1, 2040;
b. Additional investment of ₱4.00 billion provided under the amended concession agreement to be spent for further improvement and expansion water and wastewater services in the area. Investment requirement under the original CA amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.00 billion;
c. Introduction of rate rebasing mechanism for every four (4) years starting 2014;
d. Reduction in tariff rates by 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/m$^3$ (from ₱24.63/m$^3$ to ₱25.04/m$^3$) in 2018
   ii. ₱0.42/m$^3$ (from ₱25.04/m$^3$ to ₱25.45/m$^3$) in 2019
   iii. ₱0.42/m$^3$ (from ₱25.45/m$^3$ to ₱25.87/m$^3$) in 2020
   iv. ₱0.43/m$^3$ (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 Clark Water's investment is now extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in its concession agreement. As of December 31, 2021, Clark Water's 2018 rate rebasing is still ongoing which put on hold the approved tariff increases when the concession agreement was amended in August 15, 2014.

<u>Bulakan Water's Concession Agreement</u>
The significant commitments of Bulakan Water under its concession agreement with BuWD are as follows:
a. Financing, designing, engineering, and constructing new facilities for water and sanitation such as, but not limited to, deep wells, reservoirs, and booster pumps;
b. Upgrading of existing water and sanitation facilities, including water network replacement and expansion;
c. Operating, managing, and maintaining water and sanitation facilities and services; and
d. Billing and collection of tariff for water and sanitation services including a seven (7)-year replacement cycle program commencing on Year 1 of the concession.

Ilagan Water's BWSPA with CIWD

The significant commitments of Ilagan Water under the BWSPA are as follows:

a. Develop raw surface water sources which includes planning, designing, building, financing, testing, operating, and upgrading the bulk water facilities related thereto; and
b. Provision of minimum guaranteed volume of five (5) million liters of treated water per day on Year 1, gradually increasing to thirty (30) million liters per day on Year 23 of the operations of the bulk water facilities.

Ilagan Water's SMA with CIWD

The significant commitments of Ilagan Water under the SMA are as follows:

a. Develop septage facility which includes planning, designing, building, financing, testing, operating, and upgrading; and
b. Provision of septage management services to the customers of CIWD, particularly septage collection, septage treatment, and bio solids disposal for a period of twenty-two (22) years.

South Luzon Water's JVA with TnWD

The significant commitments of South Luzon Water under its JVA are as follows:

a. Develop, improve, and expand the water infrastructure of TnWD;
b. Provide water supply and install new water service connections;
c. Provide sanitation services and septage management within the service area;
d. Ensure continuous water supply and appropriate pressure;
e. Connect water service connections to the water main;
f. Ensure potability of water supply and compliance with drinking water quality standards;
g. Provide high quality customer/after-sales service;
h. Payment of revenue share to TnWD; and
i. Such other obligations as may be agreed upon by the Parties.

Obando Water's Concession Agreement

The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. Finance, design, engineer, and construct new facilities for water and sanitation;
b. Upgrade existing water and sanitation facilities;
c. Operate, manage, and maintain water and sanitation facilities and services; and
d. Bill and collect tariff for water and sanitation services.

Laguna Water's Concession Agreement

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

a. To pay PGL concession fees;
b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;
c. To design, construct and commission the new facilities during the cooperation period;
d. To provide and manage the services;
e. To bill and collect payment from the 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 MWPVI signed an amendment to their JVA dated November 10, 2000. Simultaneously, and consequent to the amendment of the JVA of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:
a. Expansion of its concession area to cover all cities and municipalities in the PGL; and
b. Inclusion in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

<u>Laguna Water's APA with LTI</u>
On December 23, 2013, Laguna Water entered an APA with LTI to acquire and operate its water operations division in Laguna. The significant commitments of Laguna Water under the agreement follow:
a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;
b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where Laguna Water acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;
c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by Laguna Water;
d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;
e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. Laguna Water shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

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

<u>Laguna Water's JVA with PAGWAD</u>
The significant commitments of Laguna Water under its JVA with PAGWAD are as follows:
a. Finance, design, engineer, and construct new facilities for water and sanitation;
b. Upgrade existing water and sanitation facilities;
c. Operate, manage, and maintain water and sanitation facilities and services; and
d. Bill and collect tariff for water supply and sanitation services.

<u>North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag in Pangasinan</u>
The significant commitments of North Luzon Water under its MOAs are as follows:
a. Construct, maintain, and operate a water system;
b. Construct, maintain, and implement a septage management system;
c. Supply, sell, and furnish water to any person or entity within the territorial limits and political boundaries of the Municipalities of Sta. Barbara, San Fabian, and Manaoag for domestic, commercial or other use, and to charge and collect tariff for the supply of water; and
d. Provide septage management services and to charge and collect septage management fees and sewage collection.

Aqua Centro's JVA with LWD
The significant commitments of Aqua Centro under its JVA are as follows:
a. Develop, improve, and expand the water infrastructure of LWD;
b. Provide water supply and install new water service connections;
c. Ensure continuous water supply and appropriate pressure;
d. Connect water service connections to the water main;
e. Ensure potability of water supply and compliance with drinking water quality standards;
f. Provide high quality customer/after-sales service; and
g. Payment of revenue share to LWD.

Tagum Water's Bulk Water Supply and Purchase Agreement
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 Tagum Bulk Water Project;
d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
e. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by Tagum Water to implement the bulk water project will be owned by Tagum Water even after the expiration of the BWSPA.

Cebu Water's Bulk Water Supply Agreement
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 eighteen (18) million liters per day for the first year and thirty-five (35) million liters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter;
b. Ensure that the source shall be sustainable and 100% reliable at any day for the duration of the agreement; and
c. Construct a facility capable of delivering a production capacity of thirty-five (35) million liters per day and maintain the same on its account.

MWPVI's MOA with ALI
MWPVI's significant commitments under its MOA with ALI are as follows:
a. Provision of water and used water services in existing ALI Group developments;
b. Connection and disconnection of services to customers;
c. Collection of billings for water and used water services, including service connection fees, from all customers;
d. Customer relations and compliance with regulatory requirements;
e. Develop, construct, finance, own, operate, maintain, rehabilitate, and upgrade future water and used water facilities; and
f. Maintain, rehabilitate, and upgrade existing water and used water facilities at MWPVI's own cost.

MWPVI's Lease Agreement with PEZA
On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ for the provision of water and used water services to the locators therein. The lease agreement has a term of twenty-five (25) years from signing of the contract and shall be effective on its commencement date on February 1, 2018.

MWPVI's MOA with LTI
On April 16, 2016, the MWPVI entered into a MOA with LTI, whereby through its division, Estate Water, MWPVI shall exclusively providee water and used water services to LTI's Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

MWPVI's Deed of Accession with Ayala Land Malls, Inc.
MWPVI's significant commitments are as follows:
a. Provision of used water services in ALI Malls Group;
b. Compliance with regulatory requirements; and
c. Maintain, rehabilitate, and upgrade existing water and used water facilities at MWPVI's own cost.

Aqua Centro's MOAs with the SM Group
Under Aqua Centro's MOAs with the SM Group, Aqua Centro will develop, construct, finance, own, operate, maintain, rehabilitate, and upgrade the potable water and/or grey water facilities of the SM Group development.

Sublease Contract with International Container Terminal Services, Inc. (ICTSI)
In January 2019, PMBC and PMIHC entered into sublease contracts with ICTSI for the lease of office space; and furniture and fixtures commencing on January 1, 2019 to March 31, 2023 (see Note 27). On December 1, 2021, the sublease contracts of PMBC with ICTSI were pre-terminated and transferred to PMIHC.

On January 1, 2021, the sublease contract was amended to increase the total leasable area from 988.30 sqm to 1,009.67 sqm. Accordingly, the monthly rental fees also increased. As of June 30, 2022, the sublease contract has already been pre-terminated.

Lease Contract with BDO
In 2018, PMBC entered into a Sale and Leaseback Agreement with BDO Leasing and Finance Inc, (BDOLFI) for a four-year finance lease of construction equipment. On March 18, 2019, BDOLFI approved the conversion of the remaining finance lease obligation amounting to ₱178.7 million (arising from Sale and Leaseback Agreement entered into by the PMBC and BDOLFI in 2018) into a commercial loan facility (see Note 17).

In 2018, PMBC entered into lease contracts with BDO Rental, Inc. for the lease of various transportation equipment for a period of 3 years.

In 2021, prior to the end of the 3-year lease period, PMBC exercised its option to extend its lease contracts with BDORI for an additional 2 years. As of June 30, 2022, PMBC pre-terminated one of leased transportation equipment and exercised its option to purchase the same on behalf of a resigned officer.

## 30. Interest in Joint Operation

*PBD Joint Venture* (the Joint Venture), an unincorporated joint venture established to construct the Solaire Metro North (the Project), was registered with the Bureau of Internal Revenue (BIR) on May 7, 2019. The Joint Venture was formed on February 21, 2019, pursuant to a joint venture agreement (JVA) between D.M. Consunji, Inc. (DMCI) and PMBC collectively referred to as "the Parties"). The respective interests of the Parties in PBD Joint Venture shall be 50% to PMBC and 50% to DMCI.

The Group's share in the assets and liabilities of the joint operation at June 30, 2022 and December 31, 2021 which are included in the consolidated statements of financial position follows:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | **₱42,862,429** | ₱91,637,790 |
| Receivables | **195,329,480** | 47,412,927 |
| Inventory | **4,567,809** | 20,021,251 |
| Prepayments and other current assets | **347,532,815** | 215,375,897 |
| Total current assets | **590,292,533** | 374,447,865 |
| Non-current assets: | | |
| Property and equipment | **27,292,476** | 39,109,078 |
| Other non-current assets | **17,749,920** | 140,481,399 |
| Total non-current assets | **45,042,396** | 179,590,477 |
| Total assets | **₱635,334,929** | ₱554,038,342 |
| Liabilities - | | |
| Accounts payable and other current liabilities | **₱562,770,689** | ₱474,151,350 |

Below summarized is the Group's share in the revenue and expenses of the joint operation for the period ended June 30:

| | **2022** | 2021 |
|---|---|---|
| Construction revenue | **₱620,111,959** | ₱646,020,744 |
| Cost of services | **(625,607,510)** | (625,607,214) |
| Operating expenses | **(5,528)** | (5,825) |
| Interest income | **22,479** | 22,479 |
| Net income (loss) | **(₱5,478,600)** | ₱20,430,184 |

## 31. Significant Contracts with the West Zone Concessionaire

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

a. Interconnection Agreement that provides for the arrangements on the cross-border flows both incidental or permanent transfers, including the water interconnection points. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones. For sewerage, the MWC and Maynilad may enter into a separate contracts.

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

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

d. On May 12, 2015, MWSS entered into a MOA with MWC and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered into a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, MWC and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

c. In 2016, MWSS entered into a MOA with MWC and Maynilad which was subsequently amended in 2018 for the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP aims to develop a new water source in order to meet the increasing water demand by constructing a dam for MWSS service area's domestic water supply.

   To partially finance the NCWS-KDP, MWSS entered into a Preferential Buyer's Credit Loan Agreement with The Export-Import Bank of China in 2018 amounting to US$211.21 million with a maturity of twenty (20) years including a seven (7)-year grace period. As stipulated in the MOA, MWC and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

d. In 2021, MWC and Maynilad entered into a contract with Dohwa Engineering, Co. Ltd. for the construction management of the proposed Angat Water Transmission Project (Tunnel 5). On January 25, 2022, MWC and Maynilad entered into a contract with China International Water and Electric Corp. for the design and build of the proposed Angat Water Transmission Project (Tunnel 5). The contractor will provide the necessary resources, skills and expertise for the performance and completion of certain civil, electro-mechanical, installation and other related works. The Angat Water Transmission Project (Tunnel 5) is part of the MWSS's water security program which aims to provide (i) additional nineteen (19) cubic meters per second of raw water supply, and (ii) improve the reliability and operational flexibility of the Umiray-Angat-Ipo raw water conveyance system.

## 32. **Assets Held in Trust**

MWSS

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

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 MWCI on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 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 August 28, 2012, additional office space was leased by MWCI. The lease was last renewed on July 8, 2019. Payments amounting to ₱27.5 million was recorded for the six months ended June 30, 2022 as deduction to lease liabilities.

In March 2015, MWCI and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWCI 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 payments amounting to ₱16.20 million each year is recorded from 2021 to 2022 as deduction to lease liabilities.

Upon effectivity of the RCA, movable property acquired by MWCI during the concession which was included as recoverable expenditure shall also be owned by MWCI throughout the concession period provided that the movable properties shall be returned to MWSS, even prior to the Expiration Date, when the costs for such movable property have already been fully recovered by the MWCI through tariff. MWCI shall, at each Rate Rebasing Date, submit to the Regulatory Office a list of all Recovered Assets, including all supporting documents. Recovered Assets are fixed assets contributed to the MWSS system in the Service Area by MWCI, the cost of which has been approved by the Regulatory Office as an Expenditure and has been recovered by MWCI through tariff as at the relevant date and the value of which has been fully depreciated or amortized in MWCI's audited financial statements. Legal title as well as all rights, title, and interest to all such Recovered Assets shall be transferred to the MWSS on or before such Rate Rebasing Date.

Further, under Section 5 of RA 11601, if the public service function and the recovered and retained assets of MWSS are privatized by law, MWCI has the right to match the highest compliant bid after public bidding.

CWD

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

CCWD

On July 3, 2019, Calbayog Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of CCWD.

TIEZA

Boracay Water was 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.

CDC
Clark Water was granted the right to finance, design and construct new facilities and to manage, exclusively possess, occupy, operate, repair, maintain, decommission, and refurbish all facilities, except private deep wells, to provide and manage the water and wastewater-related services in the CFZ.

BuWD
On June 14, 2019, Bulakan Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the service area of BuWD.

TnWD
On February 4, 2019, South Luzon Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of TnWD.

OWD
On October 12, 2017, Obando Water was granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

PGL
Laguna Water was 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.

PAGWAD
On January 21, 2019, Laguna Water was granted the right to operate, finance, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required and exclusively used to provide water delivery and sanitation services in the service area of PAGWAD.

LWD
On July 3, 2019, Aqua Centro was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply in the service area of LWD.

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

Fair Value Information

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 June 30, 2022 and December 31, 2021:

| | **June 30, 2022** | | | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value Quoted Market Prices (Level 1)** | **Fair Value Significant Observable Inputs (Level 2)** | **Fair Value Significant Unobservable Inputs (Level 3)** |
| | | **(In Thousands)** | | |
| **Financial assets at fair value** | | | | |
| Derivative asset | **₱975,972** | **₱–** | **₱975,972** | **₱–** |
| Financial asset at FVOCI | **2,030,515** | **–** | **2,030,515** | **–** |
| **Financial assets at amortized cost** | | | | |
| Deposits | **2,482,331** | **–** | **2,482,331** | **–** |
| Restricted cash | **287,955** | **–** | **287,955** | **–** |
| | **₱5,776,773** | **₱–** | **₱5,776,773** | **₱–** |
| **Other financial liabilities** | | | | |
| Long-term loan | **₱90,675,144** | **₱25,394,327** | **₱–** | **₱59,042,999** |
| Lease liabilities | **425,880** | **–** | **–** | **425,880** |
| Service concession obligations | **9,738,002** | **–** | **–** | **9,811,275** |
| Customers' guaranty deposits and other deposits | **457,562** | **–** | **–** | **196,290** |
| | **₱101,296,588** | **₱25,394,327** | **₱–** | **₱69,476,444** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value Quoted Market Prices (Level 1) | Fair Value Significant Observable Inputs (Level 2) | Fair Value Significant Unobservable Inputs (Level 3) |
| | | (*In Thousands*) | | |
| **Financial assets at fair value** | | | | |
| Derivative asset | ₱386,712 | ₱– | ₱386,712 | ₱– |
| Financial asset at FVOCI | 1,617,040 | – | 1,617,040 | – |
| **Financial assets at amortized cost** | | | | |
| Deposits | 2,450,298 | – | 2,450,298 | – |
| Restricted cash | 225,404 | – | 225,404 | – |
| | ₱4,679,454 | ₱– | ₱4,679,454 | ₱– |
| **Other financial liabilities** | | | | |
| Long-term loan | ₱86,608,433 | ₱26,549,314 | ₱– | ₱59,586,666 |
| Lease liabilities | 497,547 | – | – | 497,547 |
| Service concession obligations | 9,467,504 | – | – | 9,467,504 |
| Customers' guaranty deposits and other deposits | 424,557 | – | – | 226,355 |
| | ₱96,998,041 | ₱26,549,314 | ₱– | ₱69,778,072 |

The methods and assumptions used by the Group in estimating the fair value of the long-term financial assets at amortized cost and other financial liabilities such as long-term debt, service concession obligations, and customers' guaranty deposits and other deposits are as follows:

a. The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

b. The discount rates used for PHP-denominated loans were 0.05% to 7.95%in 2022 and 0.37% to 10.18% in 2021 while the discount rates used for foreign currency-denominated loans ranged from 0.91% to 8.75% in 2022 and from1.09% to 6.88% in 2021.

*Financial Asset at FVOCI.* The fair values of the non-listed equity investments have been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cashflows, credit risk, market volatility and the discount rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments.

The significant unobservable inputs used in the fair value measurements categorized within level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as of June 30, 2022 and December 31, 2021 is shown below:

| Inputs | Valuation technique | Significant unobservable inputs | Range (weighted average) | Sensitivity of the input to fair value |
|---|---|---|---|---|
| Non-listed equity investments – power sector | DCF Method | Discount rate | 6.00% to 12.00% | 12% (2021:12%) increase (decrease) in the discount rate would result in a decrease (increase) in fair value by nil (₱121.2 million) |

For the six months ended June 30, 2022 and year ended December 31, 2021, 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.

For MWCI, the recoverable amounts of its nonfinancial assets, particularly its property and equipment and service concession assets, have been determined through the assistance of external appraisers. The fair value, which was considered in the calculation of the recoverable amounts, was established as the current highest and best use of the property. This was further defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms' length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates, yield curves of the respective currencies and currency basis spreads between the respective currencies. As of June 30, 2022 and December 31, 2021, the mark-to market value of other derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

Financial Risk Management Objectives and Policies

The Group's financial instruments comprise of cash and cash equivalents, short-term investments, receivables, contract assets, deposits, derivative assets, accounts payable and other current liabilities, short-term debt, long-term loan, lease liability, due to a related party, and service concession obligations, which arise directly from its operating and financing activities.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The inclusion of interest and credit risk under the main risks affecting the Group arise from the acquisition of MWCI as one of the Group's subsidiaries.

The Group's overall risk management program seeks to minimize these risks on the Group's financial performance.

Interest Rate Risk

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

The Group's policy is to manage the interest payments using a mix of fixed and variable rate debts to minimize the Group's exposure to changes in interest rates primarily from its long-term debt. As of June 30, 2022 and December 31, 2021, the Group's mix of fixed interest and floating interest rate of long-term debt are 54.27% to 45.73% and 54.02% to 45.98%, respectively.

As of June 30, 2022, the fixed interest rates of the Group's foreign currency denominated short-term and long-term debt are from 3.5% to 5.47% and are from 2.19% to 9.00% for Peso denominated long-term debt. As of December 31, 2021, the fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.39% to 4.38% and are from 4.63% to 9.00% for Peso denominated long-term debt. Floating interest rates are based on 6-month LIBOR, EURIBOR or BIBOR plus margin, 3 month, 5 and 7-year PHP BVAL, BSP Term deposit, O/N RRP as of June 30, 2022 and December 31, 2021.

The following tables summarize the maturity profile of the Group's long-term debt based on contractual undiscounted principal payments:

| | June 30, 2022* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Due in 2023** | **Due in 2024** | **Due in 2025** | **Due in 2026** | **Due in 2027** | **Due after 2027** | **Total in Original Currency (In PHP)** | **Total in Original Currency (In JPY)** | **Total in Original Currency (In USD)** | **Total in Original Currency (In EUR)** | **Total in Original Currency (In THB)** | **Total (In PHP)** |
| **Liabilities:** | | | | | | | | | | | | |
| **Long-term debt** | | | | | | | | | | | | |
| ***East Zone loans:*** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| **₱5.00 billion PNB Loan** | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱375,000,000 | ₱750,000,000 | ₱3,125,000,000 | ¥– | $– | €– | THB– | ₱3,125,000,000 |
| **₱5.00 billion BDO Loan** | ₱– | ₱– | ₱1,800,000,000 | ₱– | ₱– | ₱– | ₱1,800,000,000 | ¥– | $– | €– | THB– | ₱1,800,000,000 |
| **US$500.00 million sustainability bonds** | $– | $– | $– | $– | $– | $500,000,000 | ₱– | ¥– | $500,000,000 | €– | THB– | ₱27,487,500,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| **MTSP Loan** | ¥– | ¥– | ¥– | ¥– | ¥– | ¥– | ₱– | ¥– | $– | €– | THB– | ₱– |
| **MWMP Loan** | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $77,128,252 | ₱– | ¥– | $115,737,412 | €– | THB– | ₱6,362,664,225 |
| **₱5.00 billion BDO Loan** | ₱2,000,000,000 | ₱– | ₱1,200,000,000 | ₱– | ₱– | ₱– | ₱3,200,000,000 | ¥– | $– | €– | THB– | ₱3,200,000,000 |
| **EUR250.00 million Loan** | €31,250,000 | €57,500,000 | €31,250,000 | €– | €– | €– | ₱– | ¥– | $– | €120,000,000 | THB– | ₱6,895,008,000 |
| ***MWCI Subsidiaries' loans:*** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| **₱1.15 billion Clark Water RCBC Loan** | ₱23,958,333 | ₱23,958,333 | ₱23,958,333 | ₱23,958,333 | ₱23,958,334 | ₱670,833,333 | ₱790,625,000 | ¥– | $– | €– | THB– | ₱790,625,000 |
| **₱0.80 billion Cebu Water DBP Loan** | ₱22,104,902 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱309,468,628 | ₱508,412,746 | ¥– | $– | €– | THB– | ₱508,412,746 |
| **₱0.50 billion Laguna Water DBP Loan** | ₱14,705,882 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱198,529,412 | ₱330,882,353 | ¥– | $– | €– | THB– | ₱330,882,353 |
| **₱0.83 billion Laguna Water DBP Loan** | ₱25,242,424 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱340,772,727 | ₱567,954,545 | ¥– | $– | €– | THB– | ₱567,954,545 |
| **₱2.50 billion Laguna Water SBC Loan** | ₱96,153,846 | ₱192,307,692 | ₱192,307,692 | ₱192,307,692 | ₱186,538,462 | ₱775,000,000 | ₱1,634,615,385 | ¥– | $– | €– | THB– | ₱1,634,615,385 |
| **₱2.50 billion Laguna Water BPI Loan** | ₱89,655,172 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱493,103,448 | ₱1,300,000,000 | ¥– | $– | €– | THB– | ₱1,300,000,000 |
| **₱0.38 billion Boracay Water DBP-SBC Loan** | ₱– | ₱2,941,176 | ₱26,234,244 | ₱31,039,916 | ₱31,039,916 | ₱129,332,983 | ₱220,588,235 | ¥– | $– | €– | THB– | ₱220,588,235 |
| **₱0.50 billion Boracay Water DBP-SBC Loan** | ₱– | ₱3,934,152 | ₱34,002,312 | ₱44,287,309 | ₱44,287,309 | ₱188,221,062 | ₱314,732,143 | ¥– | $– | €– | THB– | ₱314,732,143 |
| **₱0.65 billion Boracay Water DBP-SBC Loan** | ₱– | ₱6,770,833 | ₱58,519,345 | ₱76,220,238 | ₱76,220,238 | ₱323,936,012 | ₱541,666,667 | ¥– | $– | €– | THB– | ₱541,666,667 |
| **₱2.40 billion Boracay Water BPI Loan** | ₱– | ₱19,000,000 | ₱34,200,000 | ₱106,400,000 | ₱163,856,000 | ₱1,196,544,000 | ₱1,520,000,000 | ¥– | $– | €– | THB– | ₱1,520,000,000 |
| **₱0.45 billion Tagum Water PNB Loan** | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱185,166,665 | ₱353,500,000 | ¥– | $– | €– | THB– | ₱353,500,000 |
| **₱0.15 billion Tagum Water PNB Loan** | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱73,333,335 | ₱140,000,000 | ¥– | $– | €– | THB– | ₱140,000,000 |
| **₱7.00 billion MWPVI Loan** | ₱333,900,000 | ₱667,800,000 | ₱667,100,000 | ₱666,400,000 | ₱666,400,000 | ₱3,998,400,000 | ₱7,000,000,000 | ¥– | $– | €– | THB– | ₱7,000,000,000 |
| **₱0.39 billion Calbayog Water BPI Loan** | ₱– | ₱– | ₱9,338,000 | ₱9,338,000 | ₱9,338,000 | ₱41,986,000 | ₱70,000,000 | ¥– | $– | €– | THB– | ₱70,000,000 |
| **₱0.23 billion Aqua Centro BPI Loan** | ₱– | ₱17,075,200 | ₱22,411,200 | ₱22,411,200 | ₱22,411,200 | ₱83,691,200 | ₱168,000,000 | ¥– | $– | €– | THB– | ₱168,000,000 |
| **₱0.47 billion South Luzon Water BPI Loan** | ₱– | ₱– | ₱11,339,000 | ₱22,678,000 | ₱22,678,000 | ₱113,305,000 | ₱170,000,000 | ¥– | $– | €– | THB– | ₱170,000,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| **₱0.54 billion Clark Water DBP Loan** | ₱22,291,667 | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱323,229,167 | ₱523,854,167 | ¥– | $– | €– | THB– | ₱523,854,167 |
| **₱0.12 billion Boracay Water DBP-SBC Loan** | ₱– | ₱735,294 | ₱5,540,966 | ₱10,346,639 | ₱10,346,639 | ₱46,559,874 | ₱73,529,412 | ¥– | $– | €– | THB– | ₱73,529,412 |
| **THB5.30 billion Loan** | THB– | THB– | THB5,300,000,000 | THB– | THB– | THB– | ₱– | ¥– | $– | €– | THB5,300,000,000 | ₱8,216,060,000 |
| **Other loans** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| **₱1.5 billion PMHPHC Union Bank loan facility** | ₱– | ₱150,000,000 | ₱150,000,000 | ₱225,000,000 | ₱225,000,000 | ₱750,000,000 | ₱1,500,000,000 | ¥– | $– | €– | THB– | ₱1,500,000,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| **₱20.0 billion Wawa loan facility** | ₱– | ₱111,595,625 | ₱111,595,625 | ₱111,595,625 | ₱111,595,625 | ₱7,151,617,500 | ₱7,598,000,000 | ¥– | $– | €– | THB– | ₱7,598,000,000 |
| **₱5.5 billion TWCHI BPI loan facility** | ₱– | ₱– | ₱5,400,000,000 | ₱– | ₱– | ₱– | ₱5,400,000,000 | ¥– | $– | €– | THB– | ₱5,400,000,000 |
| **₱3.5 billion PII Unionbank loan facility** | ₱– | ₱90,000,000 | ₱330,000,000 | ₱290,000,000 | ₱450,000,000 | ₱1,190,000,000 | ₱2,350,000,000 | ¥– | $– | €– | THB– | ₱2,350,000,000 |
| **₱1.0 billion PII HSBC loan facility** | ₱– | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱– | ₱1,000,000,000 | ¥– | $– | €– | THB– | ₱1,000,000,000 |
| **₱163.3 million PMBC BOT lease and financing** | ₱67,395,844 | 29,414,138 | 25,056,787 | 21,074,610 | 3,481,179 | ₱– | ₱146,422,558 | ¥– | $– | €– | THB– | ₱146,422,558 |
| **Total in Original Currency** | | | | | | | ₱42,347,783,211 | ¥– | $615,737,412 | €120,000,000 | THB5,300,000,000 | ₱91,309,015,436 |
| **Total in PHP** | ₱5,462,490,785 | ₱6,188,898,254 | ₱21,682,746,314 | ₱3,422,565,371 | ₱3,491,658,710 | ₱51,060,656,000 | ₱42,347,783,211 | ₱– | ₱33,850,164,225 | ₱6,895,008,000 | ₱8,216,060,000 | ₱91,309,015,436 |

*Interest on financial instruments classified as floating rate is repriced on a semi-annual or quarterly basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.*
*The spot exchange rates used were ₱0.4030 to JP¥1, ₱54.9750 to US$1, ₱57.4584 to EUR1, and ₱1.5502 to THB1 in 2022.*
**Excludes the CAD0.87 million Laguna Water loan whose repayment date is related to the completion of the funded project*

| | December 31, 2021* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Due in 2022 | Due in 2023 | Due in 2024 | Due in 2025 | Due in 2026 | Due after 2026 | Total in Original Currency (In PHP) | Total in Original Currency (In JPY) | Total in Original Currency (In USD) | Total in Original Currency (In EUR) | Total in Original Currency (In THB) | Total (In PHP) |
| Liabilities: | | | | | | | | | | | | |
| Long-term debt | | | | | | | | | | | | |
| *East Zone loans:* | | | | | | | | | | | | |
| *Fixed Rate (exposed to fair value risk)* | | | | | | | | | | | | |
| ₱5.00 billion PNB Loan | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱875,000,000 | ₱3,375,000,000 | ¥– | $– | €– | THB– | ₱3,375,000,000 |
| ₱5.00 billion BDO Loan | ₱– | ₱– | ₱1,800,000,000 | ₱– | ₱– | ₱– | ₱1,800,000,000 | ¥– | $– | €– | THB– | ₱1,800,000,000 |
| JP¥40.00 billion Loan | ¥3,397,902,104 | ¥– | ¥– | ¥– | ¥– | ¥– | ₱– | ¥3,397,902,104 | $– | €– | THB– | ₱1,499,494,198 |
| US$500.00 million sustainability bonds | $– | $– | $– | $– | $– | $500,000,000 | ₱– | ¥– | $500,000,000 | €– | THB– | ₱25,499,500,000 |
| *Floating Rate (exposed to cash flow risk)* | | | | | | | | | | | | |
| MTSP Loan | ¥168,170,255 | ¥– | ¥– | ¥– | ¥– | ¥– | ₱– | ¥168,170,255 | $– | €– | THB– | ₱74,213,534 |
| MWMP Loan | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $80,989,168 | ₱– | ¥– | $119,598,328 | €– | THB– | ₱6,099,395,130 |
| ₱5.00 billion BDO Loan | ₱2,000,000,000 | ₱– | ₱– | ₱1,200,000,000 | ₱– | ₱– | ₱3,200,000,000 | ¥– | $– | €– | THB– | ₱3,200,000,000 |
| EUR250.00 million Loan | €– | €62,500,000 | €57,500,000 | €– | €– | €– | ₱– | ¥– | $– | €120,000,000 | THB– | ₱6,901,404,000 |
| *MWCI Subsidiaries' loans:* | | | | | | | | | | | | |
| *Fixed Rate (exposed to fair value risk)* | | | | | | | | | | | | |
| ₱1.15 billion Clark Water RCBC Loan | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱359,375,000 | ₱838,541,665 | ¥– | $– | €– | THB– | ₱838,541,665 |
| ₱0.80 billion d DBP Loan | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱309,468,628 | ₱530,517,648 | ¥– | $– | €– | THB– | ₱530,517,648 |
| ₱0.50 billion Laguna Water DBP Loan | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱198,529,412 | ₱345,588,237 | ¥– | $– | €– | THB– | ₱345,588,237 |
| ₱0.83 billion Laguna Water DBP Loan | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱340,772,727 | ₱593,196,967 | ¥– | $– | €– | THB– | ₱593,196,967 |
| ₱2.50 Laguna Water SBC Loan | ₱180,682,047 | ₱192,307,692 | ₱192,307,692 | ₱192,307,692 | ₱186,538,462 | ₱823,076,923 | ₱1,767,220,508 | ¥– | $– | €– | THB– | ₱1,767,220,508 |
| ₱2.50 billion Laguna Water BPI Loan | ₱51,724,138 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱493,103,448 | ₱1,262,068,966 | ¥– | $– | €– | THB– | ₱1,262,068,966 |
| ₱0.38 billion Boracay Water DBP-SBC Loan | ₱– | ₱1,654,412 | ₱9,414,391 | ₱31,039,916 | ₱31,039,916 | 147,439,601 | ₱220,588,236 | ¥– | $– | €– | THB– | ₱220,588,236 |
| ₱0.50 billion Boracay Water DBP-SBC Loan | ₱– | ₱2,360,491 | ₱13,432,318 | ₱44,287,309 | ₱44,287,309 | ₱210,364,716 | ₱314,732,143 | ¥– | $– | €– | THB– | ₱314,732,143 |
| ₱0.65 billion Boracay Water DBP-SBC Loan | ₱– | ₱4,062,500 | ₱23,117,560 | ₱76,220,238 | ₱76,220,238 | ₱362,046,131 | ₱541,666,667 | ¥– | $– | €– | THB– | ₱541,666,667 |
| ₱2.40 billion Boracay Water BPI Loan | ₱– | ₱10,650,000 | ₱14,200,000 | ₱67,450,000 | ₱127,800,000 | ₱1,199,900,000 | ₱1,420,000,000 | ¥– | $– | €– | THB– | ₱1,420,000,000 |
| ₱0.45 billion Tagum Water PNB Loan | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱193,583,332 | ₱361,916,667 | ¥– | $– | €– | THB– | ₱361,916,667 |
| ₱0.15 billion Tagum Water PNB Loan | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱76,666,668 | ₱143,333,333 | ¥– | $– | €– | THB– | ₱143,333,333 |
| ₱7.00 billion MWPVI Loan | ₱305,280,000 | ₱610,560,000 | ₱609,920,000 | ₱609,280,000 | ₱609,280,000 | ₱3,655,680,000 | ₱6,400,000,000 | ¥– | $– | €– | THB– | ₱6,400,000,000 |
| ₱0.39 billion Calbayog Water BPI Loan | ₱– | ₱– | ₱3,325,239 | ₱9,690,858 | ₱8,573,040 | ₱48,410,863 | ₱70,000,000 | ¥– | $– | €– | THB– | ₱70,000,000 |
| ₱0.23 billion Aqua Centro BPI Loan | ₱– | ₱1,800,900 | ₱14,273,800 | ₱14,273,800 | ₱14,273,800 | ₱62,377,700 | ₱107,000,000 | ¥– | $– | €– | THB– | ₱107,000,000 |
| ₱0.47 billion South Luzon Water BPI Loan | ₱– | ₱– | ₱6,670,000 | ₱13,340,000 | ₱13,340,000 | ₱66,650,000 | ₱100,000,000 | ¥– | $– | €– | THB– | ₱100,000,000 |
| *Floating Rate (exposed to cash flow risk)* | | | | | | | | | | | | |
| ₱0.54 billion Clark Water DBP Loan | ₱– | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱356,666,668 | ₱535,000,000 | ¥– | $– | €– | THB– | ₱535,000,000 |
| ₱0.12 billion Boracay Water DBP-SBC Loan | ₱– | ₱551,471 | ₱3,138,130 | ₱10,346,639 | ₱10,346,639 | ₱49,146,534 | ₱73,529,413 | ¥– | $– | €– | THB– | ₱73,529,413 |
| THB5.30 billion Loan | THB– | THB– | THB5,300,000,000 | THB– | THB– | THB– | ₱– | ¥– | $– | €– | THB5,300,000,000 | ₱8,096,776,803 |
| Other loans | | | | | | | | | | | | |
| *Fixed Rate (exposed to fair value risk)* | | | | | | | | | | | | |
| ₱1.5 billion PMHPHC Union Bank loan facility | ₱– | ₱– | ₱– | ₱– | ₱– | ₱1,500,000,000 | ₱1,500,000,000 | ¥– | $– | €– | THB– | ₱1,500,000,000 |
| *Floating Rate (exposed to cash flow risk)* | | | | | | | | | | | | |
| ₱20.0 billion Wawa loan facility | ₱– | ₱– | ₱– | ₱14,085,000 | ₱14,085,000 | ₱4,971,830,000 | ₱5,000,000,000 | ¥– | $– | €– | THB– | ₱5,000,000,000 |
| ₱5.5 billion TWCHI BPI loan facility | ₱– | ₱– | ₱5,400,000,000 | ₱– | ₱– | ₱– | ₱5,400,000,000 | ¥– | $– | €– | THB– | ₱5,400,000,000 |
| ₱3.5 billion PII Unionbank loan facility | ₱– | ₱40,000,000 | ₱280,000,000 | ₱240,000,000 | ₱400,000,000 | ₱1,040,000,000 | ₱2,000,000,000 | ¥– | $– | €– | THB– | ₱2,000,000,000 |
| ₱1.0 billion PII HSBC loan facility | ₱– | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱– | ₱1,000,000,000 | ¥– | $– | €– | THB– | ₱1,000,000,000 |
| ₱178.7 million PMBC commercial loan facility | ₱60,000,000 | 90,000,000 | ₱– | ₱– | ₱– | ₱– | ₱150,000,000 | ¥– | $– | €– | THB– | ₱150,000,000 |
| Total in Original Currency | | | | | | | ₱39,049,900,450 | ¥3,566,072,359 | $619,598,328 | €120,000,000 | THB5,300,000,000 | ₱87,220,684,115 |
| Total in PHP | ₱5,332,139,378 | ₱6,183,067,854 | ₱21,408,137,821 | ₱4,156,960,590 | ₱3,170,423,542 | ₱46,969,954,930 | ₱39,049,900,450 | ₱1,573,707,732 | ₱31,598,895,130 | ₱6,901,404,000 | ₱8,096,776,803 | ₱87,220,684,115 |

*Interest on financial instruments classified as floating rate is repriced on a semi-annual or quarterly basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.*
*The spot exchange rates used were ₱0.4413 to JP¥1, ₱50.9990 to US$1, ₱57.5117 to EUR1, and ₱1.5277 to THB1 in 2021.*
**Excludes the CAD0.87 million Laguna Water loan whose repayment date is related to the completion of the funded project*

The following tables demonstrate the sensitivity of the Group's income before income tax to a reasonably possible change in interest rates on June 30, 2022 and December 31, 2021 with all variables held constant (through the impact on floating rate borrowings).

| | | Effect on Income Before Income Tax | |
|---|---|---|---|
| | **Changes in Basis Points** | **June 30, 2022** | December 31, 2021 |
| | | ***(In Thousands)*** | |
| **Floating rate borrowings** | 100 | **(₱414,675)** | (₱398,601) |
| | (100) | **414,675** | 398,601 |

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against the USD, JPY and EUR on the Group's long-term debt and service concession obligations. Substantially all revenues are generated in PHP while majority of capital expenditures are also in PHP. As of June 30, 2022 and December 31, 2021, approximately 53.30% and 55.57% of debt, respectively, including bonds payable, are denominated in foreign currency.

On August 1, 2021, MWCI BOD approved the Foreign Exchange Risk Policy to help MWCI and its subsidiaries properly address or mitigate the adverse effects of foreign exchange volatility to its profit and loss through the employment of various risk mitigation strategies which include several derivative structures. As an enhancement on the foreign exchange risk management strategy approved by the BOD on February 24, 2022, MWCI shall maximize the use of available accounting hedges and shall take into account the capitalization of foreign exchange losses pertaining to capitalizable foreign currency-denominated loans as and when possible to minimize the adverse effect of foreign exchange volatility to profit and loss while managing overall cost that includes hedging costs.

The Group manages its foreign currency risk by hedging transactions that are expected to occur upon maturity of the hedged long-term debts. When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. As of June 30, 2022 and December 31, 2021, the Group hedged the €120.00 million loan (principal only swap) and US$100.00 million of the US$500.00 million sustainability bonds (currency option transaction).

The Group hedges its exposure to fluctuations on the translation from USD to PHP of its investment in a foreign subsidiary by holding net borrowings in a foreign currency. As of June 30, 2022 and December 31, 2021, the Group hedged US$100.00 million of the US$500.00 million sustainability bonds.

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

| | **June 30, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Original Currency** | **Peso Equivalent** | Original Currency | Peso Equivalent |
| | | (In Thousands) | | (In Thousands) |
| **Assets** | | | | |
| Cash and cash equivalents: | | | | |
| USD | **USD55,033** | **₱3,025,440** | USD120,378 | ₱6,139,174 |
| THB | **THB202,318** | **313,628** | THB87,532 | 133,722 |
| VND | **VND4,733,018** | **11,176** | VND4,182,432 | 9,345 |
| IDR | **IDR2,059,929** | **7,610** | IDR2,389,115 | 8,534 |

*(Forward)*

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | **Original Currency** | **Peso Equivalent** | Original Currency | Peso Equivalent |
| | | (In Thousands) | | (In Thousands) |
| JP¥ | **JP¥556** | **₱224** | JP¥– | ₱– |
| SGD | **SGD5** | **200** | SGD3 | 104 |
| MMK | **MMK11** | **–** | MMK11 | – |
| Short-term investments: | | | | |
| THB | **THB80,000** | **124,014** | THB140,000 | 213,877 |
| Accounts receivable: | | | | |
| USD | **USD1,006** | **55,292** | USD55 | 2,798 |
| VND | **VND1,733,325** | **4,093** | VND1,191,300 | 2,662 |
| IDR | **IDR1,016,448** | **3,755** | IDR244,558 | 874 |
| SAR | **SAR3,835** | **56,241** | SAR6,160 | 83,321 |
| Other current assets: | | | | |
| THB | **THB21,031** | **32,602** | THB41,332 | 63,142 |
| VND | **VND870,828** | **2,056** | VND1,031,358 | 2,304 |
| USD | **USD13** | **725** | USD3 | 146 |
| GBP | **GBP10** | **636** | GBP17 | 1,197 |
| IDR | **IDR135,064** | **499** | IDR179,062 | 640 |
| SGD | **SGD1** | **21** | SGD– | – |
| Other noncurrent assets: | | | | |
| USD | **USD1,612** | **88,635** | USD622 | 31,702 |
| IDR | **IDR66,900** | **247** | IDR75,169 | 268 |
| VND | **VND90,187** | **213** | VND– | – |
| THB | **THB–** | **–** | THB– | – |
| | | **3,727,307** | | 6,693,810 |
| **Liabilities** | | | | |
| Accounts payable: | | | | |
| THB | **THB22,995** | **35,647** | THB23,153 | 35,371 |
| USD | **USD113** | **6,208** | USD188 | 9,589 |
| IDR | **IDR750,552** | **2,773** | IDR– | – |
| SAR | **SAR176** | **2,582** | PKR– | – |
| SGD | **SGD40** | **1,589** | SGD67 | 2,521 |
| VND | **VND342,293** | **808** | VND1,310,757 | 2,929 |
| PKR | **PKR1,500** | **403** | | |
| EUR | **EUR–** | **–** | EUR1 | 44 |
| USD | **USD605,422** | **33,283,078** | USD608,831 | 31,049,789 |
| THB | **THB5,288,423** | **8,197,966** | THB5,285,119 | 8,074,043 |
| EUR | **EUR118,569** | **6,812,786** | EUR118,113 | 6,792,855 |
| CAD | **CAD873** | **37,252** | CAD873 | 34,793 |
| JP¥ | **JP¥–** | **–** | JP¥3,556,722 | 1,569,581 |
| Service concession obligations: | | | | |
| USD | **USD129,879** | **7,140,083** | USD72,991 | 3,722,452 |
| JP¥ | **JP¥243,076** | **97,960** | JP¥276,831 | 122,165 |
| | | **55,619,135** | | 51,416,132 |
| **Net foreign currency-denominated liabilities** | | **(₱51,891,828)** | | (₱44,722,322) |

*The spot exchange rates used were ₱54.9750 to US$1, ₱42.6718 to CAD1, ₱57.4584 to EUR1, ₱66.7020 to GBP1, ₱0.0037 to IDR1, ₱0.4030 to JP¥1, ₱0.0293 to MMK1, ₱0.2688 to PKR1, ₱39.4925 to SGD1, ₱1.5502 to THB1, and ₱0.0024 to VND1 in 2022; and ₱50.9990 to US$1, ₱39.8540 to CAD1, ₱57.5117 to EUR1, ₱68.5347 to GBP1, ₱0.0036 to IDR1, ₱0.4413 to JP¥1, ₱0.0285 to MMK1, ₱13.5260 to SAR1, ₱37.5547 to SGD1, ₱1.5277 to THB1, and ₱0.0022 to VND1 in 2021.*

Under their respective concession agreements, MWCI and Boracay Water have a natural hedge on foreign exchange risks on their loans and concession fee payments through a recovery mechanism in their respective tariffs (see Notes 1 and 15).

The following table demonstrate the sensitivity of the Group's income before income tax to a reasonably possible change in foreign exchange rate as of June 30, 2022 and December 31, 2021:

| | **June 30, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Changes in Percentage** | **Effect on Income Before Income Tax** | Changes in Percentage | Effect on Income Before Income Tax |
| | | *(In Thousands)* | | |
| **Foreign exchange rate** | **5.00%** | **(₱140,298)** | 5.00% | (₱1,023,098) |
| | **(5.00%)** | **140,298** | (5.00%) | 1,023,098 |

Beginning November 18, 2021, MWCI's RCA has removed its FCDA recovery mechanism from the water rates of MWC's customers. On June 30, 2022, the RCA did not take effect due to the Republic's failure to submit the prescribed Undertaking Letter (see Note 1). Boracay Water, on the other hand, still maintains this natural hedge and does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

- *Cash flow hedges for foreign currency risks*
  During the period, MWCI designated foreign currency forward contracts as hedges of exposure to foreign exchange currency risk on its seven (7)-year term loan from Bank of China Hong Kong and Manila Branches denominated in EUR.

  The terms of the foreign currency forward contracts have been negotiated to match the terms of the EUR leg of the principal only swap. Both parties to the contract have fully cash-collateralized the foreign currency forward contracts, and, therefore, effectively eliminated any credit risk associated with the contracts (both the Hedge Counterparty's and the Group's own credit risk).

  MWCI designated a USD/PHP non-deliverable deferred premium currency option transaction as hedging instrument for the USD100 million denominated bond. The bond will be hedged against unfavourable movements of USD/PHP to minimize potential friction cost from unwinding the hedge in case MWCI wishes to exercise the pretermination right on the first call date.

  As of June 30, 2022 and December 31, 2021, an unrealized gain of ₱100.75 million and ₱422.24 million relating to the derivatives are included in OCI.

- *Hedge of net investments in foreign operations*
  Included in loans as at June 30, 2022 and December 31, 2021 was a borrowing of USD100.00 million, which is designated as a hedge of the net investment in MWAP, MWCI's wholly-owned foreign holding company, with USD as its functional currency. As of June 30, 2022 and December 31, 2021, a gain of ₱24.13 million and ₱121.42 million on the translation of this borrowing was transferred to OCI to offset the gains on translation of the investment in MWAP. There is no ineffectiveness for the period ended June 30, 2022 and December 31, 2021. There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the USD borrowing. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investment in the foreign subsidiary becomes lower than the amount of the fixed rate borrowing.

The hedge effectiveness can be assessed by considering the economic relationship, effect of credit risk and hedge ratio.

The maturity profile of the hedging instruments as of June 30, 2022 and December 31, 2021 follows:

| | Within 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| EUR120 Mn Loan - Principal only swap | – | €120,000,000 | – | €120,000,000 |
| Hedge rate | – | ₱59.34 | – | – |
| USD100 Mn Bonds - Currency Option Transaction | – | $100,000,000 | – | $100,000,000 |
| Hedge rate | – | ₱50.86-56.50 | – | – |
| USD100 Mn Bonds - Net Investment Hedge | – | – | $100,000,000 | $100,000,000 |
| Hedge rate | – | – | ₱49.76 | – |

The impact of the hedging instruments and hedged items on the consolidated statement of financial position as of June 30, 2022 and December 31, 2021 follows:

| | **June 30, 2022** | | | |
|---|---|---|---|---|
| | **Notional amount** | **Carrying amount** | **Line item in the statement of financial position** | **Change in fair value*** |
| **EUR120 Mn Loan - Principal only swap** | **€120,000,000** | **₱871,831,943** | **Other noncurrent assets** | **₱364,873,106** |
| **USD100 Mn Bonds - Currency Option Transaction** | **$100,000,000** | **104,140,317** | **Other noncurrent assets** | **(212,146,003)** |
| **USD100 Mn Bonds - Net Investment Hedge** | **$100,000,000** | **–** | **–** | **(262,074,365)** |
| | | **₱975,972,260** | | **(₱109,347,262)** |

**net of income tax effect*

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Notional amount | Carrying amount | Line item in the statement of financial position | Change in fair value* |
| EUR120 Mn Loan - Principal only swap | €120,000,000 | ₱391,325,605 | Other noncurrent assets | ₱457,932,425 |
| USD100 Mn Bonds - Currency Option Transaction | $100,000,000 | (4,613,859) | Other noncurrent assets | (35,691,984) |
| USD100 Mn Bonds - Net Investment Hedge | $100,000,000 | – | – | (121,415,238) |
| | | ₱386,711,746 | | ₱300,825,203 |

**net of income tax effect*

The impact of the hedged items on the consolidated statements of financial position as of June 30, 2022 and December 31, 2021 follows:

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | **Notional amount** | **Change in fair value *** | **Cash flow hedge reserve*** | **Cost of hedging reserve*** |
| **EUR120 Mn Loan - Principal only swap** | **€120,000,000** | **₱364,873,106** | **₱291,348,503** | **₱73,524,603** |
| **USD100 Mn Bonds – Currency Option Transaction** | **$100,000,000** | **(212,146,003)** | **119,945,547** | **(332,091,550)** |
| **USD100 Mn Bonds - Net Investment Hedge** | **$100,000,000** | **(262,074,365)** | **–** | **–** |
| | | **(₱109,347,262)** | **₱411,294,050** | **(₱258,566,947)** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Notional amount | Change in fair value * | Cash flow hedge reserve* | Cost of hedging reserve* |
| EUR120 Mn Loan - Principal only swap | €120,000,000 | ₱457,932,425 | ₱775,253,964 | (₱317,321,539) |
| USD100 Mn Bonds – Currency Option Transaction | $100,000,000 | (35,691,984) | 366,700,065 | (402,392,049) |
| USD100 Mn Bonds - Net Investment Hedge | $100,000,000 | (121,415,238) | – | – |
| | | ₱300,825,203 | ₱1,141,954,029 | (₱719,713,588) |

**net of income tax effect*

The effect of the cash flow hedge in the consolidated statements of comprehensive income follows:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | **Total hedging gain (loss) recognized in OCI*** | **Ineffectiveness recognized in profit or loss** | **Line item in profit or loss** | **Amount reclassified from OCI to profit or loss** | **Line item in profit or loss** |
| **EUR120 Mn Loan - Principal only swap** | **₱364,873,106** | **₱–** | **Interest expense** | **(₱5,991,136)** | **Foreign exchange gains (losses)** |
| **USD100 Mn Bonds – Currency Option Transaction** | **(212,146,003)** | **1,711,280** | **Interest expense** | **389,904,233** | **Foreign exchange gains (losses)** |
| **USD100 Mn Bonds - Net Investment Hedge** | **(262,074,365)** | **–** | **–** | **389,904,233** | **Foreign exchange gains (losses)** |
| | **(₱109,347,262)** | **₱1,711,280** | | **₱773,817,330** | |

**net of income tax effect*

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

With respect to credit risk from financial assets of the Group, which are mainly composed of cash and cash equivalents, and receivables, the exposure of the Group to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There is no significant concentration of credit risk in the Group.

*Credit Risk Exposures.* The carrying values of the Group's financial assets represent the maximum exposure to credit risk since the financial assets have no collateral or credit enhancements as of June 30, 2022 and December 31, 2021.

| | **June 30, 2022** | December 31, 2021 |
|---|---:|---:|
| Cash and cash equivalents | **₱10,930,912,960** | ₱15,902,296,865 |
| Short term investment | **350,913,784** | 458,516,237 |
| Trade and other receivables | **4,162,027,585** | 3,863,227,901 |
| Restricted cash | **287,954,934** | 225,403,315 |
| Deposits | **2,482,331,461** | 2,450,297,664 |
| Financial asset of FVOCI | **2,030,515,407** | 1,617,040,000 |
| | **₱20,244,656,131** | ₱24,516,781,982 |

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Outstanding customer receivables are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written off when deemed unrecoverable and are not subject to enforcement activity. The information about the credit risk exposure on the Group's receivables using a provision matrix follow:

| | June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Current** | **Days Past Due** | | | | | |
| | **High Grade** | **Less than 30 Days** | **30 to 60 Days** | **61 to 90 Days** | **Over 90 Days** | **Expected Credit Loss** | **Total** |
| | | | | **(In Thousands)** | | | |
| **Receivables** | | | | | | | |
| **Trade and concession receivables** | **₱2,102,067** | **₱815,264** | **₱247,772** | **₱129,854** | **₱435,684** | **₱552,151** | **₱4,282,792** |
| **Employees** | **19,973** | – | – | – | – | **2,068** | **22,041** |
| **Interest from banks** | **10,503** | – | – | – | – | – | **10,503** |
| **Others** | **24,006** | – | – | – | – | **166,114** | **190,120** |
| | **₱2,156,549** | **₱815,264** | **₱247,772** | **₱129,854** | **₱435,684** | **₱720,333** | **₱4,505,456** |

| | Current | December 31, 2021 Days Past Due | | | | | |
|---|---|---|---|---|---|---|---|
| | High Grade | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | Expected Credit Loss | Total |
| | | | | *(In Thousands)* | | | |
| Receivables | | | | | | | |
| Trade and concession receivables | ₱1,747,788 | ₱579,374 | ₱369,520 | ₱255,697 | ₱655,044 | ₱428,408 | ₱4,035,831 |
| Employees | 22,882 | – | – | – | – | 518 | 23,400 |
| Interest from banks | 8,149 | – | – | – | – | – | 8,149 |
| Others | 93,075 | – | – | – | – | 191,610 | 284,685 |
| | ₱1,871,894 | ₱579,374 | ₱369,520 | ₱255,697 | ₱655,044 | ₱620,536 | ₱4,352,065 |

The tables below show the credit quality of the Group's financial assets based on their historical experience with the corresponding third parties:

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Credit Impaired** | **Total** |
| | | *(in thousands)* | | |
| **High** | **₱4,835,260** | **₱–** | **₱–** | **₱4,835,260** |
| **Moderate** | **–** | **15,409,396** | **–** | **15,409,396** |
| **Low** | **720,333** | **–** | **–** | **720,333** |
| **Gross carrying amount** | **5,555,593** | **15,409,396** | **–** | **20,964,989** |
| **ECL** | **(720,333)** | **–** | **–** | **(720,333)** |
| **Carrying amount** | **₱4,835,260** | **₱15,409,396** | **₱–** | **₱20,244,656** |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Credit Impaired | Total |
| | | *(in thousands)* | | |
| High | ₱5,142,646 | ₱– | ₱– | ₱5,142,646 |
| Moderate | – | 19,374,136 | – | 19,374,136 |
| Low | 620,536 | – | – | 620,536 |
| Gross carrying amount | 5,763,182 | 19,374,136 | – | 25,137,318 |
| ECL | (620,536) | – | – | (620,536) |
| Carrying amount | ₱5,142,646 | ₱19,374,136 | ₱– | ₱24,516,782 |

As of June 30, 2022 and December 31, 2021, all financial assets are viewed by management as either 'high grade' or 'moderate', except for impaired financial assets, considering the collectability of the receivables and contract assets and the credit history of the counterparties.

Liquidity Risk

Liquidity risk is the the potential of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding or is the risk that the Group will not be able to meet its obligations associated with financial difficulties.

The objective of the Group is to maintain a balance between continuity of funding and flexibility through the use of credit lines available from local banks. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical data and forecasts from its collection and disbursement. The Group places funds in the money market only when exceeding the Group's cash requirements.

Placements are strictly made based on cash planning assumptions and covers only a short period of time. The Group's has cash and cash equivalents, short-term investments and receivables amounting to ₱15,443.9 million and ₱20,224.0 million as of June 30, 2022 and December 31, 2021, respectively, that are readily available to meet the Group's liquidity needs. The Group also expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from equity or debt financing and cash flows from operations.

The table below summarizes the maturity profile of the Group's financial liabilities as of June 30, 2022 and December 31, 2021 based on undiscounted contractual payments.

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | **Due and Demandable** | **Less than 3 Months** | **3 to 12 Months** | **More than 12 months** | **Total** |
| | | | *(in thousands)* | | |
| **Financial liabilities** | | | | | |
| Accounts payable and other current liabilities*** | **₱589,886** | **₱779,704** | **₱12,779,117** | **₱–** | **₱14,148,707** |
| Lease liabilities | – | **1,233** | **127,925** | **511,252** | **640,410** |
| Short term loan | – | **484,126** | **3,582,827** | – | **4,066,953** |
| Long-term loan**** | – | – | **5,564,045** | **106,172,092** | **111,736,137** |
| Service concession obligation | – | – | **1,077,522** | **15,660,796** | **16,738,318** |
| Other noncurrent liabilities | – | – | – | **6,021,517** | **6,021,517** |
| | **₱589,886** | **₱1,265,063** | **₱23,131,436** | **₱128,365,657** | **₱153,352,042** |

**** Excluding deferred output VAT payable and statutory payables*
***** Including interest*

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Due and Demandable | Less than 3 Months | 3 to 12 Months | More than 12 months | Total |
| | | | *(in thousands)* | | |
| Financial liabilities | | | | | |
| Accounts payable and other current liabilities*** | ₱613,999 | ₱811,577 | ₱13,301,500 | ₱– | ₱14,727,076 |
| Lease liabilities | – | – | 168,612 | 450,214 | 618,826 |
| Short term loan | – | 52,500 | – | – | 52,500 |
| Long-term loan**** | – | – | 6,016,267 | 102,509,522 | 108,525,789 |
| Service concession obligation | – | – | 990,123 | 14,159,855 | 15,149,978 |
| Other noncurrent liabilities | – | – | – | 5,715,264 | 5,715,264 |
| | ₱613,999 | ₱864,077 | ₱20,476,502 | ₱122,834,855 | ₱144,789,433 |

**** Excluding advances from customers, defects liability, deferred output VAT payable, and statutory payables*
***** Including interest*

Capital Risk Management

The primary objective of the Group's capital management is to ensure an adequate return to its shareholder and to maximize shareholder value. The Group considers the total equity as its capital.

The Group manages its capital structure and adjusts it considering changes in economic conditions. Since the Group is not subject to externally imposed capital requirements, it manages and maintains its capital structure by paying existing debts, reducing interest-bearing debt, adjusting dividend payment to shareholders, returning capital to shareholders or issuing new shares.

The following table pertains to the balances of the accounts which the Group consider as its capital:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Capital stock | **₱684,754,198** | ₱50,000,000 |
| Additional paid-in capital | **6,300,032,147** | 6,318,588,499 |
| Deposit for future stock subscription | – | 634,754,198 |
| Other equity reserve | **(67,544,299)** | 3,125,000 |
| Retained earnings | **9,940,732,508** | 9,476,263,544 |
| | **₱16,857,974,554** | ₱16,482,731,241 |

No changes were made in the objectives, policies or processes for the six months ended June 30, 2022 and year ended December 31, 2021.

34. **Note to Consolidated Statement of Cash Flows**

The Group's significant noncash investing and financing activities for the six months ended June 30, 2022 and 2021 follows:

a. In 2022, the Group acquired various equipment, parcel of land, and building, amounting to ₱740.2 million, of which ₱628.5 million was paid in 2022 (see Notes 13 and 16). There were also noncash additions to right-of-use assets amounting to ₱37.7 million for the current year.

b. In 2022, the Group made noncash acquisitions of SCA amounting to ₱90.1 million.

c. In 2022, the Parent Company applied the deposits for future stock subscription amounting to ₱634.75 million for the increase in capital stock.

d. In 2021, the Group acquired various equipment, parcel of land, and building, amounting to ₱976.9 million, of which ₱751.3 million was paid in 2021 (see Notes 13 and 16). There were also noncash additions to right-of-use assets amounting to ₱130.5 million.

e. In 2021, the Group made noncash acquisitions of SCA and contract assets representing SCA amounting to ₱362.7 million and ₱325.0 million, respectively.

f. In 2021, the Group had a noncash acquisition of a subsidiary amounting to ₱4,053.3 million.

The changes in the Group's liabilities arising from financing activities follow:

| | **January 1, 2022** | **Cash Flows** | **Interest Expense** | **Additions** | **Reclassifcation adjustments** | **Derecognition** | **Translation Adjustment** | **June 30, 2022** |
|---|---|---|---|---|---|---|---|---|
| Lease liabilities | **₱497,547,185** | **(₱104,462,178)** | **₱7,643,485** | **₱36,081,133** | **₱–** | **(₱10,929,842)** | **₱–** | **₱425,879,783** |
| Long-term loans | **86,608,432,757** | **1,436,449,023** | **167,466,560** | **–** | **1,840,430,554** | **–** | **622,364,710** | **90,675,143,604** |
| Service concession obligation | **9,467,504,137** | **(337,688,152)** | **392,494,296** | **–** | **215,691,891** | **–** | **–** | **9,738,002,172** |
| Interest payable* | **1,035,544,483** | **(1,185,292,150)** | **978,061,974** | **297,863,444** | **–** | **–** | **(20,409,301)** | **1,105,768,450** |
| Short-term loans | **52,500,000** | **4,014,452,925** | | **–** | **–** | **–** | **–** | **4,066,952,925** |
| Total liabilities from financing activities | **₱97,661,528,562** | **₱3,823,459,468** | **₱1,545,666,315** | **₱333,944,577** | **₱2,056,122,445** | **(₱10,929,842)** | **₱601,955,409** | **₱106,011,746,934** |

**Additions to interest payable comprise of capitalized interest expense*

| | January 1, 2021 | Effect of business combination (see Note 4) | Cash Flows | Interest Expense | Additions | Lease modification | Translation Adjustment | December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Lease liabilities | ₱61,180,947 | ₱397,925,758 | (₱95,075,827) | ₱15,328,459 | ₱125,850,765 | (₱7,662,917) | ₱– | ₱497,547,185 |
| Long-term loans | 1,631,652,492 | 71,677,816,164 | 11,084,888,696 | 262,396,973 | – | – | 1,951,678,432 | 86,608,432,757 |
| Service concession obligation | 386,434,850 | 9,173,790,549 | (513,217,579) | 382,301,434 | – | – | 38,194,883 | 9,467,504,137 |
| Interest payable* | 9,690,393 | 662,023,978 | (1,627,637,813) | 1,294,647,476 | 755,479,625 | – | (58,659,176) | 1,035,544,483 |
| Short-term loans | – | – | 52,500,000 | – | – | – | – | 52,500,000 |
| Dividends payable | 24,000,000 | – | (1,431,590,046) | – | 1,407,590,046 | – | – | – |
| Total liabilities from financing activities | ₱2,112,958,682 | ₱81,911,556,449 | ₱7,469,867,431 | ₱1,954,674,342 | ₱2,288,920,436 | (₱7,662,917) | ₱1,931,214,139 | ₱97,661,528,562 |

## 35. Segment Information

Operating segments are components of the Group (a) that engage in business activities from which they may earn revenues and incur expenses; (b) with operating results which are regularly reviewed by the Group's chief operating decision-maker (the BOD) to make decisions about how resources are to be allocated to the segment and assess their performances; and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues.

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

The Group is organized into four operating divisions: parent company and other holding subsidiaries, construction, water and power.

Revenues and net income for the six months ended June 30, 2022 and 2021 are the same as reported elsewhere in the accompanying consolidated financial statements.

Management monitors the operating results of its segments separately for making decisions about resource allocation and performance assessment. The Group evaluates segment performance based on contributions to revenues, net income/loss and EBITDA, which is not a measure of operating performance or liquidity defined by PFRSs and may not be comparable to similarly titled measures presented by other entities. The Group's EBITDA is computed as the Group's consolidated net income/loss before interest expense, provision for/benefit from income tax, net foreign exchange gains/losses, interest income from cash and cash equivalents, depreciation and amortization and non-recurring income/expenses. The Group does not have a single customer contributing more than 10.00% of its total revenue.

The financial information of the Group's reportable operating segments as at and for the periods ended June 30, 2022 and 2021 are as follows:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Parent Company and Others | Construction | Water | Power | Consolidated Balances |
| Revenues | **₱–** | **₱1,633,033,517** | **₱10,735,656,108** | **₱233,109,813** | **₱12,601,799,438** |
| Cost of services | **(149,508,218)** | **(1,218,647,675)** | **(2,993,006,504)** | **(45,678,718)** | **(4,406,841,115)** |
| Operating expenses | **(100,342,603)** | **(164,241,671)** | **(1,366,045,399)** | **(446,654,581)** | **(2,077,284,254)** |
| Revenue from development and rehabilitation works | **–** | **–** | **12,740,899,396** | **–** | **12,740,899,396** |
| Cost of development and rehabilitation works | **–** | **–** | **(12,717,556,645)** | **–** | **(12,717,556,645)** |
| Equity in net income of associates | **–** | **–** | **307,270,402** | **–** | **307,270,402** |
| Interest income on contract assets | **–** | **–** | **152,043,745** | **92,953,587** | **244,997,332** |
| EBITDA | **(249,850,821)** | **250,144,171** | **6,859,261,103** | **(166,269,899)** | **6,693,284,554** |
| Depreciation and amortization (see Notes 13, 18, 23 and 24) | **(13,379,286)** | **(42,110,346)** | **(2,032,497,403)** | **(39,519,992)** | **(2,127,507,027)** |
| Interest expense (see Notes 10, 17 and 18) | **(145,535,421)** | **(10,115,428)** | **(1,640,842,391)** | **(1,162,191)** | **(1,797,655,431)** |
| Foreign exchange gain (losses) - net | **2,163,266** | **(1,092,146)** | **625,635,504** | **(228,568)** | **626,478,056** |
| Interest income | **401,614** | **409,904** | **28,501,941** | **263,868** | **29,577,327** |
| Other income - net | **10,751,178** | **34,370,022** | **(12,336,486)** | **–** | **32,784,714** |
| Provision for income tax (see Note 26) | **(25,529,768)** | **(57,898,563)** | **(817,734,175)** | **(5,861,681)** | **(907,024,187)** |
| Net income (loss) from continuing operations | **(420,979,238)** | **173,707,614** | **3,009,988,093** | **(212,778,463)** | **2,549,938,006** |
| Net loss from discontinued operations | **–** | **–** | **(570,069)** | **–** | **(570,069)** |
| Net income (loss) | **(₱420,979,238)** | **₱173,707,614** | **₱3,009,418,024** | **(₱212,778,463)** | **₱2,549,367,937** |
| Attributable to the Parent Company | **(₱419,896,975)** | **₱104,224,568** | **₱859,217,801** | **(₱79,076,430)** | **₱464,468,964** |
| **Other information** | | | | | |
| Segment assets, exclusive of investments in associates, derivative assets and deferred tax assets | **₱2,948,288,649** | **₱2,268,960,442** | **₱169,785,438,428** | **₱7,935,489,370** | **₱182,938,176,889** |
| Investments in associates | **–** | **–** | **12,153,725,988** | **–** | **12,153,725,988** |
| Derivative assets | **–** | **–** | **975,972,260** | **–** | **975,972,260** |
| Deferred tax assets | **–** | **30,982,918** | **1,465,372,014** | **2,970,684** | **1,499,325,616** |
| Total assets | **₱2,948,288,649** | **₱2,299,943,360** | **₱184,380,508,690** | **₱7,938,460,054** | **₱197,567,200,753** |

*(Forward)*

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | **Parent Company and Others** | **Construction** | **Water** | **Power** | **Consolidated Balances** |
| Segment liabilities, exclusive of deferred tax liabilities | **₱5,442,499,612** | **₱1,958,549,700** | **₱119,636,489,311** | **₱310,991,399** | **₱127,348,530,022** |
| Deferred tax liabilities | **110,773,199** | **–** | **271,622,706** | **338,906,555** | **721,302,460** |
| Total liabilities | **₱5,553,272,811** | **₱1,958,549,700** | **₱119,908,112,017** | **₱649,897,954** | **₱128,069,832,482** |

| | June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Parent Company and Others | Construction | Water | Power | Consolidated Balances |
| Revenues | ₱– | ₱1,357,157,275 | ₱1,830,650,187 | ₱233,560,503 | ₱3,421,367,965 |
| Cost of services | – | (1,100,110,140) | (377,406,514) | (52,995,580) | (1,530,512,234) |
| Operating expenses | (112,672,859) | (127,595,765) | (350,527,223) | (120,355,580) | (711,151,427) |
| Revenue from development and rehabilitation works | – | – | 1,561,195,433 | – | 1,561,195,433 |
| Cost of development and rehabilitation works | – | – | (1,558,407,164) | – | (1,558,407,164) |
| Equity in net income of associates | – | – | 29,246,011 | – | 29,246,011 |
| Interest income on contract assets | – | – | 25,080,970 | 94,765,036 | 119,846,006 |
| EBITDA | (112,672,859) | 129,451,370 | 1,159,831,700 | 154,974,379 | 1,331,584,590 |
| Depreciation and amortization (see Notes 13, 18, 23 and 24) | (4,286,062) | (50,130,804) | (334,831,057) | (24,786) | (389,272,709) |
| Interest expense (see Notes 10, 17 and 18) | (10,879,845) | (4,316,479) | (260,735,258) | – | (275,931,582) |
| Foreign exchange losses – net | 6,483,152 | – | 297,946,699 | (324,523) | 304,105,328 |
| Interest income | 118,203 | – | 8,760,677 | 9,373 | 8,888,253 |
| Gain on acquisition of a subsidiary and others (Note 4) | – | – | 9,213,932,649 | – | 9,213,932,649 |
| Provision for income tax (see Note 26) | – | (57,898,563) | (98,000,117) | (11,891,215) | (167,789,895) |
| Net income (loss) from continuing operations | (121,237,411) | 17,105,524 | 9,986,905,293 | 142,743,228 | 10,025,516,634 |
| Net income from discontinued operations | – | – | 425,745 | – | 425,745 |
| Net income (loss) | (₱121,237,411) | ₱17,105,524 | ₱9,987,331,038 | ₱142,743,228 | ₱10,025,942,379 |
| Attributable to the Parent Company | (₱121,237,171) | ₱10,263,314 | ₱9,377,138,425 | ₱142,773,188 | ₱9,408,937,756 |
| **Other information** | | | | | |
| Segment assets, exclusive of investments in associates, derivative assets and deferred tax assets | ₱2,475,152,316 | ₱2,321,434,713 | ₱169,254,248,830 | ₱2,758,822,000 | ₱176,809,657,859 |
| Investments in associates | – | – | 11,108,960,232 | – | 11,108,960,232 |
| Deferred tax assets | – | 146,861,130 | 1,513,851,019 | – | 1,660,712,149 |
| Total assets | ₱2,475,152,316 | ₱2,468,295,843 | ₱181,877,060,081 | ₱2,758,822,000 | ₱189,579,330,240 |
| Segment liabilities, exclusive of deferred tax liabilities | ₱2,080,132,341 | ₱1,807,015,091 | ₱109,164,655,888 | ₱122,396,305 | ₱113,174,199,625 |
| Deferred tax liabilities | 12,769,667 | – | 219,088,742 | – | 231,858,409 |
| Total liabilities | ₱2,092,902,008 | ₱1,807,015,091 | ₱109,383,744,630 | ₱122,396,305 | ₱113,406,058,034 |

## 36. **Provisions and Contingencies**

As of June 30, 2022, the provision for estimated probable losses pertains to various legal proceedings and exposures arising 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 (see Note 1).

## 37. **Subsequent events**

a) On July 12, 2022, API entered into a share purchase and investment agreement to acquire a 67% equity interest in Olympia Violago Water & Power, Inc. (OVWPI) amounting to ₱289.15 million. OVWPI is the developer of a 500MW pumped storage hydropower plant in Rizal Province (Ahunan Rizal Plant) which currently is in the pre-development stage. The business combination disclosure under PFRS 3 is not disclosed as the Group is still in the process of collating the relevant information as of August 26, 2022.

b) On July 20, 2022, PIWSI entered into a share purchase agreement wherein it acquired 20% of the shares and 100% of the voting interest in ARN Central Waste Management, Inc. (ACI) amounting to ₱440.00 million. After the satisfaction of certain conditions, PIWSI expects to acquire the remaining 80% of the ACI shares amounting to ₱1,760.00 million. ACI is the owner and operator of a private landfill in Cebu City that receives 1,000 to 2,000 tons of municipal solid waste daily. The business combination disclosure under PFRS 3 is not disclosed as the Group is still in the process of collating the relevant information as of August 26, 2022.

c) On July 28, 2022, Prime Exploration entered into a share purchase agreement with Malampaya Holdings Singapore Pte. Ltd. ("Malampaya Holdings"), a subsidiary of Udenna Corporation, to acquire all outstanding shares of MEXP Holding Pte. Ltd. subject to certain closing conditions. MEXP had previously executed a share purchase agreement where it would acquire 100% of the shares of Shell Philippines Exploration B. V. ("SPEX") from Shell Petroleum NV ("Shell") subject to certain closing conditions (the "SPEX Sale"). SPEX is the operator of, and owns a, 45% interest in Service Contract No. 38 for the Malampaya project. The business combination disclosure under PFRS 3 is not disclosed as the transaction is still subject to closing conditions as of August 26, 2022.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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**INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors
Prime Infrastructure Capital, Inc.
16th Floor Three E-Com Center
Bayshore Corner Ocean Drive
Block 21 Mall of Asia Complex
Pasay City, Metro Manila

We have audited the consolidated financial statements of Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc., the Parent Company), a wholly owned subsidiary of Prime Strategic Holdings Inc., as at June 30, 2022 and for the period then ended, on which we have rendered the attached report dated August 26, 2022.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the above Company has one (1) stockholder owning one hundred 100 or more shares.

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner
CPA Certificate No. 99857
Tax Identification No. 206-384-906
BOA/PRC Reg. No. 0001, August 26, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1402-AR-2 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-105-2019, November 7, 2019, valid until November 6, 2022
PTR No. 8854379, January 3, 2022, Makati City

August 26, 2022

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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**INDEPENDENT AUDITOR'S REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Prime Infrastructure Capital, Inc.
16th Floor Three E-Com Center
Bayshore Corner Ocean Drive
Block 21 Mall of Asia Complex
Pasay City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc., the Parent Company), a wholly owned subsidiary of Prime Strategic Holdings Inc., as at June 30, 2022 and December 31, 2021 and for the six months ended June 30, 2022 and 2021, and have issued our report thereon dated August 26, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, 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, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner
CPA Certificate No. 99857
Tax Identification No. 206-384-906
BOA/PRC Reg. No. 0001, August 26, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1402-AR-2 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-105-2019, November 7, 2019, valid until November 6, 2022
PTR No. 8854379, January 3, 2022, Makati City

August 26, 2022

PRIME INFRA

# INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule A. Financial Assets
June 30, 2022

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet | Value Based on Market Quotations at Balance Sheet Date | Income received and accrued |
|---|---|---|---|---|
| Cash on hand and in banks | N/A | ₱3,664,985,986 | ₱3,664,985,986 | ₱28,652,227 |
| Restricted cash | N/A | 287,954,934 | 287,954,934 | |
| Cash equivalents | N/A | 7,265,926,974 | 7,265,926,974 | |
| Short-term investments | N/A | 350,913,784 | 350,913,784 | |
| Trade and other receivables | N/A | 4,162,027,585 | 4,162,027,585 | – |
| Deposits | N/A | 2,482,331,461 | 2,482,331,461 | – |
| ***Financial assets at FVOCI*** | | | | |
| Solar Philippines Tarlac Corporation | 1,500,000,000 | 1,520,900,000 | 1,520,900,000 | – |
| Wastefuel Global LLC | 2,589,544 | 509,615,406 | 509,615,406 | – |
| | | | | |
| **Total** | | ₱20,244,656,130 | ₱20,244,656,130 | ₱28,652,227 |

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
June 30, 2022

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions | | | Current | Non-current | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | Others | | | |
| | | | | | | | | |
| **OFFICERS AND EMPLOYEES** | | | | | | | | |
| Various officers and employees | ₱213,089 | ₱300,000 | ₱269,724 | ₱– | ₱– | ₱243,365 | ₱– | ₱243,365 |
| | | | | | | | | |
| **RELATED PARTIES - Affiliates** | | | | | | | | |
| Sureste Properties, Inc. (SPI) | – | 391,870 | 391,870 | – | – | – | – | – |
| International Container Terminal Services, Inc. (ICTSI)-RHQ | 105,234,814 | 231,771,829 | 147,755,876 | – | – | 189,250,767 | – | 189,250,767 |
| **Total** | **₱105,447,903** | **₱232,463,699** | **₱148,417,470** | **₱–** | **₱–** | **₱189,494,132** | **₱–** | **₱189,494,132** |

PRIME INFRA

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule C. Amounts of Receivable from Related Parties, which are Eliminated During the Consolidation of Financial Statements

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions | | | Current | Non-current | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | Others | | | |
| Manila Water Company, Inc. (MWCI) | ₱71,864,143 | ₱214,681,849 | ₱156,270,064 | ₱– | ₱– | ₱130,275,928 | ₱– | ₱130,275,928 |
| Manila Water Philippine Ventures (MWPV) | 49,309,843 | 39,891,330 | 64,717,199 | – | – | 24,483,974 | – | 24,483,974 |
| Manila Water Asia Pacific (MWAP) | 11,859,817 | 27,416,723 | 24,702,746 | – | – | 14,573,794 | – | 14,573,794 |
| WawaJVCo Inc. | 129,739,387 | 344,916,826 | 349,822,075 | – | – | 124,834,138 | – | 124,834,138 |
| **Total** | **₱262,773,190** | **₱626,906,728** | **₱595,512,084** | **₱–** | **₱–** | **₱294,167,834** | **₱–** | **₱294,167,834** |

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule D. Long-term Debt

| Title of Issue and Type of Obligation | Interest Rates | Amount | Maturity | Interest Periodic Payments | Principal Periodic Payments | Amount Shown as Current | Amount Shown as Long-term | Total Long-term Debt |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| **FOREIGN CURRENCY DENOMINATED LOANS** | | | | | | | | |
| **USD Loans** | | | | | | | | |
| MWMP Loan | 6M LIBOR plus margin | 119,598,328 | 15-May-37 | Semi-annual | Semi-annual | ₱420,104,650 | ₱5,904,151,228 | ₱6,324,255,878 |
| USD 500.00 million sustainability bonds | 4.38% | 500,000,000 | 30-Jul-30 | Semi-annual | Bullet | – | 26,958,821,969 | 26,958,821,969 |
| **Total USD Loans** | | **619,598,328** | | | | **420,104,650** | **32,862,973,197** | **33,283,077,847** |
| **EUR Loan** | | | | | | | | |
| EUR 250.00 million Loan | 6M EURIBOR plus margin | 120,000,000 | 21-Oct-26 | Semi-annual | Semi-annual | 1,744,686,281 | 5,068,099,977 | 6,812,786,258 |
| | | | | | | | | |
| **THB Loan** | | | | | | | | |
| THB 5.30 billion MWTC Loan | 6M BIBOR plus margin | 5,300,000,000 | 12-Mar-24 | Semi-annual | Semi-annual | – | 8,197,966,398 | 8,197,966,398 |
| | | | | | | | | |
| **CAD Loan** | | | | | | | | |
| CAD 0.87 million Laguna Water Loan | Non-interest bearing | 873,000 | Not defined | N/A | N/A | – | 37,252,481 | 37,252,481 |
| | | | | | | | | |
| **Peso-denominated loans:** | | | | | | | | |
| **PHP Loans** | | | | | | | | |
| 5.00 billion MWCI PNB Loan | 7.30% | 3,375,000,000 | 31-Jul-28 | Quarterly | Quarterly | 495,688,026 | 2,880,919,357 | 3,376,607,383 |
| 5.00 billion MWCI BDO Loan | 5.16% (6M LIBOR plus margin on PhP3.20 billion) | 5,000,000,000 | 20-Nov-24 | Quarterly | at maturity period of each drawdown | 1,997,388,398 | 3,049,358,898 | 5,046,747,296 |
| 0.50 billion Laguna Water DBP Loan | 7.25% | 345,588,237 | 31-Jul-33 | Quarterly | Quarterly | 36,674,712 | 293,662,076 | 330,336,788 |
| 0.83 billion Laguna Water DBP Loan | 7.25% | 593,196,967 | 31-Jul-33 | Quarterly | Quarterly | 62,961,887 | 504,044,643 | 567,006,530 |
| 2.50 billion Laguna Water SBC Loan | 5.4042% to 6.4014% | 1,767,220,508 | 9-Dec-30 | Quarterly | Quarterly | 218,408,764 | 1,408,583,795 | 1,626,992,559 |
| 2.50 billion Laguna Water BPI Loan | 6.00% | 1,262,068,966 | 31-Jul-29 | Quarterly | Quarterly | 201,819,520 | 1,071,273,640 | 1,273,093,160 |
| 0.50 billion Boracay Water DBP-SBC Loan | 9.00% | 314,732,143 | 25-Aug-31 | Quarterly | Quarterly | – | 292,174,476 | 292,174,476 |
| 0.50 billion Boracay Water DBP-SBC Loan | 2.89% to 9.00% (6M LIBOR plus margin on PhP0.12 billion) | 294,117,649 | 25-Aug-31 | Quarterly | Quarterly | – | 312,596,553 | 312,596,553 |
| 0.65 billion Boracay Water DBP-SBC Loan | 6.25% to 6.33% | 541,666,667 | 25-Aug-31 | Quarterly | Quarterly | – | 537,360,234 | 537,360,234 |
| 2.40 billion Boracay Water BPI Loan | 4.70% to 7.66% | 1,420,000,000 | 30-Apr-33 | Quarterly | Quarterly | – | 1,509,094,051 | 1,509,094,051 |
| 1.15 billion Clark Water RCBC Loan | 6.19% to 6.63% | 838,541,665 | 30-Sep-30 | Quarterly | Quarterly | 95,833,333 | 690,857,949 | 786,691,282 |
| 0.54 billion Clark Water DBP Loan | 6M LIBOR plus margin | 535,000,000 | 31-Dec-33 | Quarterly | Quarterly | 44,583,334 | 475,906,015 | 520,489,349 |
| 0.80 billion Cebu Water DBP Loan | 7.32% | 530,517,648 | 20-Dec-33 | Quarterly | Quarterly | 42,589,832 | 460,761,314 | 503,351,146 |
| 7.00 billion MWPVI Loan | 5.1128% to 8.8132% | 6,400,000,000 | 9-Nov-32 | Semi-annual | Semi-annual | 667,800,000 | 6,293,180,906 | 6,960,980,906 |
| 0.45 billion Tagum Water PNB Loan | 5.303% to 7.83% | 361,916,667 | 25-Sep-12 | Quarterly | Quarterly | 33,384,874 | 310,007,909 | 343,392,783 |
| 0.15 billion Tagum Water PNB Loan | 5.25% | 143,333,333 | 25-Sep-32 | Quarterly | Quarterly | 12,762,285 | 120,528,922 | 133,291,207 |
| 0.23 billion Aqua Centro BPI Loan | 4.7653% to 5.3487% | 107,000,000 | 19-Mar-31 | Quarterly | Quarterly | – | 166,868,602 | 166,868,602 |
| 0.47 billion South Luzon Water BPI Loan | 4.625% to 5.7898% | 100,000,000 | 25-Aug-31 | Quarterly | Quarterly | – | 168,823,009 | 168,823,009 |
| 0.39 billion Calbayog Water BPI Loan | 5.42% | 70,000,000 | 22-Oct-31 | Quarterly | Quarterly | – | 70,000,000 | 70,000,000 |
| 20.0 billion Wawa loan facility | 0.9% to 4.25% | 7,598,000,000 | 30-Jul-25 | Quarterly | Quarterly | – | 7,500,124,338 | 7,500,124,338 |
| 178.7 million PMBC commercial loan facility | 6.50% | 178,700,000 | | | | 60,311,042 | 85,599,143 | 145,910,185 |
| 1.0 billion PICI HSBC loan facility | 5-year PHP BVAL rate plus a spread of 2.35% | 1,000,000,000 | 19-Oct-26 | Quarterly | Quarterly | – | 989,498,509 | 989,498,509 |
| 2.0 billion PICI Unionbank loan facility | fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum | 2,000,000,000 | 6-Dec-28 | Quarterly | Quarterly | – | 2,336,331,911 | 2,336,331,911 |

PRIME INFRA

| Title of Issue and Type of Obligation | Interest Rates | Amount | Maturity | Interest Periodic Payments | Principal Periodic Payments | Amount Shown as Current | Amount Shown as Long-term | Total Long-term Debt |
|---|---|---|---|---|---|---|---|---|
| 1.5 billion PMHPHC Unionbank loan facility | fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum | 1,500,000,000 | 21-Apr-28 | Quarterly | Quarterly | – | 1,490,870,042 | 1,490,870,042 |
| 5.5 billion TWCHI BPI loan facility | higher of PHP BVAL reference rates plus a spread of 2.5% and O/N RRP ("Overnight Reverse Restriction Repurchase") rate of BSP plus a spread of 0.95% | 5,500,000,000 | 3-Jun-24 | Quarterly | 3-Jun-24 | – | 5,355,428,321 | 5,355,428,321 |
| **Total PHP Loans** | | | | | | **3,970,206,007** | **38,373,854,613** | **42,344,060,620** |
| | | | | | | | | |
| **TOTAL** | | | | | | **₱6,134,996,938** | **₱84,540,146,666** | **₱90,675,143,604** |

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**

Schedule E. Indebtedness to Related Parties (Long-term Loans from Related Companies)

June 30, 2022

| Name of Related Party | Beginning Balance | Ending Balance |
|---|---|---|
| N/A | N/A | N/A |
| | | |

PRIME INFRA

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule F. Guarantees of Securities of Other Issuers
June 30, 2022

| Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by the Company for which Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A |

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule G. Capital Stock
June 30, 2022

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Share Reserved for Options, Warrants, Conversions and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Parent and Affiliates | Directors, Officers and Employees | Others |
| Shares | Common | 6,847,541,980 | − | 6,847,541,946 | 34 | − |

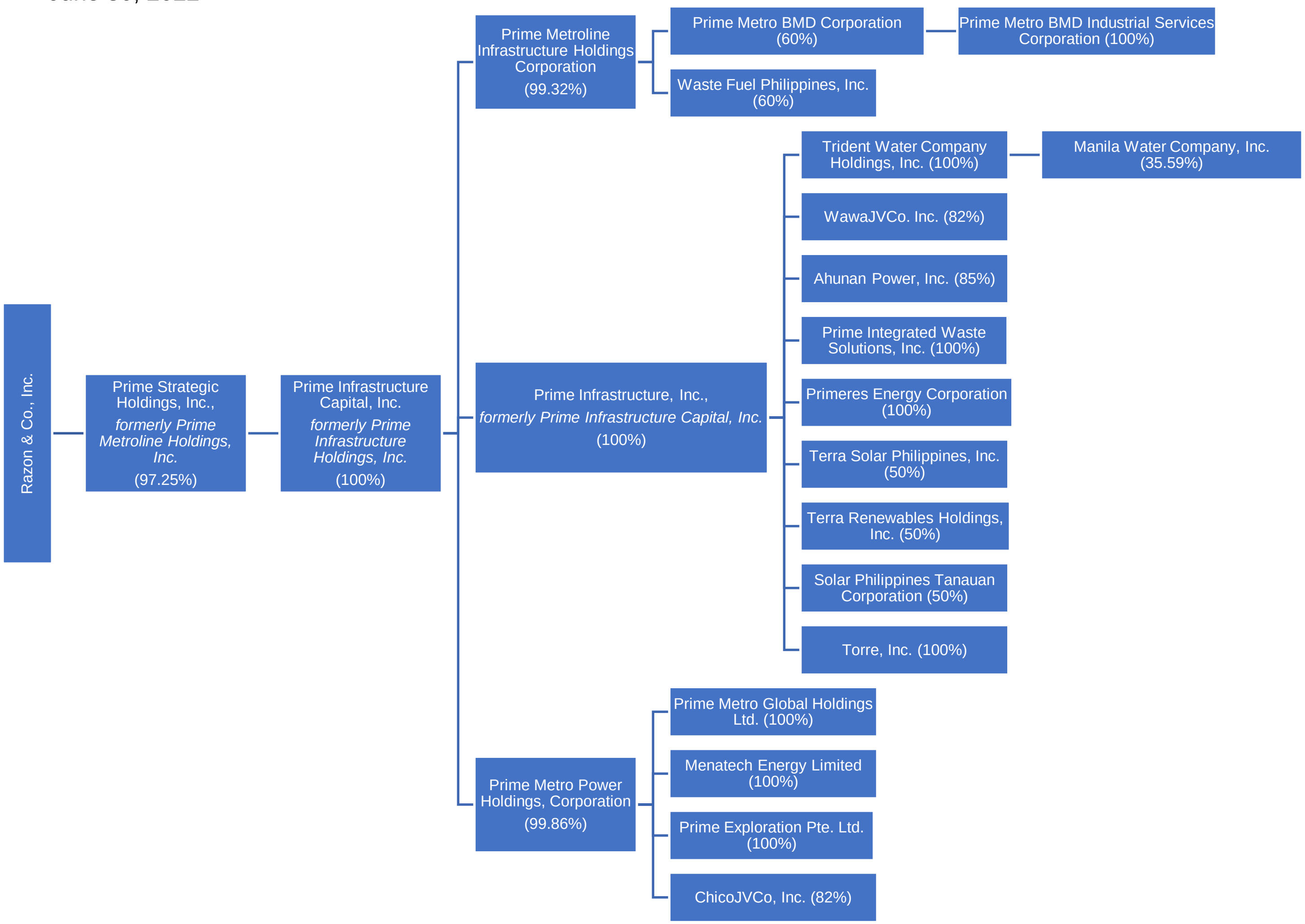
**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule H. Reconciliation of Retained Earnings Available for Dividend Declaration
June 30, 2022

| | | Amount |
|---|---|---|
| Unappropriated retained earnings, beginning<br>Adjustments: (see adjustments in previous years' reconciliation)<br>Recognized deferred tax assets in prior year | <br><br>– | ₱113,749,808<br><br>– |
| Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning | | 113,749,808 |
| **Add: Net income (loss) actually earned/realized during the period**<br>Net income during the year closed to retained earnings<br>Unrealized foreign exchange loss – net (excluding those attributable to cash and cash equivalents)<br>**Less:**<br>Equity in net income of associates<br>Recognized deferred tax assets during the year | <br>97,106,007<br>–<br><br>–<br>– | <br><br><br><br><br>97,106,007 |
| Net income (loss) actually earned/realized during the period | | 97,106,007 |
| **Unappropriated retained earnings available for dividend, as adjusted, ending** | | **₱210,855,815** |

**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**

Schedule I. Map of Relationships

June 30, 2022



**Prime Infrastructure Capital, Inc. (formerly Prime Infrastructure Holdings, Inc.)**
Schedule J. Financial Soundness Indicators
June 30, 2022

| Ratio | Formula | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| Current ratio | Current Assets/Current Liabilities | 0.77 | 1.12 |
| Quick ratio | Quick Assets*/Current Liabilities | 0.63 | 0.98 |
| Solvency ratios | Total Assets/Total Liabilities | 1.54 | 1.56 |
| Debt ratio | Total Debt/Total Assets | 0.65 | 0.64 |
| Debt-to-equity ratio | Interest-bearing loans/Total Equity | 1.36 | 1.30 |
| Interest Coverage | Earnings Before Interest and Taxes (EBIT) / Interest Charges | 2.54 | N/A |
| Asset-to-equity ratio | Total Assets/Total Equity | 2.84 | 2.80 |
| Net Profit Margin | Net Profit / Sales | 20.23% | N/A |
| Return on assets | Annualized Net Income/Average Total Assets | 2.66% | N/A |
| Return on Equity | Annualized Net Income /Average Total Stockholders' Equity | 7.49% | N/A |
| Price/Earnings Ratio | Price Per Share / Earnings Per Common Share | N/A | N/A |

**Current assets less inventories and prepaid expenses and other current assets*
***December 31, 2021 ratio is not presented since the statement of comprehensive income for December 31, 2021 is not part of the interim consolidated financial statements.*

# PRIME INFRASTRUCTURE HOLDINGS, INC.

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

April 6, 2022

Securities and Exchange Commission
Philippine International Convention Center (PICC),
Roxas Boulevard, Pasay City

The management of Prime Infrastructure Holdings, Inc. (the Company) and its subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as of and for the years ended December 31, 2021, 2020, 2019, and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**Enrique K. Razon, Jr.**
*Chairman and CEO*

**Guillaume Lucci**
*President and COO*

**Jesus Bernardo M. Palma III**
*Treasurer and CFO*

SGV
Building a better
working world

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# INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Prime Infrastructure Holdings, Inc.
16th Floor Three E-Com Center
Bayshore Corner Ocean Drive
Block 21 Mall of Asia Complex
Pasay City, Metro Manila

## Report on the Audit of the Financial Statements

### Opinion

We have audited the consolidated financial statements of Prime Infrastructure Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021, 2020, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the four years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, 2020, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the four years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner
CPA Certificate No. 99857
Tax Identification No. 206-384-906
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1402-AR-2 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-105-2019, November 7, 2019, valid until November 6, 2022
PTR No. 8854379, January 3, 2022, Makati City

April 6, 2022

## PRIME INFRASTRUCTURE HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents (Notes 6 and 33) | **₱15,902,296,865** | ₱1,343,265,670 | ₱686,212,390 | ₱322,985,594 |
| Short-term investments (Notes 6, 28 and 33) | **458,516,237** | – | – | – |
| Trade and other receivables (Note 7) | **3,863,227,901** | 975,046,817 | 523,519,004 | 157,981,862 |
| Contract assets - current portion (Notes 9, 23, and 29) | **1,410,597,516** | 176,305,175 | 20,135,214 | 38,857,132 |
| Inventories (Note 8) | **502,219,402** | 79,799,038 | 11,271,510 | 8,347,941 |
| Due from related parties (Note 28) | **–** | 480,631 | 3,620,556 | – |
| Prepayments and other current assets (Note 9) | **2,556,625,773** | 251,469,034 | 89,484,608 | 202,622,704 |
| Total Current Assets | **24,693,483,694** | 2,826,366,365 | 1,334,243,282 | 730,795,233 |
| **Noncurrent Assets** | | | | |
| Contract asset classified as noncurrent (Notes 9 and 29) | **6,938,878,432** | 3,495,817,374 | 3,012,158,628 | – |
| Service concession asset (Note 10) | **119,820,531,291** | – | – | – |
| Investments in associates (Note 11) | **11,452,445,937** | – | – | – |
| Financial assets at fair value through other comprehensive income (FVOCI) (Note 12) | **1,617,040,000** | 1,885,168,729 | – | – |
| Property, plant and equipment (Note 13) | **7,468,558,415** | 516,567,681 | 380,603,112 | 278,975,178 |
| Project development costs (Note 14) | **222,895,431** | 138,225,382 | 104,649,206 | 514,391,872 |
| Goodwill and other intangible assets (Notes 4 and 15) | **2,061,341,970** | – | – | – |
| Deferred tax assets - net (Note 26) | **1,590,722,464** | 148,058,457 | 106,790,282 | 50,826,440 |
| Other noncurrent assets (Notes 15) | **10,454,075,044** | 502,934,888 | 146,044,552 | 63,130,387 |
| Total Noncurrent Assets | **161,626,488,984** | 6,686,772,511 | 3,750,245,780 | 907,323,877 |
| **TOTAL ASSETS** | **₱186,319,972,678** | ₱9,513,138,876 | ₱5,084,489,062 | ₱1,638,119,110 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and other current liabilities (Note 16) | **₱14,961,738,830** | ₱1,294,720,745 | ₱669,503,666 | ₱584,796,870 |
| Short-term loan (Note 17) | **52,500,000** | – | 42,190,499 | 47,187,632 |
| Current portion of: | | | | |
| Long-term loan (Note 17) | **5,371,667,319** | 56,820,537 | 52,746,836 | – |
| Service concession obligations (Notes 10, 29 and 31) | **626,529,444** | – | – | – |
| Lease liabilities (Note 18) | **168,612,103** | 35,049,661 | 30,919,429 | 50,205,088 |
| Contract liabilities (Note 16) | **883,420,581** | 303,053,934 | 475,618,769 | 264,960,892 |
| Income tax payable | **170,811,967** | 82,119,583 | 54,240,034 | – |
| Due to related parties (Note 28) | **–** | – | 55,628,115 | 637,125,862 |
| Total Current Liabilities | **22,235,280,244** | 1,771,764,460 | 1,380,847,348 | 1,584,276,344 |
| **Noncurrent Liabilities** | | | | |
| Long-term loan - net of current portion (Note 17) | **81,236,765,438** | 1,574,831,955 | ₱86,658,319 | – |
| Contract liabilities - net of current portion (Note 16) | **151,548,734** | – | – | – |
| Lease liability - net of current portion (Note 18) | **328,935,082** | 26,131,286 | 46,607,957 | 140,719,584 |
| Deposit for future stock subscription (Note 28) | – | – | 2,973,516,630 | – |
| Service concession obligation (Note 10) | **8,840,974,693** | 386,434,850 | 366,343,972 | – |
| Retirement liability - net (Note 19) | **160,698,350** | 27,502,184 | 14,323,727 | 9,917,017 |

*(Forward)*

| | December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| Deferred tax liabilities - net (Note 26) | **₱544,440,745** | ₱12,769,667 | ₱28,226 | ₱– |
| Provisions (Note 36) | **1,166,957,229** | – | – | – |
| Other noncurrent liabilities (Notes 20 and 29) | **5,014,463,500** | – | – | – |
| Total Noncurrent Liabilities | **97,444,783,771** | 2,027,669,942 | 3,487,478,831 | 150,636,601 |
| Total Liabilities | **119,680,064,015** | 3,799,434,402 | 4,868,326,179 | 1,734,912,945 |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | |
| Common stock (Note 21) | **50,000,000** | 50,000,000 | – | – |
| Additional paid-in capital (Note 21) | **6,318,588,499** | 6,318,588,499 | – | – |
| Deposit for future stock subscription (Notes 2, 21 and 33) | **634,754,198** | – | 391,364,188 | – |
| Subscription receivable (Note 17) | – | (596,123,815) | – | – |
| Cumulative translation adjustment (Notes 2 and 11) | **(422,631,409)** | (707,280,880) | (57,184,543) | 1,077 |
| Cumulative changes in fair value of financial assets at FVOCI (Note 9) | **201,712,575** | 347,190,995 | – | – |
| Hedging reserves (Note 33) | **150,275,373** | – | – | – |
| Remeasurement gain on defined benefit plans (Note 19) | **37,054,360** | – | – | – |
| Other equity reserve (Note 2) | **3,125,000** | 3,125,000 | 3,125,000 | 3,125,000 |
| Retained earnings (deficit) (Note 21) | **9,476,263,544** | 112,632,632 | (243,387,977) | (164,815,293) |
| Net Equity Attributable to Equity Holders of the Parent Company | **16,449,142,140** | 5,528,132,431 | 93,916,668 | (161,689,216) |
| **Equity Attributable to Non-controlling Interests** | **50,190,766,523** | 185,572,043 | 122,246,215 | 64,895,381 |
| Net Equity (Capital Deficiency) | **66,639,908,663** | 5,713,704,474 | 216,162,883 | (96,793,835) |
| **TOTAL LIABILITIES AND EQUITY** | **₱186,319,972,678** | ₱9,513,138,876 | ₱5,084,489,062 | ₱1,638,119,110 |

*See accompanying Notes to Consolidated Financial Statements.*

## PRIME INFRASTRUCTURE HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| **CONTINUING OPERATIONS** | | | | |
| **REVENUES** (Note 22) | **₱15,150,360,041** | ₱3,234,427,277 | ₱2,294,564,148 | ₱1,179,523,952 |
| **COST OF SERVICES** (Note 23) | **7,584,088,227** | 2,353,611,430 | 1,822,278,813 | 1,040,226,931 |
| **GROSS PROFIT** | **7,566,271,814** | 880,815,847 | 472,285,335 | 139,297,021 |
| **OPERATING EXPENSES** (Note 24) | **3,487,643,473** | 736,250,004 | 417,438,946 | 311,658,933 |
| | **4,078,628,341** | 144,565,843 | 54,846,389 | (172,361,912) |
| **OTHER INCOME (EXPENSES)** | | | | |
| Revenue from development and rehabilitation works (Notes 1, 2, 7 and 10) | **14,355,749,448** | 1,138,264,490 | 2,706,765,892 | – |
| Cost of development and rehabilitation works (Notes 1, 2, 7 and 10) | **(14,335,699,318)** | (974,635,254) | (2,704,047,190) | – |
| Gain on acquisition of a subsidiary (Notes 4 and 21) | **9,120,287,952** | – | – | – |
| Interest expense (Notes 10, 17, 18, 24 and 28) | **(1,954,674,342)** | (48,365,794) | (19,458,969) | (6,305,478) |
| Foreign exchange gain (loss) - net | **(249,341,148)** | (7,025,297) | (4,213,655) | 3,219,571 |
| Equity share in net income of associates (Note 11) | **270,439,726** | – | – | – |
| Interest income (Notes 6, 10 and 24) | **393,518,922** | 273,340,824 | 10,643,578 | 705,760 |
| Amortization of deferred credits (Note 20) | **16,996,570** | – | – | – |
| Others | **(99,549,079)** | 647,018 | 56,950 | 74,714 |
| | **7,517,728,731** | 382,225,987 | (10,253,394) | (2,305,433) |
| **INCOME (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS** | **11,596,357,072** | 526,791,830 | 44,592,995 | (174,667,345) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 26) | **752,470,323** | 83,994,187 | 65,814,845 | (29,517,748) |
| **NET INCOME (LOSS) FROM CONTINUING OPERATIONS** | **10,843,886,749** | 442,797,643 | (21,221,850) | (145,149,597) |
| **NET LOSS AFTER TAX FROM DISCONTINUED OPERATIONS** (Note 25) | **(12,279,898)** | – | – | – |
| **NET INCOME (LOSS)** | **10,831,606,851** | 442,797,643 | (21,221,850) | (145,149,597) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Items that will be reclassified to profit or loss in subsequent years: | | | | |
| Gain on cash flow hedge - net of tax (Note 33) | **457,932,425** | – | – | – |
| Costs of hedging - net of tax (Note 33) | **(35,691,984)** | – | – | – |
| Cumulative translation adjustment - net of tax (Note 11) | **583,036,614** | (650,096,337) | (57,185,620) | 1,077 |
| | **1,005,277,055** | (650,096,337) | (57,185,620) | 1,077 |
| Items that will not be reclassified to profit or loss in subsequent years: | | | | |
| Actuarial gain on pension liabilities - net of tax (Note 19) | **93,018,562** | – | – | – |
| Unrealized gain (loss) on equity instrument designated at FVOCI - net of tax | **(145,478,420)** | 347,190,995 | – | – |
| | **(52,459,858)** | 347,190,995 | – | – |
| | **952,817,197** | (302,905,342) | (57,185,620) | 1,077 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱11,784,424,048** | ₱139,892,301 | (₱78,407,470) | (₱145,148,520) |

*(Forward)*

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| **Net Income (Loss) Attributable to** | | | | |
| Equity holders of the Parent Company | **₱9,363,630,912** | ₱356,020,597 | (₱78,572,684) | (₱117,268,669) |
| Non-controlling interests | **1,467,975,939** | 86,777,046 | 57,350,834 | (27,880,928) |
| | **₱10,831,606,851** | ₱442,797,643 | (₱21,221,850) | (₱145,149,597) |
| **Total Comprehensive Income (Loss) Attributable to** | | | | |
| Equity holders of the Parent Company | **₱9,690,131,696** | ₱53,115,255 | (₱135,758,304) | (₱117,267,595) |
| Non-controlling interests | **2,094,292,352** | 86,777,046 | 57,350,834 | (27,880,925) |
| | **₱11,784,424,048** | ₱139,892,301 | (₱78,407,470) | (₱145,148,520) |
| **Earnings per Share before Discontinued Operations** (Note 27) | | | | |
| Basic/Diluted | **₱187.4** | ₱7.1 | (₱1.6) | (₱2.3) |
| **Earnings per Share** (Note 27) | | | | |
| Basic/Diluted | **₱187.3** | ₱7.1 | (₱1.6) | (₱2.3) |

*See accompanying Notes to Consolidated Financial Statements*

# PRIME INFRASTRUCTURE HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, 2019 AND 2018

| | Equity Holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Other Comprehensive Income | | | | | | | | |
| | Paid-in-Capital (Note 21) | Deposit for future stock subscription (Note 2) | Cumulative translation adjustment (Note 2 and 11) | Cumulative changes in fair value of financial assets at FVOCI (Note 2 and 9) | Hedging reserves (Note 33) | Remeasurement loss on defined benefit plans (Note 19) | Other Equity reserve (Note 2) | Retained Earnings (Deficit) (Note 21) | Subtotal | Non-Controlling interest | Total |
| **Balance at December 31, 2020** | **₱5,772,464,684** | **₱–** | **(₱707,280,880)** | **₱347,190,995** | **₱–** | **₱–** | **₱3,125,000** | **₱112,632,632** | **₱5,528,132,431** | **₱185,572,043** | **₱5,713,704,474** |
| Net income | – | – | – | – | – | – | – | **9,363,630,912** | **9,363,630,912** | **1,467,975,939** | **10,831,606,851** |
| Other comprehensive income | – | – | **284,649,471** | **(145,478,420)** | **150,275,373** | **37,054,360** | – | – | **326,500,784** | **626,316,413** | **952,817,197** |
| Subscription and payment | **596,123,815** | – | – | – | – | – | – | – | **596,123,815** | **12,667,487** | **608,791,302** |
| Subsidiary's dividend declaration (Note 5) | – | – | – | – | – | – | – | – | – | **(1,407,590,046)** | **(1,407,590,046)** |
| Non-controlling interest arising from business combination (Note 4) | – | – | – | – | – | – | – | – | – | **49,301,831,542** | **49,301,831,542** |
| Collection of subscription receivable | – | – | – | – | – | – | – | – | – | **3,993,145** | **3,993,145** |
| Additional deposit for proposed capital increase (Note 2) | – | **634,754,198** | – | – | – | – | – | – | **634,754,198** | – | **634,754,198** |
| **Balance at December 31, 2021** | **₱6,368,588,499** | **₱634,754,198** | **(₱422,631,409)** | **₱201,712,575** | **₱150,275,373** | **₱37,054,360** | **₱3,125,000** | **₱9,476,263,544** | **₱16,449,142,140** | **₱50,190,766,523** | **₱66,639,908,663** |
| | | | | | | | | | | | |
| Balance at December 31, 2019 | ₱– | ₱391,364,188 | (₱57,184,543) | ₱– | ₱– | ₱– | ₱3,125,000 | (₱243,387,977) | ₱93,916,668 | ₱122,246,215 | ₱216,162,883 |
| Net income | – | – | – | – | – | – | – | 356,020,597 | 356,020,597 | 86,777,046 | 442,797,643 |
| Other comprehensive loss | – | – | (650,096,337) | 347,190,995 | – | – | – | – | (302,905,342) | – | (302,905,342) |
| Subscription and payment | 5,772,464,684 | – | – | – | – | – | – | – | 5,772,464,684 | 548,782 | 5,773,013,466 |
| Subsidiary's dividend declaration (Note 5) | – | – | – | – | – | – | – | – | – | (24,000,000) | (24,000,000) |
| Deposit for future subscription and other adjustments upon incorporation of the legal acquirer | – | (391,364,188) | – | – | – | – | – | 12 | (391,364,176) | – | (391,364,176) |
| Balance at December 31, 2020 (Note 2) | ₱5,772,464,684 | ₱– | (₱707,280,880) | ₱347,190,995 | ₱– | ₱– | ₱3,125,000 | ₱112,632,632 | ₱5,528,132,431 | ₱185,572,043 | ₱5,713,704,474 |

*(Forward)*

| | Equity Holders of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Other Comprehensive Income | | | | | | | | |
| | **Paid-in-Capital** (Note 21) | **Deposit for future stock subscription** (Note 2) | **Cumulative translation adjustment** (Note 2 and 11) | **Cumulative changes in fair value of financial assets at FVOCI** (Note 2 and 9) | **Hedging reserves** (Note 33) | **Remeasurement loss on defined benefit plans** (Note 19) | **Other Equity reserve** (Note 2) | **Retained Earnings (Deficit)** (Note 21) | **Subtotal** | **Non-Controlling interest** | **Total** |
| Balance at December 31, 2018 | ₱– | ₱– | ₱1,077 | ₱– | ₱– | ₱– | ₱3,125,000 | (₱164,815,293) | (₱161,689,216) | ₱64,895,381 | (₱96,793,835) |
| Net loss | – | – | – | – | – | – | – | (78,572,684) | (78,572,684) | 57,350,834 | (21,221,850) |
| Other comprehensive loss | – | – | (57,185,620) | – | – | – | – | – | (57,185,620) | – | (57,185,620) |
| Deposit for future subscription adjustment upon incorporation of the legal acquirer | – | 391,364,188 | – | – | – | – | – | – | 391,364,188 | – | 391,364,188 |
| Balance at December 31, 2019 (Note 2) | ₱– | ₱391,364,188 | (₱57,184,543) | ₱– | ₱– | ₱– | ₱3,125,000 | (₱243,387,977) | ₱93,916,668 | ₱122,246,215 | ₱216,162,883 |
| | | | | | | | | | | | |
| Balance at December 31, 2017 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱– | ₱1,250,000 | (₱47,546,624) | (₱46,296,624) | ₱39,476,309 | (₱6,820,315) |
| Net loss | – | – | – | – | – | – | – | (117,268,669) | (117,268,669) | (27,880,928) | (145,149,597) |
| Other comprehensive income | – | – | 1,077 | – | – | – | – | – | 1,077 | – | 1,077 |
| Deposit for future stock subscription from non-controlling interest holder | – | – | – | – | – | – | – | – | – | 53,300,000 | 53,300,000 |
| Equity reserve adjustment upon incorporation of the legal acquirer | – | – | – | – | – | – | 1,875,000 | – | 1,875,000 | – | 1,875,000 |
| Balance at December 31, 2018 (Note 2) | ₱– | ₱– | ₱1,077 | ₱– | ₱– | ₱– | ₱3,125,000 | (₱164,815,293) | (₱161,689,216) | ₱64,895,381 | (₱96,793,835) |

*See accompanying Notes to Consolidated Financial Statements.*

## PRIME INFRASTRUCTURE HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax from continuing operations | **₱11,596,357,072** | ₱526,791,830 | ₱44,592,995 | (₱174,667,345) |
| Loss before income tax from continuing operations | **(12,279,898)** | – | – | – |
| Income (loss) before income tax | **11,584,077,174** | 526,791,830 | 44,592,995 | (174,667,345) |
| Adjustments for: | | | | |
| Gain on acquisition of a subsidiary (Notes 4 and 21) | **(9,120,287,952)** | – | – | – |
| Depreciation and amortization (Notes 13, 15, 18, 23 and 24) | **2,395,271,803** | 121,685,323 | 87,332,208 | 24,089,034 |
| Interest expense (Notes 10, 17, 18, 24 and 28) | **1,954,674,342** | 48,365,794 | 19,458,969 | 6,305,478 |
| Provision for probable losses, impairment loss and others (Note 24) | **335,364,963** | – | – | – |
| Share in net income of associates (Note 11) | **(270,439,726)** | – | – | – |
| Interest income (Notes 6, 10 and 24) | **(393,518,922)** | (273,340,824) | (10,643,578) | (705,760) |
| Movement in retirement liability (Note 19) | **(9,380,513)** | 13,178,457 | 4,406,710 | 7,256,630 |
| Loss on disposal of property | **34,793,703** | – | – | – |
| Amortization of deferred credits | **(16,996,570)** | – | – | – |
| Unrealized foreign exchange loss (gain) on noncash accounts - net | **2,435,324,895** | 6,030,084 | 4,213,657 | (4,822,669) |
| Loss on termination of lease | **154,654** | – | – | – |
| Working capital changes: | | | | |
| Decrease (increase) in: | | | | |
| Receivables | **(253,145,407)** | (281,768,094) | (265,134,279) | (89,412,642) |
| Contract asset | **(188,240,173)** | (273,875,548) | (1,764,105,644) | – |
| Inventories | **(25,301,680)** | (68,527,528) | (2,923,569) | (8,347,941) |
| Prepayments and other current assets | **766,534,187** | (161,984,425) | 131,860,012 | (226,245,683) |
| Service concession asset | **(11,151,348,619)** | – | – | – |
| Increase (decrease) in: | | | | |
| Accounts payable and other current liabilities | **1,545,408,566** | 528,272,292 | 116,325,450 | 708,881,237 |
| Due to related parties | – | – | – | 627,113,791 |
| Cash generated from (used for) operations | **(377,055,275)** | 184,827,361 | (1,634,617,069) | 869,444,130 |
| Interest received | **48,605,899** | 2,885,752 | 7,230,148 | 705,760 |
| Income tax paid | **(829,935,169)** | (97,566,681) | (67,510,427) | – |
| Net cash provided by (used in) operating activities | **(1,158,384,545)** | 90,146,432 | (1,694,897,348) | 870,149,890 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Cash and cash equivalents acquired from business combination (Note 4) | **23,639,482,955** | – | – | – |
| Acquisitions of: | | | | |
| Subsidiaries (Note 4) | **(7,957,381,568)** | – | – | – |
| Investment in associates (Note 11) | **(1,280,802)** | – | – | – |
| Financial asset at FVOCI (Note 12) | **(596,140,000)** | (1,525,052,425) | – | – |
| Property, plant and equipment (Note 13) | **(751,340,140)** | (257,645,019) | (99,464,606) | (26,425,246) |
| Proceeds from: | | | | |
| Sale of property and equipment (Note 13) | **2,530,468** | – | – | – |
| Dividends received from associates | **418,300,404** | – | – | – |
| Disposal of short-term investments | **10,073,050** | – | – | – |

*(Forward)*

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | **2021** | 2020 (Note 2) | 2019 (Note 2) | 2018 (Note 2) |
| Decrease (increase) in: | | | | |
| Contract asset during construction phase | **(₱1,476,181,481)** | (₱1,020,558,903) | (₱631,212,552) | ₱– |
| Due from related parties | **480,631** | 3,139,925 | (3,620,556) | – |
| Project development cost | **(84,670,049)** | (33,576,176) | (4,649,206) | (514,391,872) |
| Other noncurrent assets | **(6,172,173,473)** | (92,181,959) | (82,914,165) | (34,238,940) |
| Proceeds from assignment of subsidiary's shares | – | – | 2,500,000 | – |
| Net cash provided by (used in) investing activities | **7,031,699,995** | (2,925,874,557) | (819,361,085) | (575,056,058) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Availment of short-term debt (Note 17) | **52,500,000** | – | – | – |
| Availment of long-term debt (Note 17) | **21,389,589,571** | 1,565,000,000 | – | – |
| Deposits for future stock subscription (Notes 2, 21 and 28) | **634,754,198** | 2,291,538,494 | 2,971,016,630 | – |
| Collection of subscription receivable (Note 21) | **596,123,815** | 2,500,000 | – | – |
| Payments of: | | | | |
| Long-term loan - principal (Note 17) | **(10,105,085,923)** | (52,945,960) | (37,957,260) | – |
| Lease liabilities principal (Note 18) | **(95,075,828)** | (22,127,062) | (34,466,575) | (77,972,533) |
| Service concession obligation | **(513,217,57)** | – | – | – |
| Dividends to non-controlling interest (Note 5) | **(1,431,590,046)** | – | – | – |
| Interest | **(1,627,637,813)** | (10,413,079) | (13,124,707) | (3,665,696) |
| Debt issue cost (Note 17) | **(234,172,166)** | (287,180,230) | (2,196,233) | – |
| Stock issuance cost | **(1,760,410)** | – | – | – |
| Increase in non-controlling interest | **16,472,337** | 10,548,783 | – | 1,875,000 |
| Decrease in other noncurrent liabilities | **(89,177,902)** | – | – | – |
| Net cash provided by (used in) financing activities | **8,591,722,254** | 3,496,920,946 | 2,883,271,855 | (79,763,229) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **93,993,491** | (4,139,541) | (5,786,626) | (14,665) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **14,559,031,195** | 657,053,280 | 363,226,796 | 215,315,938 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,343,265,670** | 686,212,390 | 322,985,594 | 107,669,656 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱15,902,296,865** | ₱1,343,265,670 | ₱686,212,390 | ₱322,985,594 |

*See accompanying Notes to Consolidated Financial Statements.*

# PRIME INFRASTRUCTURE HOLDINGS, INC. AND SUBSIDIARIES
# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

Prime Infrastructure Holdings, Inc. (PIHI or the Parent Company), was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 20, 2020 and is engaged in the business of developing and/or investing in infrastructure assets which include renewable and sustainable energy, water and construction.

On November 17, 2021, the Company filed its amended articles of incorporation with the SEC to change its corporate name from Prime Infrastructure Holdings, Inc. to Prime Infrastructure Capital, Inc. As of April 6, 2022, the approval of the SEC is still pending.

The Parent Company was incorporated by Prime Strategic Holdings, Inc., formerly known as Prime Metroline Holdings, Inc., (PSHI, the intermediate parent company) whose primary purpose is to subscribe, acquire, hold, sell, assign or dispose of shares of stock and other securities of any corporation including those engaged in hotel and/or gaming and entertainment business; and to be involved in the management and operation of the investee companies. The Parent Company is 100%-owned by PSHI while the ultimate parent company is Razon & Co. Inc (RCI). Both PSHI and RCI are entities incorporated in the Philippines.

The registered office address of the Company is 16th Floor Three E-Com Center, Bayshore Corner Ocean Drive, Block 21 Mall of Asia Complex, Pasay City, Metro Manila.

In December 2020, the Parent Company completed the acquisition of its subsidiaries, PMIHC and PMPHC, pursuant to deeds of assignment between PSHI and the Parent Company. PMIHC and PMPHC, subsidiaries of PSHI since incorporation in 2017, were deemed to be the accounting acquirer for accounting purposes under the principles of PFRS 3, *Business Combinations*. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard (see Note 2).

The accompanying consolidated financial statements as of December 31, 2021 were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on April 6, 2022.

*Subsidiaries of PIHI*

<u>Prime Metroline Infrastructure Holdings Corp. (PMIHC)</u>
PMIHC was incorporated in the Philippines and registered with the Philippine SEC on February 15, 2017 and is engaged in the business of developing and/or investing in infrastructure assets in construction and biofuels.

Pursuant to the subscription agreement between PMIHC and PIHI dated December 29, 2020, the former became a 75% owned subsidiary of PIHI.

On December 30, 2020, PIHI subscribed to 37.5 million Class A common shares of PMIHC for an aggregate consideration of ₱37.5 million. Accordingly, 7.5 million Class A common shares with a par value of ₱1.0 per share were issued pending the SEC approval for the increase in the authorized capital stock. The increase in authorized capital stock was approved on December 17, 2021 resulting in a 98.21% ownership interest as at December 31, 2021.

On November 19, 2021, the BOD and stockholders of PMIHC approved the increase in its authorized capital stock from ₱50.0 million divided into 40.0 million Class A common shares, with a par value of ₱1.00 and 100.0 million Class B common shares with a par value of ₱0.10 per share into ₱500.0 million divided into 490.0 million Class A common shares with a par value of ₱1.00 per share, and 100.0 million Class B common shares with a par value of ₱0.1 per share. The application for increase in authorized capital stock was presented for filing to SEC on December 22, 2021.

On December 15, 2021, PIHI subscribed to an additional 228,495,772 shares of PMIHC at a subscription price of ₱2.00 per share for an aggregate consideration of ₱456,991,544, out of the increase in authorized capital stock filed with the SEC. The additional subscription will raise PIHI's interest to 99.84%. As at April 6, 2022, SEC approval for the increase is still pending.

Prime Metro BMD Corporation (PMBC)
PMBC is a 60%-owned subsidiary of PMIHC. PMBC was incorporated in the Philippines and was registered with the Philippines SEC on April 17, 2017 and is engaged in construction business.

Waste Fuel Philippines, Inc. (WFPI)
As at December 31, 2021, PMIHC hold 60% equity ownership WFPI, a Company incorporated in the Philippines and registered with the Philippine SEC on May 10, 2021. Its primary purpose is to engage in the manufacture, processing, and sale of biofuels and its related by-products without engaging in retail trade activities.

Prime Metro Power Holdings Corporation (PMPHC)
Pursuant to the subscription agreement between the PMPHC and PIHI dated December 29, 2020, the former became 75% owned subsidiary of the latter. PMPHC, a corporation duly organized and existing under the laws of the Republic of the Philippines, was registered with the Philippine SEC on February 15, 2017 and is engaged in the business of developing and/or investing in infrastructure assets in renewable and sustainable energy.

On December 30, 2020, PIHI subscribed to 37.5 million Class A common shares of PMPHC for an aggregate consideration of ₱37.5 million. Accordingly, 7.5 million Class A common shares with a par value of ₱1.0 per share were issued pending the SEC approval for the increase in the authorized capital stock. The increase in authorized capital stock was approved on December 17, 2021 resulting in a 98.21% ownership interest as at December 31, 2021.

On November 19, 2021, the BOD and stockholders of PMPHC approved the increase in its authorized capital stock from ₱50.0 million divided into 40.0 million Class A common shares, with a par value of ₱1.00 and 100.0 million Class B common shares with a par value of ₱0.10 per share into ₱2.0 billion divided into 1.99 million Class A common shares with a par value of ₱1.00 per share, and 100.0 million Class B common shares with a par value of ₱0.1 per share. The application for increase in authorized capital stock was presented for filing to SEC on December 22, 2021.

On December 15, 2021, PIHI subscribed to an additional 1,452,191,440 shares of PMPHC at a subscription price of ₱2.00 per share for an aggregate consideration of ₱2,904,382,880, out of the increase in authorized capital stock filed with the SEC. The additional subscription will raise PIHI's interest to 99.32%. As at April 6, 2022, SEC approval for the increase is still pending.

ChicoJVCo (ChicoJVCo)
As at December 31, 2021, PMPHC hold 82% equity ownership of the ChicoJVCo, a corporation duly organized and existing under the laws of the Republic of the Philippines, was incorporated and registered with the SEC on May 7, 2018. Its primary purpose is to engage in hydropower business including establishment and operation of hydropower plants and facilities and selling the power generated from the operation of such facilities.

A Joint Venture Agreement (JVA) was entered into by PMPHC and San Lorenzo Ruiz Piat Energy and Water, Inc. (SLRPEWI) for the assignment of the Chico Hydropower Service Contract (CHSC) and development of Chico Hydropower Project (CHP) to ChicoJVCo.

Pursuant to the JVA, PMPHC paid a down payment in the amount of ₱50.0 million to study, consider and pursue the commercial development of the CHP under ChicoJVCo for 18 months (irrevocable option period).

In November 2018, ChicoJVCo agreed to advance 50.0 million to SLRPEWI to extend the irrevocable option period by another 12 months, or up to July 2, 2020. The down payment, and the amount advanced, are part of the total consideration under the JVA should PMPHC decide to pursue the CHP under ChicoJVCo.

On December 5, 2019, the PMPHC and ChicoJVCo entered into a reimbursement agreement wherein ChicoJVCo will pay ₱50.0 million to the PMPHC, in connection with the down payment paid by PMPHC to SLRPEWI to study, consider and pursue the commercial development of the CHP, in accommodation and for the benefit of ChicoJVCo.

On January 17, 2020, the irrevocable option period was extended for another six (6) months from July 2, 2020, or up to January 2, 2021. On September 18, 2020, the irrevocable option period was extended again from January 2, 2021 up to April 30, 2022.

<u>Ahunan Power, Inc. (API)</u>
As of December 31, 2021, API is 85 % owned by PMPHC. It was incorporated in the Philippines and registered with the Philippine SEC on September 17, 2020 primarily to engage in the development, construction, operation, maintenance, repair, and management of hydropower plants, other power-generating plants, related facilities, and other allied businesses, including investing, bidding and negotiating for such projects (whether shareholder, partner or otherwise), and to trade electricity in the Wholesale Electricity Spot Market.

In 2021, PMPHC entered into a Deed of Assignment with PII transferring its 85% interest in API.

<u>Menatech Energy Limited (Menatech)</u>
In 2018, PMPHC purchased from an individual shareholder 1,000 shares of Menatech representing 100% ownership, an entity incorporated in United Arab Emirates.

Menatech, through its branch in Iraq, operates the Umm Qasr Power Plant (UQPP) located at the Umm Qasr Port, Basra Governorate, Republic of Iraq. The operations started on February 18, 2020.

<u>Prime Metro Power Global Holdings Ltd. (Prime Global)</u>
Prime Global is a wholly-owned subsidiary of PMPHC incorporated in the Federal Territory of Labuan, Malaysia to carry on the business of holding company involved in energy business. Prime Global remained dormant as at December 31, 2021.

<u>Prime Infrastructure, Inc. (PII, formerly Prime Infrastructure Capital, Inc.)</u>
PII was incorporated in the Philippines and registered with the Philippine SEC on October 20, 2020 and is engaged in the business of developing and/or investing in infrastructure assets which include renewable and sustainable energy and water.

On December 4, 2020, pursuant to a deed of assignment of subscription, PSHI assigned its subscription to 2.5 million common shares of PII to PIHI thereby making PII as 100%-owned by PIHI.

On November 19, 2021, PII's BOD and shareholders approved the amendments in the PII's articles of incorporation ("AOI") to amend its corporate name from Prime Infrastructure Capital, Inc. to Prime Infrastructure, Inc.

On March 24, 2022, the Philippine SEC approved the abovementioned amendments.

WawaJVCo Inc. (WawaJVCo)
WawaJVCo was incorporated in the Philippines and registered with the Philippine SEC on April 11, 2019 primarily to engage in business of bulk water supply, including obtaining water permits and the establishment and operation of facilities for the capture and diversion of water and selling such water in bulk for municipal use, provided that within Metro Manila, the Company will only supply bulk water services and provide water services to authorized concessionaires.

WawaJVCo is a company formed by PMPHC and San Lorenzo Ruiz Builders and Developers Group, Inc., a Philippine entity, to develop the Tayabasan Multi-basin System and the Upper Wawa Dam ("Wawa Bulk Water Project") and shall supply Metropolitan Waterworks and Sewerage System (MWSS, a government-owned and controlled corporation in charge of the provision of water in the Metropolitan Manila area) and its concessionaires raw water for their treatment and distribution to end users and customers. As of April 6, 2022, the Tayabasan and Wawa Dam construction is still ongoing.

In April 2019, PMPHC subscribed and paid 2,500,000 shares with par value of ₱1 in WawaJVCo, representing 82% ownership interest in WawaJVCo. In June 2019, the Parent Company entered into a deed of assignment of shares with PMIHC for the assignment and transfer of the Company's 82% ownership in WawaJVCo to PMIHC for ₱2.5 million. As of December 31, 2020 and 2019, WawaJVCo is 82% owned by PMIHC.

On November 19, 2021, PIHI, holder of existing deposits for future subscriptions to PMIHC amounting to ₱521,037,162 entered into a deed of assignment for the PMIHC DFFS to PII as partial payment of its subscription in the PII's shares. On the same date, PMIHC entered into a deed of assignment of shares for the transfer of its interest in Wawa comprised of 2.5 million common shares of WawaJVCo and 281,667 preferred shares to PII. Investment in WawaJVCo. assigned to PII amounted to ₱2.5 million for the common shares and ₱281.7 million for the preferred shares at subscription price of ₱1.0 and ₱1,000.0 per share, respectively. In addition, PMIHC assigned deposit for future investment in Wawa JVCo. of ₱236.9 million to settle the full amount of the deposits for future subscription.

Terra Solar Philippines, Inc. (TSPI)
TSPI is 50%-owned by PII and was incorporated in the Philippines and registered with the Philippine SEC on June 21, 2021. It is primarily engaged in the business of generating power from renewable energy sources and selling or supplying the same to any corporation, public utility, distribution utility, or electric cooperative. TSPI is under pre-development stage as of December 31, 2021.

Solar Philippines Tanauan Corporation (SP Tanauan)
SP Tanauan was incorporated and registered with the Philippine SEC on September 7, 2016. It is primarily engaged in the business of renewable energy.

On October 18, 2021, PII entered into an Investment Agreement with Solar Philippines Power Projects Holdings, Inc. to invest in various solar projects in the Philippines, including SP Tanauan. PII subscribed and paid ₱2,000.0 million for 176,041,000 common shares of SP Tanauan or a 50% interest ownership. SP Tanauan has not yet started its commercial operations as of December 31, 2021.

Torre, Inc.
Torre, Inc. is a wholly-owned subsidiary of PII and was incorporated in the Philippines and registered with the Philippine SEC on December 29, 2020. It is primarily engaged in the establishment, development, construction, operation, maintenance of passive telecommunications tower infrastructure, related facilities and other allied businesses. Torre, Inc. is under pre-development stage as of December 31, 2021.

Trident Water Company Holdings, Inc. (TWCHI/Trident)
TWCHI was incorporated in the Philippines and registered with the Philippine SEC on March 3, 2020 primarily to acquire, hold or dispose of properties, including shares of stocks and securities of any corporation, including those engaged in water supply and in water distribution business, and to be involved in the management and operation of such investee companies, without engaging in dealership in securities, stock brokerage or investment company.

On December 29, 2020, pursuant to a deed of assignment of subscription, PSHI assigned its subscription to 5.0 million common shares and 200.0 million preferred shares of the TWCHI to PII thereby making TWCHI as 100%-owned by PII subject to the issuance of a Certificate Authorizing Registration (CAR) from the Bureau of Internal Revenue.

On December 22, 2021, TWCHI applied for an increase in authorized capital stock to 975.0 million common shares (₱1.0 par value) and 250.0 million preferred shares (₱0.1 par value). PII then entered into a subscription agreement with TWCHI for the proposed increase in authorized capital of 545.1 million common shares at a subscription price of ₱2.0 per share paid via assignment of its deposit for future subscriptions in Trident amounting to ₱1.09 million.

Manila Water Company, Inc. (MWCI)
Manila Water Company, Inc. was incorporated on January 6, 1997. MWCI started commercial operations on January 1, 2000. It became a publicly listed company via an initial public offering on March 18, 2005. MWCI and its subsidiaries are incorporated to provide water, integrated used water, sewerage and sanitation, distribution services, pipeworks, engineering, procurement and management services.

On February 1, 2020, MWCI and PSHI, on behalf of a company to be incorporated (TWCHI), signed a Subscription Agreement for the acquisition of 820.00 million common shares (equivalent to 24.96% economic rights) of the MWCI at ₱13.00 per share or a total of ₱10.66 billion.

On February 6, 2020, Ayala, as part of the Shareholders' Agreement to be executed among itself, its wholly-owned subsidiary Philwater Holdings Co., Inc. (Philwater), and TWCHI, Ayala's Executive Committee approved the grant of proxy rights by Philwater to TWCHI over its 4,000.00 million preferred shares to enable the latter to achieve 51.00% voting interest in the MWCI, subject to the fulfillment of the conditions set forth in the subscription agreement. Upon the grant of proxy rights to TWCHI, Ayala's effective voting interest in the MWCI will stand at 31.60%. This arrangement aimed to strategically rationalize the economic and voting stakes between Ayala and TWCHI as strategic partners in the MWCI.

On February 7, 2020, MWCI received a letter from PSHI, that it had announced through publication in a newspaper of general circulation, its intention to make a mandatory offer for the shares of the MWCI at an offer price of ₱13.00 per share.

On July 2, 2020, the SEC approved the MWCI's application for the amendment of its Articles of Incorporation to increase the carved-out shares from 300.00 million to 900.00 million unissued common shares and the issuance of such carved-out shares in one or more transactions or offerings "for cash, properties, or assets to carry out the MWCI's corporate purposes as approved by the Board of Directors (BOD)." Carved-out shares are common shares which are waived of shareholders' pre-emptive rights and are earmarked for specific corporate purposes (see Note 21).

On August 25, 2020, MWCI received a copy of the resolution from the Philippine Competition Commission (PCC), indicating that the PCC will take no further action with respect to the transaction. Specifically, it was deemed that the proposed acquisition of TWCHI of shares in the MWCI would not likely result in substantial lessening of competition.

In 2020, the MWCI also received consents from specific lenders for the subscription.

On February 15, 2021, MWCI and PSHI signed an Amendment to the Subscription Agreement. The amendment covered the inclusion of TWCHI as party to the Subscription Agreement following its establishment, as well as the updated payment terms which was 50.00% or ₱5.33 billion upon Closing and 50.00% or ₱5.33 billion upon call of MWCI's BOD.

On the same date, Philwater and TWCHI executed a Share Purchase Agreement wherein Philwater agreed to sell 2,691,268,205 of its preferred shares in the MWCI for ₱4.84 billion to TWCHI with a payment term over a five (5)-year period. The purchase of the preferred shares reflected a 39.09% voting stake and 8.19% economic stake in the MWCI. The rights and title to the shares, except voting rights covered by the proxies, which shall be executed upon the execution of the Shareholders' Agreement, shall not be transferred until all payments are made. Dividends earned by the preferred shares shall continue to be for the account of Philwater until full payment has been made.

On April 8, 2021, MWCI received the Tender Offer Report from TWCHI to acquire up to 1,118,253,916 common shares of the MWCI through a tender offer to all shareholders. Said tender offer did not include the 866,996,201 common shares held by Ayala and its nominees and the 4,000,000,000 preferred shares held by Philwater and its nominees. On May 31, 2021, a total of 462,660 common shares of MWCI were tendered, accepted and purchased by TWCHI via block sale through the facilities of the Philippine

On June 3, 2021, TWCHI completed the tender offer. Following the completion of the tender offer, TWCHI owns 870,462,660 common shares of the MWCI and has voting rights over 2,691,268,205 preferred shares to be acquired by TWCHI. In addition, PSHI also owns 29,589,500 common shares of MWCI. On June 24, 2021, TWCHI acquired 29,589,500 common shares of MWCI from PSHI.

As of December 31, 2021, TWCHI holds 900,052,160 common shares and 2,691,268,205 preferred shares in MWCI.

The above transactions resulted in voting and economic interest of TWCHI in MWCI of 52.2% and 35.6%, respectively.

<u>Significant transactions - MWCI</u>

<u>MWCI's Concession Agreement with Metropolitan Waterworks and Sewerage System (MWSS)</u>
On February 21, 1997, MWCI 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 (the "East Zone"). The Concession Agreement sets forth the rights and obligations of MWCI throughout a twenty-five (25)-year concession period. The MWSS Regulatory Office (MWSS RO) monitors and reviews the performance of each of the Concessionaires – MWCI and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

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

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

Under the Concession Agreement, MWCI 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 all 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 3, 10 and 15); 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 (4) Charging Years shall be zero; and
    ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

In the event that the MWSS RO determines, at any time from and after the second (2$^{nd}$) Rate Rebasing Date, that MWCI shall incur significant capital expenditures in carrying out its responsibilities under the Concession Agreement which should not be recovered through immediate rate adjustments, the MWSS RO may propose to MWCI that the Concession Agreement be amended to provide for the payment to MWCI for all or a portion of such unforeseen capital expenditure

(Expiration Payment). Any Expiration Payment shall be treated by the MWSS RO as an anticipated receipt for purposes of making rate adjustment calculations. Any Expiration Payment may be discharged through the delivery to MWCI of a USD denominated debt instrument issued by MWSS or another public-sector owned by the Republic but, in either case, with the full faith and credit guarantee of the Republic, ranking at least pari passu with all other unsecured and unsubordinated external debt obligations of the Republic, having a cash value equal to such Expiration Payment.

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 MWCI 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 MWCI (subject to interim adjustments) are set out in the Concession Agreement; and,
b. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWCI to recover, over the twenty-five (25)-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and the MWCI'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 (5)-year intervals commencing on the second Rate Rebasing date, provided that the MWSS RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees (MWSS BOT) passed Resolution No. 2009-072 approving the fifteen (15)-year extension of the Concession Agreement (the "Extension") from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the Office of the President of the Republic of the Philippines, on October 23, 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 MWCI's investment has been extended by another fifteen (15) years from 2022 to 2037.

On December 5, 2019, the MWSS BOT issued Resolution No. 2019-201-CO revoking Resolution No. 2009-072 dated April 16, 2009 pertaining to the Extension of the Concession Agreement of MWCI from May 7, 2022 to May 6, 2037.

On December 20, 2019, MWSS released a press statement clarifying Resolution No. 2019-201-CO and confirming that the action of the MWSS BOT did not result in the rescission or outright cancellation of the Concession Agreement.

On January 29, 2020, MWCI received a response letter from the MWSS RO confirming that the twenty-five (25)-year Concession Agreement from 1997 to 2022 and the Memorandum of Agreement

(MOA) and Confirmation between MWCI and the MWSS providing for the fifteen (15)-year Extension from 2022 to 2037 have not yet been cancelled.

*Rate Rebasing Tariff Adjustments*
In March 2012, MWCI submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. MWSS conducted a review of the proposal including MWCI's last five (5) years' financial performance. The financial review process was 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 MWCI's 2012 average basic water rate of ₱24.57 per cubic meter which shall be implemented in five (5) equal tranches of negative 5.894% per charging year. MWCI objected to MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS BOT, through MWSS RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWCI'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, MWCI received the final award of the Appeals Panel in the arbitration which included the following tariff component determination:
a. ₱28.10 billion Opening Cash Position (OCP) which restored ₱11.00 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.60 billion capital expenditures and concession fees which restored ₱29.50 billion from the September 2013 future capital and concession fee expenditure of ₱170.10 billion;
c. 7.61% 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 translated 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 were consistent with MWCI's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved MWCI's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS RO (MWSS RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, MWCI shall stagger its implementation over a five (5)-year period. The first tranche took effect on October 16, 2018 amounting to ₱1.46 per cubic meter or 5.70% of the pre-rebased 2017 basic tariff. The MWSS BOT also approved the implementation of the subsequent partial Rebasing Convergence Adjustment on a staggered basis as scheduled below:
- ₱2.00 on January 1, 2020,
- ₱2.00 on January 1, 2021, and
- ₱0.76 to ₱1.04 on January 1, 2022.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved MWCI's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments were recommended by the MWSS RO (MWSS RO Resolution No. 2018-12-CA) and took effect on January 1, 2019.

Effective January 1, 2022, subject to the validation of the MWSS RO of the feasibility and cost of the Wawa Bulk Water Source to Calawis Project as MWCI's medium-term water source, an additional partial Rebasing Convergence Adjustment of up to ₱0.28 per cubic meter on top of the basic partial Rebasing Convergence Adjustment of ₱0.76 per cubic meter, was approved by the MWSS BOT on September 27, 2018.

On March 31, 2021, the Revised Concession Agreement (RCA) was signed between MWCI and MWSS, which includes a tariff freeze until December 31, 2022.

*MWCI Water Supply Shortage*
In March 2019, the large decline in La Mesa dam water levels caused water service availability in the East Zone to drop significantly, reaching its lowest level at about 68.5 meters in April 2019. In order to ease the widespread inconvenience of the water supply shortage to the customers who were affected by the unprecedented water shortage, MWCI announced a one-time voluntary Bill Waiver Program on March 26, 2019. This program had two parts, namely: (1) all customers will receive a bill waiver of the minimum charge in their consumption which represents ten (10) cubic meters covering water, environmental and sewer charges; and (2) all customers from hard-hit barangays with absolutely no water service for at least seven (7) days from March 6 to March 31, 2019 will not be charged at all for the month of March 2019. The bill waiver is in the nature of an abatement or reduction from the gross amount or price to be paid by the customers. This was implemented in April 2019 and was treated as sales discount in the customer's billings.

In April 2019, MWSS BOT (MWSS Resolution No. 2019-055-CO and MWSS Resolution No. 2019-056-CO) imposed a financial penalty of ₱534.05 million on MWCI for its failure to meet its service obligation to provide 24/7 water supply to its customers (see Note 24). While the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS, MWCI has abided by the decision of MWSS to pay the financial penalty of ₱534.05 million even as it assumes no liability on the basis of the penalty as MWCI was not the root cause of the water supply shortage. Pursuant to the directive of the MWSS RO, the ₱534.05 million financial penalty was distributed to the East Zone customers through rebates wherein all connections as of March 31, 2019 received a minimum rebate equivalent to their first 10 cubic meters or ₱153.93 each while identified severely affected accounts received an additional rebate of ₱2,197.94 each.

*Supreme Court Decision in Relation to the Philippine Clean Water Act of 2004*
This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against MWCI, Maynilad, and MWSS for alleged violation of Philippine Clean Water Act of 2004 (RA No. 9275, the "Clean Water Act"), particularly the five (5)-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On September 18, 2019, MWCI received a copy of the Decision of the Supreme Court on the case '*Manila Water Company, Inc. vs. The Secretary of the Department of Environment and Natural Resources, et.al.*' with G.R. No. 206823 and promulgated on August 6, 2019. In the Decision, the Supreme Court found MWCI liable for fines in violation of Section 8 of the Clean Water Act in the following manner:

a. MWCI shall be jointly and severally liable with MWSS for the total amount of ₱921.46 million covering the period starting from May 7, 2009 to the date of promulgation of the Decision, August 6, 2019, to be paid within fifteen (15) days from finality of the Decision.
b. From finality of the Decision until full payment of the ₱921.46 million fine, MWCI shall be fined in the initial amount of ₱322,102.00 per day, subject to a further 10.00% increase every two (2) years as provided under Section 28 of the Clean Water Act, until full compliance with Section 8 of the same law.
c. The total amount of fines imposed by the Decision shall earn legal interest of six percent (6.00%) per annum from finality and until full satisfaction thereof.

On October 2, 2019, MWCI filed a Motion for Reconsideration with the Supreme Court.

On July 1, 2020, MWCI received a copy of the Consolidated Comment (on the separate Motions for Reconsideration filed by petitioners MWSS, Maynilad, and MWCI) filed by the Office of the Solicitor General in behalf of the adverse parties.

MWCI filed with the Supreme Court a Motion for Leave to file and admit its Reply last August 17, 2020.

On November 3, 2020, MWCI received a Resolution dated September 8, 2020 issued by the Supreme Court, which relevantly (i) noted the Consolidated Comment; (ii) granted the Motion for Leave and Admit Attached Reply; and (iii) noted the Reply filed by MWCI.

On January 26, 2022, MWCI filed a Manifestation to inform the Supreme Court of certain developments (i.e., the execution of the RCA and the grant of a legislative franchise to MWCI) which it deems relevant in the resolution of its 2019 Motion for Reconsideration.

*FCDA*
Prior to November 18, 2021, the MWSS BOT approved the FCDA quarterly. The FCDA had no impact on the net income of MWCI, as the same is a recovery or refund mechanism of foreign exchange losses or gains. The following FCDA adjustments and their related foreign exchange basis took effect in 2019 to 2021.

| Approval Date | Effective Date | FCDA | Foreign Exchange Rate Basis |
|---|---|---|---|
| December 14, 2018 | January 1, 2019 | ₱0.75 per cubic meter | USD1: ₱53.94 / JPY1: ₱0.48 |
| March 6, 2019 | April 1, 2019 | ₱0.52 per cubic meter | USD1: ₱52.77 / JPY1: ₱0.47 |
| September 26, 2019 | October 13, 2019 | ₱0.69 per cubic meter | USD1: ₱52.41 / JPY1: ₱0.47 |
| March 11, 2020 | April 1, 2020 | ₱0.48 per cubic meter | USD1: ₱50.77 / JPY1: ₱0.47 / EUR1: ₱56.36 |
| September 14, 2020 | October 1, 2020 | ₱0.33 per cubic meter | USD1: ₱50.10 / JPY1: ₱0.47 / EUR1: ₱56.37 |
| December 1, 2020 | January 1, 2021 | ₱0.19 per cubic meter | USD1: ₱48.51 / JPY1: ₱0.46 / EUR1: ₱57.22 |
| February 24, 2021 | April 1, 2021 | ₱0.24 per cubic meter | USD1: ₱48.06 / JPY1: ₱0.46 / EUR1: ₱58.39 |

There were no FCDA adjustments for the third quarter of 2019 as the MWSS BOT did not approve the adjustments until the fourth quarter of 2019. On May 29, 2020, the MWSS BOT approved an FCDA adjustment for the third quarter of 2020 similar to the prevailing FCDA adjustment for the second quarter of 2020 of ₱0.48 per cubic meter which had no impact on customer bills. There were no further FCDA adjustments approved from February 24, 2021. The RCA signed on March 31, 2021 also removed the FCDA mechanism.

On October 28, 2021, the MWSS BOT approved the recommendation of the MWSS RO to remove the FCDA from MWCI's customer bills beginning November 18, 2021, the initial effectivity date of the RCA. Beginning November 18, 2021, the FCDA was no longer applied to water rates of MWCI's East Zone customers.

MWCI's, MWSS', and WawaJVCo, Inc.'s Raw Water Supply Offtake Agreement
On August 6, 2019, MWSS along with MWCI signed a thirty (30)-year Raw Water Supply Offtake Agreement with WawaJVCo, Inc., a joint venture company formed between PIHI and San Lorenzo Builders and Developers Corporation. This will involve the supply of 518.00 million liters per day of raw water from the Wawa and Tayabasan rivers and is among the medium-term water supply augmentation measures identified to provide water security and sustainability to the consumers of the East Service Area.

On September 9, 2019, the MWSS RO adopted RO Resolution No. 2019-12-CA declaring the proposed Wawa-Calawis Bulk Water Supply Project as sound and feasible for implementation and recommending the inclusion of the total systems cost or Total Expense of the 518.00 million liters per day Calawis Water Treatment Plant and Conveyance Facility Project, prudently and efficiently incurred, in the next Rate Rebasing Exercise.

On September 10, 2019, the MWSS BOT approved the recommendation of the MWSS RO through MWSS Resolution No. 2019-143-RO.

On January 7, 2020, the parties executed the First Supplement to the Raw Water Supply Offtake Agreement to reflect their agreement on the joint conditions precedent.

On September 28, 2021, the parties executed the Second Supplement to the Raw Water Supply and Offtake Agreement to reflect the impact of the COVID-19 pandemic on the timeline of the project.

MWCI's RCA with MWSS
On March 31, 2021, MWCI and MWSS entered into a RCA which has a term of up to July 31, 2037. The RCA shall become effective within six (6) months from March 31, 2021 and upon satisfaction of the conditions precedent.

On September 30, 2021, MWCI and MWSS executed an Amendment to the RCA extending its effective date to not later than November 18, 2021 to allow time to complete the pending conditions precedent, which are the Revised Common Purpose Facilities Agreement and the Undertaking Letter from the Republic.

Under the RCA, MWSS grants MWCI (as a public utility to perform certain functions and as a public utility for the exercise of certain rights and powers under RA No. 6234), the 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, including the right to bill and collect for water and sewerage services supplied in the East Zone.

The RCA retains the rate rebasing mechanism under the original Concession Agreement. Thus, the rates for water and sewerage services provided by MWCI shall be set at a level that will permit it to recover over the term of the concession expenditures efficiently and prudently incurred and to earn a reasonable rate of return.

The RCA removed the recovery of the corporate income taxes and adjustment for FCDA. It also reduced the inflation factor to 2/3 of the CPI adjustment and imposed caps on increases in standard rates for water (1.3x the previous standard rate) and wastewater (1.5x the previous standard rate). Instead of a market-driven ADR, MWCI is now limited to a 12.00% fixed nominal discount rate. The RCA also includes a tariff freeze until December 31, 2022.

As with the original Concession Agreement, legal title to MWSS assets remains with MWSS. On the other hand, legal title to all fixed assets contributed by MWCI to the existing MWSS system during the concession remains with MWCI. Nevertheless, during each Rate Rebasing Date, MWCI is required to submit to MWSS a list of all recovered assets, including all supporting documents. Legal title to these recovered assets shall be transferred to MWSS on or before such Rate Rebasing Date.

As of December 31, 2021, the remaining condition precedent to the effectivity of the RCA is the Undertaking Letter from the Republic.

On February 16, 2022, MWCI and MWSS signed a Fourth Amendment to the RCA to further extend the effective start date of the RCA up to March 18, 2022 to give more time for the completion of the remaining condition precedent to the effectivity of the RCA.

On March 17, 2022, MWSS and MWCI signed a Fifth Amendment to the RCA to further extend the effective start date of the RCA to the date of receipt by MWCI of the signed Undertaking Letter from the Republic which is the remaining precedent to the effectivity of the RCA.

MWCI's Water Franchise Approval
On January 25, 2022, RA No. 11601 became effective, granting MWCI a twenty-five (25)-year franchise to establish, operate and maintain a waterworks system to ensure an uninterrupted and adequate supply, and distribution of potable water for domestic, commercial, and other purposes, and for the establishment and maintenance of sewerage system in the East Zone under a concession from the MWSS, or under an appropriate certificate of public convenience and necessity, license or permit from the MWSS RO.

MWCI is likewise given the right to recover, supply, distribute, and reuse treated and grey water whether in bulk or retail for domestic, commercial or industrial and other purposes. Furthermore, MWCI is allowed to develop new raw water sources as operations may require and enter into bulk water supply arrangements. It may also exercise the power of eminent domain as necessary for its operations and may install and maintain its pipelines and facilities on public property and roads.

The franchise coexists alongside the RCA, which shall serve as MWCI's certificate of public convenience and necessity, license or permit for the operation of a waterworks and sewerage system. When public interest for affordable water security requires and upon application by MWCI, MWSS is authorized to approve the amendment of the RCA to extend its term up to the term of the franchise.

As franchisee, MWCI is obligated to submit a completion plan for the establishment and operation of water, sewerage and sanitation project covering a period until 2037, with periodic five (5)-year completion targets with the end goal of achieving one hundred percent (100.00%) water and combined sewerage and sanitation coverage by 2037.

MWCI is required to submit a compliance report to Congress through the Committee on Legislative Franchises of the House of Representatives and the Committee on Public Services of the Senate on or before April 30 of each year. The annual report will contain the following:
a. Annual progress report of compliance with targets;
b. An update on the development, operation, and expansion of business;
c. Audited financial statements and latest General Information Sheet (GIS) officially submitted to the SEC, if applicable;
d. A certification of the MWSS RO on the status of its permits and operations; and
e. An update on its minimum public float required under Section 18.

MWCI is obligated to submit all information and documents required by the MWSS RO to conduct comprehensive assessment of the grantee's operations and compliance with conditions imposed in RA No. 11601. Further, MWCI is required to provide and promote creation of employment opportunities, maintain minimum public float as required by the Philippine Stock Exchange, and elect independent directors constituting at least 20.00% of its total BOD membership.

Tariff setting to be conducted by the MWSS RO or its legal successor shall take into account incentives for enhancement of efficiency, equity considerations, and the customers' willingness to pay apart from reasonable and prudent capital and recurrent costs of providing the service including a reasonable rate of return on capital, efficiency of service, administrative simplicity, and the methodology prescribed under the RCA.

MWCI has sixty (60) days from the effectivity date of the franchise to accept such franchise in writing to the Congress of the Philippines, else, the franchise will be rendered void. Upon MWCI's acceptance of the franchise, its successors or assignees, shall exercise the privileges granted to MWCI under the franchise.

On March 21, 2022, pursuant to Section 14 of Republic Act No 11601, MWCI submitted its notices of acceptance of its 25-year legislative franchise to the Committee on Legislative Franchises of the House of Representatives and the Senate Committee on Public Services.

<u>Significant Transactions – Domestic Subsidiaries of MWCI</u>

<u>Laguna Water's Concession Agreement with the Provincial Government of Laguna (PGL)</u>
On April 9, 2002, Laguna Water entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, June 30, 2015, and May 3, 2018) with PGL, a local government unit organized and existing under Philippine Laws.

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

While Laguna Water has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by Laguna Water in the performance of its obligations under the agreement remains with Laguna Water and shall not pass to PGL until the end of the concession period at which time, Laguna Water will transfer, or if the ownership is vested in another person, cause the transfer to PGL. Laguna Water has the exclusive right to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services (see Note 10).

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

The concession agreement also states that the base tariff shall be increased by ten percent (10%) in Year 7, 9, 11, 14, and 17 of Laguna Water's concession, which took effect on the commencement date on October 20, 2004.

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

In connection with the amendment to the concession agreement on June 30, 2015, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan.

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

On October 20, 2015, the Year 11, Laguna Water made a tariff adjustment of 10% which was implemented in November 2015.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna, approved the inclusion of its municipality within the service area of Laguna Water, pursuant to the expansion of the service area of Laguna Water under its amended concession agreement with PGL.

On May 3, 2018, the concession agreement was amended to include the approval of an environmental charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

On October 20, 2018, the Year 14, Laguna Water implemented a tariff adjustment of 10.00% effective December 1, 2018.

In view of the Provisional Authority and Provisional Water Tariff issued by the National Water Resources Board (NWRB) on September 28, 2021, Laguna Water implemented an average of 10.00% tariff increase across all customer rate categories effective November 1, 2021 (for residential, institutional and few commercial accounts) and December 1, 2021 (for the remaining commercial and industrial accounts). Upon implementation, varying rates on tariff increases were applied to each customer category depending on its current rate and NWRB's customer classification.

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 a twenty-five (25)-year concession period. TIEZA Regulatory Office (TIEZA RO) will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants Boracay Water (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island for a period of twenty-five (25) years from January 1, 2010 (commencement date) until December 31, 2034 (expiration date), or the early termination date as the case may be. The legal title to all fixed assets contributed to the existing TIEZA system by Boracay Water during the concession remains with Boracay Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

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

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

a. annual standard rate adjustment to compensate for increases in the CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments (see Notes 2, 10 and 15).

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.

On June 7, 2017, TIEZA approved the new water rates of Boracay Water, which was equivalent to an increase of 52.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99%, and 10.70% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017, equivalent to 30.14% of the existing rate.

On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase along with a 3.80% CPI effective January 1, 2018.

On December 18, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase together with 7.72% CPI. Furthermore, an additional 3.00% was applied to the basic water and sewer tariff to account for FCDA. The new rates took effect on January 1, 2019.

Boracay Water's concession agreement also provides a general rate setting policy for rates chargeable by Boracay Water for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2017), the maximum rates chargeable by Boracay Water (subject to interim adjustments) are set out in the concession agreement; and
b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit Boracay Water to recover, over the twenty-five (25)-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five (5)-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

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

As a result of the above terms of the concession agreement, Boracay Water recognized a total of ₱986.86 million service concession assets on its commencement date. It includes the JICA loan assumed by Boracay Water, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees (see Note 10).

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

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to Clark Water by virtue of an assignment and assumption agreement between VWPI and Clark Water. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, Clark Water pays CDC an annual franchise fee of ₱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, where in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of Clark Water the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of Clark Water and CDC under the concession agreement. Under the lease agreement, Clark Water was required to make a rental deposit amounting to ₱2.77 million equivalent to six (6) months lease rental and a performance security amounting to ₱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 fifteen (15) years up to October 1, 2040;
b. additional investment of ₱4.00 billion over the remaining life of the extended concession period, provided under the amended concession agreement, to be spent for further improvement and expansion of water and wastewater services in the area. Investment requirement under the original concession agreement amounted to ₱3.00 billion and the amended concession agreement

required an additional investment of ₱2.00 billion. Initial investment prior to the amendment of the concession agreement amounted to ₱1.00 billion.

c. introduction of a rate rebasing mechanism for every four (4) years starting 2014.
d. reduction in tariff rates by 3.9% (from ₱25.63/$m^3$ to ₱24.63/$m^3$) effective September 1, 2014, subject to the EPA; and
e. increase in tariff rates by:
    i. ₱0.41/$m^3$ (from 24.63/$m^3$ to ₱25.04/$m^3$) in 2018;
    ii. ₱0.42/$m^3$ (from ₱25.04/$m^3$ to ₱25.45/$m^3$) in 2019;
    iii. ₱0.42/$m^3$ (from ₱25.45/$m^3$ to ₱25.87/$m^3$) in 2020; and
    iv. ₱0.43/$m^3$ (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 Clark Water's investment was extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in its concession agreement. As of December 31, 2021, Clark Water's 2018 rate rebasing is still ongoing which put on hold the approved tariff increases under the amended concession agreement on August 15, 2014.

*Clark Water's Compliance with the Department of Environment and Natural Resources' (DENR's) Administrative Order No. (DAO) No. 2016-08*
On June 16, 2016, the DENR promulgated DAO No. 2016-08 regulating the discharge of nutrients and imposing additional limits and parameters. Pursuant to Section 10 of DAO No. 2016-08, Clark Water sought the approval of the DENR of its Compliance Action Plan (CAP) which would have extended the current five (5)-year CAP of Clark Water. On July 17, 2020, Clark Water received the approval of DENR on its submitted CAP with project completion deadline of December 31, 2021. On October 19, 2020, the CDC sent a letter to the DENR in support of Clark Water's request for extension of its CAP to 2023. On November 11, 2020, however, the CDC received a letter from the DENR denying Clark Water's request citing the DAO No. 2016-08's clear five (5)-year limit for the grace period. On November 26, 2020, CDC sent another letter to the DENR appealing to the DENR for reconsideration of their request to postpone the DAO No. 2016-08. On December 7, 2020, the DENR sent a letter to the CDC, denying their request for the second time.

As a result, DENR held in abeyance the renewal of Clark Water's discharge permit pending its compliance with the CAP even though Clark Water is compliant with DAO No. 1990-35, the applicable regulation at that time. On April 20, 2021, Clark Water received notice to proceed from CDC. Clark Water immediately proceeded with the construction of the Bionutrient Removal (BNR) Project in compliance to the approved CAP. DENR subsequently issued a temporary discharge permit on April 26, 2021 valid until October 30, 2021.

On July 29, 2021, DAO No. 2016-08 was superseded by a relaxed standard under DAO No. 2021-19. On December 21, 2021, Clark Water sent a letter to the DENR for the reduced CAP pursuant to DAO No. 2021-19. On January 13, 2022, DENR issued Discharge permit extension until March 31, 2022 and on March 11, 2022, DENR further extended the validity of the permit until September 31, 2022.

<u>MW Consortium Agreement with the Provincial Government of Cebu (PGC)</u>
On March 21, 2012, MW Consortium signed a Joint Investment Agreement (JIA) with the PGC for the formation of a joint venture company with 51.00% and 49.00% equity participation for MW Consortium and the PGC, respectively. Under the JIA, the parties agreed to develop and operate a bulk water supply system that will supply 35.00 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the

agreement is thirty (30) years starting March 2012 and renewable for another twenty-five (25) years. On May 23, 2012, MW Consortium and the PGC incorporated Cebu Water, with an ownership of 51.00% and 49.00%, respectively, pursuant to the JIA.

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

On August 29, 2019, MW Consortium received a Notice of Breach/Default of the JIA from the PGC. On December 10, 2019, PGC issued a Notice of Termination of the JIA. Pursuant to the JIA, MW Consortium issued a Notice of Existence of a Dispute on PGC on December 12, 2019.

On February 3, 2020, MW Consortium and the PGC signed the Terms of Reference for the interim protocol between both parties pending Settlement with Finality of the Dispute between MW Consortium and PGC. As of December 31, 2021, the parties are still engaged in negotiations towards the settlement of the dispute.

<u>Zamboanga Water’s Non-Revenue Water Reduction Service Agreement (NRWRSA) with Zamboanga City Water District (ZCWD)</u>
On December 19, 2014, MWCI received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga del Sur. On January 30, 2015, MWCI and ZCWD signed and executed a JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, MWCI and ZCWD incorporated Zamboanga Water to implement the NRW Reduction project.

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

In March 2019, the City Government of Zamboanga City declared a state of calamity due to the recurrence of El Niño. This prompted the ZCWD to implement a service-wide water rationing scheme. Consequently, Zamboanga Water was constrained to suspend its NRW Reduction activities due to the unstable supply caused by said water rationing.

In October 2019, Zamboanga Water and ZCWD jointly formed a Technical Working Group to negotiate and resolve all the pending issues or disputes arising during the implementation of the NRW Reduction Project, such as the impact of the yearly occurrence of El Nino, non-payment of performance and “locked-in” fees, opposing interpretation of provisions in the NRWRSA, among others.

Per Section 1.10 of the NRWRSA, a rebaseline is to be performed if there is a decrease in supply resulting from El Niño. Per agreement with ZCWD Project Management Unit (PMU) in November 2017, the computed NRW cu.m./day prior the rebaseline shall be used as basis for the “locked-in” performance computation. However, a supplemental agreement to formally recognize the computation and payment of “locked-in” performance has not been finalized as of December 31, 2019.

On April 3, 2020, Zamboanga Water received a letter, dated April 1, 2020, from the ZCWD, requesting for the termination of the NRWRSA. In its letter, ZCWD indicated that the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the District Metered Areas (DMAs) established by Zamboanga Water has rendered the NRWRSA impractical and unworkable, and thus, in the interest of fiscal responsibility and sound management of government funds, ZCWD requested for the termination of the NRWRSA.

On April 30, 2020, Zamboanga Water approved the termination of the NRWRSA. Such termination, however, is without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRWRSA. The termination of the NRWRSA resulted to the classification of Zamboanga Water as discontinued operations (see Note 3). The summary of results of operations and cash flows of Zamboanga Water as of December 31, 2021 is presented in Note 25.

On September 16, 2020, Zamboanga Water filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRWRSA.

As of December 31, 2021, the arbitration is still ongoing.

Tagum Water's Bulk Water Sales and Purchase Agreement with Tagum Water District (TWD)
On July 28, 2015, TWD awarded the Tagum City Bulk Water Supply Project (the "Tagum Bulk Water Project") to Davao Water, a consortium of MWCI and iWater, Inc.

On October 15, 2015, Davao Water signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, Tagum Water, which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date, as defined in the JVA.

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, subject to renewal upon mutual agreement by both parties. Tagum Water shall supply treated water exclusively to TWD. The quantity of treated water to be supplied to TWD will be 26.00 million liters of water per day for the first year, 32.00 million liters of water per day for years 4 to 6, and 38.00 million liters of water per day for years 7 to 15.

On March 28, 2017, TWD issued a Notice to Proceed for the 24-month construction of the water treatment plant. On June 26, 2019, TWD approved a 120-day construction period extension requested by Tagum Water due to delays caused by unforeseen conditions in the project site which was discovered only after construction had already commenced.

On July 17, 2019, Tagum Water issued to TWD the Certificate of Substantial Completion of the Water Treatment plant to begin the pre-commissioning period. On August 27, 2019, Tagum Water started the commissioning period with 5.00 to 8.00 million liters per day of treated water delivery to TWD.

On September 9, 2019, Tagum Water's BOD ratified the implementation of the design, supply of materials, installation of equipment and construction of two (2) units 300 mm shallow wells in Tagum City, Davao del Norte. On October 28, 2019, Tagum Water informed TWD of the completion of the two (2) wells and the results of the water quality analysis.

On December 6, 2019, Tagum Water's BOD approved the additional capital expenditure in the initial amount of ₱157.00 million to address the inadequacy of yield in the intake structure. Tagum Water constructed two (2) additional wells, (i) artificial recharge thru media replacement and (ii) chlorine scrubber system, to ensure health and safety during the operation.

On December 11, 2019, Tagum Water commenced the extension of the commissioning period for 120 days with the consent of TWD BOD.

On February 7, 2020, the Tagum Water BOD finalized the approval of the additional capital expenditure in the amount of ₱154.00 million.

On April 4, 2020, the extended commissioning period has concluded. However, the operation started only on May 18, 2020 due to COVID-19 quarantine measures in the region.

On March 16, 2021, an artificial recharge intake structure was energized to deliver the contractual volume of 26.00 million liters per day. However, in the second quarter of 2021, several unusual heavy rains which brought floods were encountered, and this resulted to silt issue on the lagoon. This, in turn, affected plant production, yielding only an average of 23.00 million liters per day. To mitigate the problem, heavy desilting activities were done, and on November 22, 2021, the procured slurry dredger was already operational in aiding the desilting activities at the artificial recharge lagoon. On December 14, 2021, the plant was already back to its delivery of the contractual 26.00 million liters per day to TWD.

On January 31, 2022, MWPVI agreed to purchase the 51.00% share of iWater, Inc. in Davao Water. On February 24, 2022, MWPVI secured the approval of its BOD to purchase the 49.00% stake (735,000 common shares) of iWater, Inc. in Davao Water for ₱345.33 million. On March 18, 2022, MWPV acquired all the shares of iWater in Davao Water through a Share Purchase Agreement.

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

On April 19, 2021, MWPVI and Aqua Centro entered into a Novation Agreement with Adauge Commercial Corporation whereby MWPVI assigns and transfers its rights, duties and obligations under the MOA with ALI Group to Aqua Centro for Atria Development (Iloilo City). As of December 31, 2021, MWPVI is still operating Atria Development.

On May 31, 2021, MWPVI and the ALI Group signed an Amended and Restated MOA. MWPVI shall have a preferred status with regards to the provision of water and used water services to all property development projects of the ALI Group except for the excluded developments namely, Amaia Scape Pampanga, Amaia Scape San Fernando, Amaia Scape Capas, Amaia Scape Cabanatuan, Amaia Scape Trece Martires, Bellavita Capas, Bellavita Cabanatuan 1 and East, Bellavita Pililia, Bellavita Lian, Bellavita Lipa, Bellavita Rosario and Bellavita Iloilo.

On December 29, 2021, MWPVI entered into a Deed of Absolute Sale with Amaia Land Corp. (Amaia) and BellaVita Land Corp. (BellaVita) whereby MWPVI sells, conveys, transfers, assigns and delivers the properties and all rights, title, and interest to Amaia and BellaVita for the excluded development on the Amended and Restated MOA with ALI Group (see Notes 13 and 28). As of December 31, 2021, MWPVI completed the sale and transfer of the properties to Amaia and BellaVita.

<u>Aqua Centro's MOAs with the SM Group</u>
On December 8, 2016, MWPVI entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the "SM Group"). Pursuant to the MOA, MWPVI will provide the water and/or used

water services and facilities to the property development projects of the SM Group identified in each of the MOA.

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

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

On June 25, 2018, Aqua Centro entered into additional MOAs with the SM Group with each development of SM Prime Holdings, Inc. and Metro South Davao Property Corp.

As of December 31, 2021 and 2020, Aqua Centro and MWPVI has eight (8) and one (1) signed MOAs with the SM Group, respectively.

<u>Calasiao Water's Concession Agreement with Calasiao Water District (CWD)</u>
On December 9, 2016, MWCI received a Notice of Award from CWD, a water district created and existing by virtue of Presidential Decree No. 198, for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of CWD in Calasiao, Pangasinan.

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

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

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017 (the commencement date) until December 29, 2042 (the expiration date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

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

The grounds for EPA means any of the following circumstances:

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

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

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

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

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

Obando Water's Concession Agreement with Obando Water District (OWD)
On January 24, 2017, the consortium of MWCI and MWPVI received the Notice of Award from OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD in Obando, Bulacan.

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

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90.00% and 10.00% owned by Filipinas Water and OWD, respectively.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty-five (25) years commencing on January 1, 2018 (the commencement date) until December 31, 2042 (the expiration date) or the early termination date, as the case may be. While Obando Water has the right to manage, operate, repair and refurbish specified OWD facilities in the service area, legal title to these assets remain with OWD. The legal title to all fixed assets contributed to the existing OWD system by Obando Water during the concession remains with Obando 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 OWD.

Obando Water's initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Starting

March 2021, Obando Water's tariff was inclusive of VAT. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

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

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer impose penalties from OWD.

<u>BMDC's APA with Solar Resources, Inc. (Solar Resources)</u>
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

<u>BMDC's APA with Borland Development Corporation (Borland)</u>
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC.

<u>MWCI's Notice of Award from Leyte Metropolitan Water District (LMWD)</u>
On December 6, 2017, MWCI received the Notice of Award from LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

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

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

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

In January 2018, an internal conflict arose between the Province-appointed BOD of LMWD and the City-appointed BOD as to which is the legitimate BOD authorized to represent the LMWD. This issue caused substantial delay in the implementation and recognition of the Notice of Award in favor of MWCI.

On February 20, 2019, MWCI wrote to the LMWD, now represented by the City-Appointed BOD, and requested the LMWD to honor the Notice of Award.

On April 12, 2019, the LMWD advised that it had already rescinded/terminated the JVA negotiations with MWCI.

On June 21, 2019, MWCI initiated available legal course of action to compel the LMWD to honor the Notice of Award granted to MWCI.

As of December 31, 2021, the case remains pending with the Supreme Court.

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

On February 20, 2018, the BOD of MWPVI approved the creation of an SPV for this project.

On November 16, 2018, MWPVI signed and executed a JVA with TPGI. Under the agreement, MWPVI and TPGI shall incorporate a joint venture company, with 50.00% and 50.00% ownership, respectively, which shall implement the project. As of December 31, 2021, MWPVI and TPGI are still in the process of incorporating the joint venture company.

EcoWater's Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ for the provision of water and used water services to the locators therein. The lease agreement has a term of twenty-five (25) years from signing of the contract and became effective on its commencement date on February 1, 2018.

MWPVI shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.00 million liters per day.

On August 4, 2020, MWPVI's BOD approved the assignment of the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of the PEZA in the CEZ from MWPVI to EcoWater.

Ilagan Water's Bulk Water Sales and Purchase Agreement with City of Ilagan Water District (CIWD)
On January 26, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from CIWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the "Ilagan Project").

On November 16, 2018, the Consortium (namely, Filipinas Water) signed and executed a JVA with the CIWD. Under the JVA, Filipinas Water and CIWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project. Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

On February 15, 2019, Ilagan Water was incorporated and registered with the Philippine SEC to implement the Ilagan Project.

On March 18, 2019, Ilagan Water's BOD approved the execution of a Bulk Water Sales and Purchase Agreement (BWSPA) and Septage Management Agreement (SMA) with CIWD.

On March 16, 2020, Ilagan Water signed and executed a BWSPA and SMA with the CIWD, for the supply of bulk water and septage management to CIWD for a period of twenty-three (23) years and twenty-two (22) years from the Operation Start Date, respectively.

MWCI's and MWPVI's Notice of Award from Balagtas Water District (BWD)
On April 23, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

On March 22, 2021, the Consortium of MWCI and MWPVI accepted the decision of BWD to revoke and terminate the Notice of Award.

On March 24, 2021, the Notice of Award was terminated due to the non-completion by BWD of a financial condition precedent agreed upon by the parties at the time of the issuance of the Notice of Award.

Given this and despite the best efforts of both parties, as of December 31, 2021, the Consortium and the BWD no longer proceeded with the expected joint venture.

Bulakan Water's Concession Agreement with the Bulacan Water District (BuWD)
On April 26, 2018, MWCI and MWPVI (collectively the "Consortium") received the Notice of Award from the BuWD for the joint venture project for the development, financing, design, engineering, construction, rehabilitation, upgrade, testing, commissioning, operation, management, and maintenance of water facilities and the provision of water and sanitation services in the Municipality of Bulakan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD for the implementation of the project. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall be granted a concession by BuWD. On October 16, 2018, the joint venture company, Bulakan Water, was incorporated and was registered with the SEC.

On June 14, 2019, Bulakan Water and the BuWD signed and executed a concession agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of water facilities and the provision of water and sanitation services in the Municipality of Bulakan for a period of twenty-five (25) years from the commencement date.

North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag in Pangasinan

On April 27, 2018, MWPVI was granted a franchise by the Municipality of Sta. Barbara, Pangasinan for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On June 11, 2018, MWPVI received a Notice to Proceed from the Municipality of Sta. Barbara for the implementation of the project.

On August 13, 2018, MWPVI was granted a franchise by the Municipality of San Fabian, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On December 3, 2018, MWPVI was granted a franchise by the Municipality of Manaoag, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of Manaoag, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On January 25, 2019, MWPVI received a Notice to Proceed for the implementation of the project in the Municipality of Manaoag, Pangasinan.

In February 2019, MWPVI signed a MOA each with the Municipalities of Sta. Barbara, San Fabian, and Manaoag.

On September 16, 2019, MWPVI incorporated North Luzon Water to operate the franchises granted in Sta. Barbara, San Fabian, and Manaoag in Pangasinan.

On August 4, 2020, the MWPVI BOD approved the assignment of the franchises, rights and obligations granted to MWPVI by the local government units of Malasiqui, San Fabian, and Manaoag in the province of Pangasinan to North Luzon Water.

As of December 31, 2021, North Luzon Water's MOAs did not have any impact on the Group's financial position and operations since North Luzon water has yet to commence any activities in relation to these agreements.

Laguna Water's JVA with Pagsanjan Water District (PAGWAD)

On July 12, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in PAGWAD's service area.

On January 21, 2019, Laguna Water signed and executed a contractual JVA with PAGWAD. Under the agreement, Laguna Water shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna. Upon completion of conditions precedents in the JVA, Laguna

Water and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035. The agreement was executed on March 1, 2019.

As of December 31, 2021, Laguna Water has been operating, managing, and maintaining the service area of PAGWAD.

MWCI's and MWPVI's JVA with the Tanauan Water District (TnWD)
On October 12, 2018, MWCI and MWPVI (collectively, the "Consortium") received the Notice of Award from TnWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services in the service area of TnWD in Tanauan City, Batangas.

On February 4, 2019, the Consortium signed and executed a JVA with the TnWD for the implementation of the project. Upon completion of the conditions precedent set out in the JVA, the Consortium, through an SPV, and the TnWD shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

On May 20, 2019, South Luzon Water, the joint venture company, was incorporated to execute the Tanauan Project.

On September 30, 2019, South Luzon Water's BOD approved to accept the assignment by MWCI and MWPVI of their respective rights and obligations under their JVA with the TnWD.

On January 21, 2020, South Luzon Water's BOD approved and clarified that the assignment has a retroactive application effective June 1, 2019, considering the actual commencement date of the takeover and operation of the Tanuan Project.

MWCI's JVA with Lambunao Water District (LWD)
On November 27, 2018, MWCI received a Notice of Award from LWD for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of LWD in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, MWCI and LWD shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

On July 3, 2019, MWCI and LWD entered into a JVA to implement the design, improvement, upgrade, rehabilitation, and expansion of water supply including the financing and construction of such facilities and infrastructure in the service area of LWD, and the management, operation and maintenance of such water supply and the provision of the services necessary or incidental thereto in the service area.

On August 8, 2019, MWCI's BOD ratified its Executive Committee's approval of the assignment to Aqua Centro of the implementation of the concession project awarded by LWD to MWCI.

On August 30, 2019, MWCI formally notified LWD of the designation of Aqua Centro as the Project Company to implement and carry out the concession project.

On September 1, 2019, Aqua Centro officially commenced operations on the joint venture activity. On the same date, Aqua Centro's BOD approved the Deed of Accession between MWCI and LWD.

On September 18, 2019, LWD gave its consent to, and confirmation of, the designation of Aqua Centro as the project company for the implementation of the project pursuant to the JVA.

On December 11, 2019, LWD signed the Deed of Accession between MWCI and Aqua Centro.

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

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

As of December 31, 2021 and 2020, Aqua Centro has already started operations in nine (9) out of the ten (10) subdivisions. Aqua Centro shall operate the one (1) remaining subdivision once all the conditions precedent under the APAs have been fulfilled.

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

On January 14, 2021, the consortium of MWCI, MWPVI, and TPGI has signed and executed a JVA with the SJCWD for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

On July 21, 2021, San Jose City (N.E.) Water Company, Inc. (San Jose Water) was incorporated which shall accede to the JVA and assume all the rights, responsibilities, and obligations of the consortium upon signing of the Accession Agreement between San Jose Water, the consortium of MWCI, MWPVI, and TPGI, and SJCWD. As of December 31, 2021, San Jose Water is not yet operational.

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

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

On April 17, 2019, Calbayog Water was incorporated to engage in the development, construction, improvement, upgrade, rehabilitation, expansion, management, operation and maintenance of water supply and wastewater facilities, and to provide services necessary or incidental thereto.

On June 10, 2019, the Executive Committee of MWCI approved the joint venture with the CCWD. It also approved the assignment to Calbayog Water of the joint venture with CCWD.

On July 3, 2019, MWCI signed and executed a JVA with CCWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater system of CCWD in the City of Calbayog. Calbayog Water commenced operations on October 16, 2019.

MWPVI's Grant of Franchise from Sangguniang Panlungsod of Iloilo
On March 26, 2019, the Sangguniang Panlungsod of Iloilo City granted a non-exclusive franchise to the joint venture between MWPVI and TPGI to construct, establish, commission, operate and maintain a water supply system to service the population of the Iloilo City.

The franchise granted to MWPVI shall be for a term of twenty-five (25) years, covering all the barangays under the governance and jurisdiction of Iloilo City.

As of December 31, 2021, the franchise from the Sangguniang Panlungsod of Iloilo City is not yet operational.

Aqua Centro's and Laguna Water's MOAs with Raemulan Lands, Inc. (RLI)
On July 10, 2019, Aqua Centro and Laguna Water entered into three (3) MOAs with Raemulan Lands, Inc. (RLI) for the construction, operation, and management of water distribution facilities in Pasinaya North and Tradizo Enclaves in Cavite and Jubilation Enclave in Laguna.

Aqua Centro and Laguna Water have started operations in 2019.

On December 4, 2020, an Amendment to the MOA with RLI for Pasinaya North was executed. The amendment states a one-time fee or charge amounting to ₱5.47 million for the right to use for 25 years of RLI's Water Distribution Facilities in Pasinaya North. This one-time fee was presented as part of the "Right-of-use assets" in the consolidated statements of financial position (see Note 18).

MWTS's Integrated Waste Management Facility with the City of Marikina
On July 31, 2019, MWTS received the Certificate of Acceptance and Grant of Original Proponent Status from the Office of the Mayor of the City of Marikina to build and operate an Integrated Waste Management Facility to treat and process the city solid waste of Marikina City. In 2020, MWTS has withdrawn the unsolicited proposal submitted for the project.

EcoWater's Water Purchase Agreement (WPA) with ROHM Electronics Philippines, Inc. (REPI*)*
On September 9, 2019, EcoWater entered into a WPA with REPI. Pursuant to the WPA, EcoWater will design, finance, construct, own, operate and maintain a water supply system to cater the water supply of REPI.

On September 16, 2020, the operation has started with a guaranteed volume of 90,000.00 million cubic meters (mcm) per month.

Calbayog Water's Stakeholder Management Agreement with CCWD and Subscription Agreement with TPGI
On July 15, 2020, Calbayog Water and TPGI entered into a Stakeholder Management Agreement, where TPGI agrees to provide support to the Operations Management/Stakeholder Management of Calbayog Water. On the same date, Calbayog Water and TPGI entered into a Subscription

Agreement wherein TPGI agreed to subscribe to Calbayog Water's shares at a subscription price of ₱1.00 per share for a total subscription of ₱49.17 million, payable in tranches up to 2022.

MWTS' Healthy Family Business Division Closure
On August 26, 2020, MWTS announced the permanent closure of its Healthy Family business division effective October 31, 2020 due to its recurring losses and inability to financially sustain business operations.

The Healthy Family brand was launched in 2015 and has since been known for providing exceptional quality and affordable purified drinking water to its customers.  While the Healthy Family business division made strong efforts to improve operations and profitability, the ever-increasing competition in the bottled water industry and the recent economic challenges proved too difficult to cope and keep the business afloat.  MWTS, as an entity, shall continue to exist and operate based on its primary purpose to engage in water and wastewater and environmental services.

On October 13, 2020, MWTS signed an APA with Maris Pure Corporation for the sale of some of Healthy Family assets, consisting of water bottling equipment, spare parts, and delivery equipment, for a consideration of ₱35.00 million (see Note 13).

The permanent closure of the MWTS Healthy Family division resulted to its classification as a discontinued operation (see Note 3).  The summary of results of operations and cash flows of MWTS-Healthy Family as of December 31, 2021 is presented in Note 25.

MWPVI's Deed of Accession for Used Water Only with Ayala Land Malls, Inc.
On May 31, 2021, MWPVI entered a Deed of Accession with Ayala Land Malls, Inc. namely, North Eastern Commercial Corporation (Cloverleaf, The 30th), North Triangle Depot Commercial Corp (Trinoma), Ayala Land Metro North Inc. (U.P Town Center), North Ventures Commercial Corporation (Fairview Terraces), Summerhill Commercial Ventures Corp (Feliz), Arvo Commercial Corporation (Marikina, The District Dasmarinas, Legaspi), ALI-CII Development Corp. (Metropoint), Bay City Commercial Ventures Corp. (Manila Bay), Alabang Commercial Corporation (ATC), Lagoon Development Corporation (Pavilion), North Beacon Commercial Corporation (Marquee), Cavite Commercial Towncenter Inc. (The District Imus, Serin), Cagayan de Oro Gateway Corp (Centrio) and Capitol Central Commercial Ventures Corp. (Capitol Central), (collectively the "ALI Malls Group") whereby MWPVI shall provide used water services and operation and management of the Used Water Facilities only.

Under the Deed of Accession, turnover of operations to MWPVI started in June 2021.  As of December 31, 2021, MWPVI is operating all of the covered locations in the contract.

MWCI's and MWPVI's Notice of Award from the Provincial Government of Pangasinan (PGP)
On September 30, 2021, the Consortium of MWCI and MWPVI received a Notice of Award from PGP for the implementation of a joint venture project for the provision of bulk water to the Province of Pangasinan.

Upon completion of conditions precedent, both parties shall sign a concession agreement to implement the project that has an estimated capital expenditure program of ₱8.00 billion over the twenty five (25)-year contract period.

On January 14, 2022, the Consortium of MWCI and MWPV signed the Concession Agreement with the PGP for the implementation of the joint venture project for the development, financing, construction, operation and maintenance of a bulk water facility within the Province of Pangasinan.

On the same day, a groundbreaking activity was held in one of the proposed sites for a treatment plant.

Significant Transactions – Foreign Subsidiaries of MWCI

MWCI's Management, Operation, and Maintenance Contract (MOMC) with the National Water Company (NWC), Kingdom of Saudi Arabia for the North West Cluster
On December 3, 2020, the Consortium of Saur SAS, Miahona Company, and MWCI signed a MOMC with the NWC, Kingdom of Saudi Arabia for the latter's North West Cluster. The MOMC comprised of the management, operations, and maintenance of the water and wastewater facilities of the North West Cluster (Madinah and Tabuk) over a seven (7)-year contract period, which will entail the implementation of enabling projects and deployment of key personnel to manage the cluster and achieve the key performance indicators target set by the NWC.

On March 25, 2021, the Consortium registered and incorporated International Water Partners Company (IWP), a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 40.00%, 40.00% and 20.00%, respectively. On April 1, 2021, IWP officially commenced the implementation of the MOMC.

The MOMC aims to improve water and wastewater services, operational performance and the level of operations in the distribution sector of the Kingdom in general, and at the North Western Cluster in particular, as well as training and developing of personnel to improve performance, sustainability and quality of service.

On June 15, 2021, MWAP subscribed to 100 shares of IWP representing 20.00% for SAR0.10 million (₱1.28 million).

MWCI's MOMC with the NWC, Kingdom of Saudi Arabia for the Eastern Cluster
On October 8, 2021, the Consortium's Project Company, IWP, has been awarded the MOMC of the NWC, Kingdom of Saudi Arabia for its Eastern Cluster. The MOMC will comprise the management, operations and maintenance of the water and wastewater facilities of the Eastern Cluster (i.e., Dammam, Al Hofuf, Al Jubail, Al Khobar, Al Qatif and Hafar Al Batin) over a seven (7)-year contract period, which will entail the implementation of enabling projects and deployment of key personnel to manage the Eastern Cluster and achieve the Key Performance Indicators target set by the NWC.

The award comes after the commencement of the MOMC for the North West Cluster (i.e., Madinah and Tabuk), which was also awarded to IWP.

On January 27, ,2022, International Water Partners Company the Second (IWP2) was incorporated with MWAP, Saur, and Miahona owning 30.00%, 35.00%, and 35.00%, respectively. The project commencement date has been deferred to February 28, 2022 from January 21, 2022 as Force Majeure was triggered to on the grounds of resurgence of COVID-19 due to Omicron variant.

Other Significant Transactions - Power

SP Tanauan's Power Supply Agreement (PSA) with Manila Electric Company (MERALCO)
On September 12, 2016, Solar Philippines Commercial Rooftop Projects, Inc. (SPCRPI), an affiliate of SP Tanauan, executed a Deed of Assignment transferring all its rights and obligations on Solar Energy Service Contract No. 2017-02-363 for the exclusive right to explore and develop the

Calamba-Tanauan Solar Power Project. On February 23, 2017, the Department of Energy acknowledged and approved the Deed of Assignment between SPCRPI and SP Tanauan.

On December 22, 2016, MERALCO also awarded the SPA to SP Tanauan to construct, own, operate, manage and maintain solar power energy plants in Tanauan, Batangas (site 1) and Naic, Cavite (site 2). Each generation facility shall be capable of supplying at least 25 megawatt AC or total of 50 megawatt AC from the solar photovoltaic panels. The obligations of SP Tanauan and MERALCO with respect to the sale and purchase of the power shall be for a duration of 20 years from commercial operations date.

On November 22, 2021, MERALCO agreed to extend the scheduled commercial operations date from January 11, 2022 to January 11, 2023.

Contract with General Company for Ports of Iraq (GCPI)
On May 15, 2018, PMPHC signed contract signed with GCPI (as a grantor and user) for the supply, installation, management and operation of a gas power station with a total capacity of 67.8 MW located in the port of Umm Al-Qasr in Basra Governate. Menatech through its Iraq branch will be operating the power station established by Menatech in Dubai which will work to generate 24/7 with a basic load to Umm Qasr Ports. The period of management and operation of the electric power station is 23 years starting from February 18, 2020, which is the date that all installation works for the station are completed.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency, and all values are rounded to the nearest peso, except when otherwise indicated. The consolidated financial statements the Group provide comparative information in respect of the previous periods. The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern. The consolidated financial statements will be used for inclusion in an offering circular for a planned offering transaction.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements include the financial statements of PIHI and its subsidiaries (collectively referred to as the "Group").

In December 2020, the Parent Company completed the acquisition of its subsidiaries, PMIHC and PMPHC, pursuant to deeds of assignment between PSHI and the Parent Company. PMIHC and PMPHC, subsidiaries of PSHI since incorporation in 2017, were deemed to be the accounting acquirer for accounting purposes under the principles of PFRS 3. The acquisition was accounted for similar to a reverse acquisition following the guidance provided by the standard. In a reverse acquisition, the legal parent is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary is adjudged to be the entity that gained control over the legal parent.

Accordingly, the consolidated financial statements of PIHI have been prepared as a continuation of the consolidated financial statements of PMIHC and PMPHC. The difference in the legal capital of PIHI and its subsidiaries, PMIHC and PMPHC, is presented as “Other equity reserve” in the 2019 and 2018 consolidated statements of financial position.

Reverse acquisition applies only to the consolidated financial statements. The separate financial statements as of and for the periods ended December 31, 2021 and 2020 will continue to represent PIHI as a stand-alone entity.

As of December 31, 2021, 2020, 2019 and 2018, the subsidiaries in the group include:

| | **Effective Percentage of Ownership** | | | |
|---|---|---|---|---|
| | **2021** | 2020 | 2019* | 2018* |
| PMIHC | **100** | 100 | 100 | 100 |
| PMBC *(through PMIHC)* | **60** | 60 | 60 | 60 |
| WawaJVCo *(through PMIHC)* | **82** | 82 | 82 | – |
| Waste Fuel Philippines, Inc. (*(through PMIHC)* | **60** | – | – | – |
| PMPHC | **100** | 100 | 100 | 100 |
| ChicoJVCo *(through PMPHC)* | **82** | 82 | 82 | 82 |
| API *(through PMPHC)* | **85** | 85 | – | – |
| Menatech *(through PMPHC)* | **100** | 100 | 100 | 100 |
| Prime Global *(through PMPHC)* | **100** | 100 | 100 | 100 |
| PII | **100** | 100 | – | |
| Solar Philippines Tanauan Corporation (SP Tanauan) (*through PII*) | **50** | – | – | – |
| Terra Solar Philippines, Inc. (TSPI) (*through PII*) | **50** | – | – | – |
| Torre Inc. *(through PII)* | **100** | – | – | – |
| TWCHI *(through PII)* | **100** | 100 | – | – |
| Manila Water Company, Inc. (MWCI) (*through TWCHI*) | **36** | – | – | – |
| *Ownership through MWCI* | | | | |
| Manila Water Total Solutions Corp. (MWTS) | **36** | – | – | – |
| Calasiao Water Company, Inc. (Calasiao Water) | **32** | – | – | – |
| Manila Water Asia Pacific Pte. Ltd. (MWAP) | **36** | – | – | – |
| Kenh Dong Water Holdings Pte. Ltd. (KDWH) | **36** | – | – | – |
| Manila Water South Asia Holdings Pte. Ltd. (MWSAH) | **36** | – | – | – |
| Thu Duc Water Holdings Pte. Ltd. (TDWH) | **36** | – | – | – |
| Manila Water Thailand Holdings Pte. Ltd. (MWTH) | **36** | – | – | – |
| Manila Water (Thailand) Co., Ltd. (MWTC) | **36** | – | – | – |
| Manila South East Asia Water Holdings Pte. Ltd. (MSEA) | **36** | – | – | – |
| PT Manila Water Indonesia (PTMWI) | **36** | – | – | – |
| Manila Water Philippine Ventures, Inc. (MWPVI) | **36** | – | – | – |
| Boracay Island Water Company, Inc. (Boracay Water) | **28** | – | – | – |
| Calbayog Water Company, Inc. (Calbayog Water) | **21** | – | – | – |
| Clark Water Corporation (Clark Water) | **36** | – | – | – |
| Filipinas Water Holdings Corp. (Filipinas Water) | **36** | – | – | – |
| Bulakan Water Company, Inc. (Bulakan Water) | **32** | – | – | – |
| Metro Ilagan Water Company, Inc. (Ilagan Water) | **32** | – | – | – |
| MWPV South Luzon Water Corp. (South Luzon Water) | **36** | – | – | – |
| Obando Water Company, Inc. (Obando Water) | **32** | – | – | – |
| Laguna AAAWater Corporation (Laguna Water) | **25** | – | – | – |
| North Luzon Water Company, Inc. (North Luzon Water) | **36** | – | – | – |

| | Effective Percentage of Ownership | | | |
|---|---|---|---|---|
| | **2021** | 2020 | 2019* | 2018* |
| Davao del Norte Water Infrastructure Company, Inc. (Davao Water) | **18** | – | – | – |
| Tagum Water Company, Inc. (Tagum Water) | **16** | – | – | – |
| Manila Water Consortium, Inc. (MW Consortium) | **20** | – | – | – |
| Cebu Manila Water Development, Inc. (Cebu Water) | **14** | – | – | – |
| Aqua Centro MWPV Corp. (Aqua Centro) | **36** | – | – | – |
| Bulacan MWPV Development Corp. (BMDC) | **36** | – | – | – |
| EcoWater MWPV Corp. (EcoWater) | **36** | – | – | – |
| Leyte Water Company, Inc. (Leyte Water) | **36** | – | – | – |
| Manila Water Technical Ventures, Inc. (MWTV) | **36** | – | – | – |
| Zamboanga Water Company, Inc. (Zamboanga Water) | **25** | – | – | – |

**Effective ownership from the perspective of the ultimate controlling shareholder, PSHI, prior to PIHI's incorporation in 2020*

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions are eliminated in full.

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:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that majority of voting rights results in control. To support this presumption and when the Group has less than majority of voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders 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 derecognizes the related assets (including goodwill), liabilities, noncontrolling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

*Non-Controlling Interests*. Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Group.

Changes in Accounting Policies and Disclosures

The Group's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements effective January 1, 2021. Except as otherwise indicated, adoption of these new pronouncements has no significant impact on the Group's consolidated financial statements.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendment has no material impact to the Group.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendment has no material impact to the Group.

Standards Issued but not yet Effective

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

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
    - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
    - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
    - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Business Combination Involving Entities under Common Control

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group may account such business combinations under the acquisition method of accounting or pooling of interests method, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the noncontrolling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction. The Group recorded the difference as excess of consideration over carrying amount of disposed subsidiary and presented as separate component of equity in the combined balance sheets.

Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented as if the companies had always been combined.

Business Combination 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 noncontrolling interest in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

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

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

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

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

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

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

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

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in Joint Operation and Associates

*Investment in Joint Operation.* Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognizes in relation to its interest in a joint operation its:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities held jointly

- Revenue from the sale of its share of output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

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

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

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

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

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

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

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

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

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.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the statement of financial position based on current/noncurrent classification.

An asset is current when:

- It is expected to be realized or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realized within twelve months after the reporting period; or
- It is 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 noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- 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 noncurrent liabilities, respectively.

Fair Value Measurement

The Group measures financial instruments at fair value at each financial reporting date.

Fair value is the price that would be received to sell 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:

- In the principal market for the asset or liability, or
- 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 to 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 sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the 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 date.

For purposes of fair value disclosures, the Group has determined classes of assets and liabilities as the basis of the nature, characteristics and risk of assets and liabilities 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.

Cash in banks earn interest based on their bank deposit rate.

Short-term Investments
These are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments
*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial Assets

*Initial Recognition and Subsequent Measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI (FVOCI), and fair value through profit or loss (FVPL).

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

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

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

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

*Subsequent Measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at FVOCI with recycling of cumulative gains and losses
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at FVPL

The Group has no debt instruments at FVOCI as of December 31, 2021, 2020, 2019 and 2018.

*Financial Assets at Amortized Cost.* This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Group's cash and cash equivalents, short-term investments, trade and other receivables, due from related parties, contract assets and deposits are included in this category as of December 31, 2021, 2020, 2019 and 2018.

*Financial Assets designated at FVOCI.* Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's financial asset at FVOCI includes quoted and unquoted equity securities.

*Reclassification of Financial Assets*
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and,
- There is a change in measurement on credit exposures measured at FVPL.

*Modification of financial assets*
The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Group considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Group considers the following factors, among others:
- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Group also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (EIR) (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in profit or loss.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

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

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each financial reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

For cash and security deposits, the Group applies a general approach in calculating ECLs. The Group recognizes a loss allowance based on ether 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

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

The Group considers a financial asset in default when contractual payments are ninety (90) up to one hundred eighty (180) days past their due dates for MWCI and subsidiaries and thirty (30) days for PIHI and other subsidiaries. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

<u>Financial Liabilities</u>

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

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

After initial recognition, financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in profit or loss.

The Group's financial liabilities include accounts payables and other current liabilities (excluding statutory payables and contract liabilities), short-term loan, due to related parties, long-term loan, lease liability and service concession obligations.

As at December 31, 2021, 2020, 2019, and 2018 the Group has no financial liabilities at FVPL.

*Exchange or modification of financial liabilities*
The Group considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Group recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

<u>Derecognition of Financial Instruments</u>
*Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- 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

- the Group has transferred its rights 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights 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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

*Day 1 Difference.* Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument 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 difference) in profit or loss unless it qualifies for recognition as some other type of asset. 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 difference amount.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

a. Initial recognition and measurement

The Group uses derivative financial instruments, such as principal only swaps and currency option transactions, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument.
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for and further described in the below sections.

b. Fair value hedges

The change in the fair value of the hedging instrument and hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

The Group does not have any derivatives classified as fair value hedges.

c. Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI as part of hedging reserve, while any ineffective portion is recognized immediately in profit or loss. The hedging reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses principal only swaps and currency option transactions as hedges of its exposure to foreign currency risk arising from long-term debts. The ineffective portion of both the principal only swaps and currency option transactions is recognized under "interest expense."

For the Group's cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

The Group's cash flow hedges include the costs of hedging for its principal only swaps and currency option transactions.

d. Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI under "cumulative translation adjustments" while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investment in a foreign subsidiary.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls – through ownership, beneficial entitlement or otherwise -any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this interpretation if the conditions in (a) and (b) are met.

This interpretation applies to both: (a) infrastructure that the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the Group access for the purpose of the service arrangement. Infrastructure within the scope of this interpretation is not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this interpretation, the Group acts as a service provider. The Group constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

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

Company at drawdown date and other local component costs and cost overruns paid by the Group, as well as additional costs of development and rehabilitation works incurred.

*Service Concession Asset (SCA) and Service Concession Obligation (SCO)*
The Group accounts for its concession agreements with MWSS, CWD, TIEZA, CDC, OWD, BuWD and PGL; JVAs with CCWD, TnWD, PAGWAD, and LWD; SMA with CIWD; and MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession arrangements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall transfer to MWSS, CWD, TIEZA, CDC, OWD, BuWD, PGL, CCWD, TnWD, PAGWAD, LWD, and CIWD (under the SMA) at the end of the concession period. Meanwhile, the legal title to the assets covered by the MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag shall remain with North Luzon Water.

Amortization of SCA commences when the SCAs are available for use and is calculated using the units of production (UOP) method over the estimated total billable volume for the remaining period of the respective concession agreements to better reflect the usage of these assets, which is directly related to its estimated total billable volume and is aligned with industry practice.

*Contract Asset/Concession Receivable*
The Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

The bulk water sale and purchase agreements with CIWD, TWD, MCWD and the Group's Wawa Offtake Agreement with MWSS; and General Company for Ports of Iraq are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the service concession arrangements, Cebu Water, Tagum Water, Ilagan Water, and Wawa JVCo. are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. PMPHC was also awarded the right to receive payments from GCPI for the minimum power quantity at the agreed tariff rate every year under a take-or-pay arrangement on the Umm Qasr power plant.

During the construction phase, the Group is not yet entitled to collect any consideration. As such, revenue from the construction service being provided is recognized as a contract asset. The operator will be able to receive the fixed amount pertaining to the construction service over the term of the service concession arrangement starting when the construction of the infrastructure is completed.

Subsequent to initial recognition, the contract asset is measured at amortized cost using the EIR method. The EIR is the rate that at inception of the contract causes the aggregate present value of the total guaranteed payments to be equal to the fair value of water facility. Upon commencement of the commercial operations date, the Group will recognize a concession receivable equal to the fair value of the contract asset on such date, to recognize the right to receive cash or another financial asset.

When the Group receives a payment during the contract period, it apportions such payment among:
(i) a repayment of the concession receivable, which reduces the carrying amount of the concession receivable on the consolidated statement of financial position; and
(ii) revenues recognized in profit or loss in the consolidated statement of comprehensive income in the form of:
    a. financing income, recognized as "Interest income";

b. operating fees for operating the infrastructure; and
c. water/power revenue delivered in excess of the minimum water/power quantity.

Inventories
Inventories consisting of uninstalled materials for use in the construction, water treatment chemicals, maintenance materials, water meters, connection supplies and spare parts are valued at the lower of cost or net realizable value (NRV).

Cost of the uninstalled materials for use in the construction includes the invoice amount, net of trade and cash discounts determined using the specific identification basis. The NRV is calculated based on the current replacement cost.

Cost of water treatment chemicals, maintenance materials, water meters, connection supplies and spare parts is determined using the moving average method, except for raw materials and finished goods. NRV is the estimated selling price less estimated costs to complete and to sell.

Advances to Officers and Employees
Advances to an employee represent amounts advanced for goods or services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within the normal operating cycle or within 12 months from the end of financial reporting period. These are initially recorded at actual cash advanced to employees and are subsequently applied against actual purchases of related assets, costs or expenses incurred.

Prepayments and Other Current Assets
*Advances to contractors*. Advances to contractors represent advance payments on services to be received in connection with the Group's operations. These are reclassified to "Cost of services" account upon actual render of services, which is normally within 12 months.

*Creditable withholding tax (CWT)*. CWT represents the amount withheld by the Group's customers in relation to its sale of services. These are recognized upon collection of the related billings and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations. CWT is stated at its estimated NRV.

*Prepayments.* Prepayments are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

Property, plant and equipment
Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation, amortization and any impairment in value. The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred, and the recognition criteria are met. Property, plant and equipment include, if any, costs of dismantlement, removal or restoration, the obligation for which the entity incurs when it installs or uses the assets.

Depreciation and amortization are computed for each significant item or part of an item of property, plant and equipment on a straight-line basis over the following estimated useful lives of the assets:

| Asset | Estimated Useful Lives |
|---|---|
| Plant and technical equipment | 2 to 5 years or the term of the related management contract, whichever is shorter |
| Office furniture and equipment | 3 to 5 years |
| Transportation equipment | 3 to 5 years |
| Machineries | 2 to 5 years |
| Building | 5 years |
| Leasehold improvements | 3 to 5 years or lease term, whichever is shorter |

The assets' residual values, useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial reporting date to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to profit or loss.

The Group classifies right-of-use assets as part of property, plant and equipment. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

The right-of-use assets are depreciated over their lease terms as follows:

| Right-of Use Asset | Lease term |
|---|---|
| Transportation equipment | 3 to 5 years |
| Office space | 5 years and 3 months |
| Furnitures and fixtures | 5 years and 3 months |

Project Development Cost
Project development costs are expensed as incurred until management determines that the project is technically, commercially and financially viable, at which time, project development costs are capitalized. Project viability generally occurs in tandem with management's determination that a project should be classified as an advanced project, such as when favorable results of a system impact study are received, interconnected agreements are obtained and project financing is in place.

Following initial recognition of the project development cost as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when the development of the asset is complete and the asset is available for use. It is amortized using the straight-line method over the period of expected future benefit. During the period in which the asset is not yet available for use, the project development costs are tested for impairment annually and whenever there is an indication of impairment.

Advances to Suppliers
Advances to suppliers represent advance payments on equipment to be received in connection with the Group's operations. These are reclassified to the "Property, plant and equipment" account in the consolidated statement of financial position upon actual receipt of equipment.

Software
Software acquired separately is measured on initial recognition at cost including any directly attributable costs with the development of the software that are expected future expected benefits. All other costs of developing and maintaining software are recognized in profit or loss as incurred. Software is stated at cost less accumulated amortization and any accumulated impairment loss and amortized over the estimated life of 3 to 5 years using the straight-line method. If there is an indication that there has been a significant change in the amortization rate, useful life, or residual value of the computer software, the amortization is revised prospectively to reflect the new expectations.

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Customer Relationship
Customer relationship is accounted for as an intangible asset with a definite useful life. The cost of customer relationship acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, customer relationship is carried at cost less any accumulated amortization and any accumulated impairment losses. Customer relationship is amortized over 20 years and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method for customer relationship is reviewed at least at each financial

year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of customer relationship is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

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

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

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

Impairment of Nonfinancial Assets
This accounting policy applies primarily to the Group's property, plant, and equipment, SCA , software, contract assets representing SCA under construction, right-of-use assets, investments in associates, goodwill, and water rights. The Group assesses, at each reporting date, these nonfinancial assets, excluding goodwill and water rights, 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.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

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

An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less cost of disposal and its value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the VIU, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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.

Deposits for Future Stock Subscription
Deposits for future stock subscription represent funds received by the Group with a view to applying the same as payment for future issuance of shares upon availability of unissued capital stock. This is classified under noncurrent liability section in the consolidated statement of financial position if the following criteria for reporting under the equity section are not met:

- the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- there is Board of Directors' approval on the proposed increase in authorized capital stock;
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC.

Equity
Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Subscription receivable represents to the uncollected portion of the subscribed capital stock at the end of reporting period receivable pertains.

Equity reserve represents the effect of the reverse acquisition. This includes the difference in the legal capital of the legal acquirer and accounting acquirer.

Retained earnings (deficit) represent the Group's net accumulated earnings (losses) less cumulative dividends declared. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared by the Company's BOD. Dividends for the year that are approved after the financial report date are dealt with as an event after the financial reporting date.

Retained earnings may also include prior year adjustments and the effect of changes in accounting policies as may be required by the standards' traditional provisions. Other equity reserves pertain to the direct interests of the equity holders of the Parent Company in the latter's subsidiaries.

Revenue from Contracts with Customers
The Group recognizes revenue when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the to the customer, if any. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The sales discounts given by the Group to the customers and sales returns by the customers give rise to a variable consideration.

A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements

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

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

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

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

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

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

- *Supervision fees*
  Supervision fees arise from MWPVI, Aqua Centro, EcoWater, and Laguna Water's assurance of potable water and effective used water services for new developments, and performance of certain functions which includes, but is not limited to, the provision of design and project

management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time using an output method.

Revenue from supervision fees is recognized over time using the output method. Supervision fees accounted for as connection fees is recognized and measured using a survey of performance completed to date and milestones reached. Supervision fees accounted for as future water service is recognized as the customer receives and consumes the benefit of water affordability or lower water tariff based on the agreed estimated water demand projections.

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

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

- *Revenue from development and rehabilitation works and Cost of development and rehabilitation works*
  Revenue from development and rehabilitation works is equivalent to the related cost for the development and rehabilitation works plus a mark-up ranging from 1%-2%. The costs are covered by the service concession arrangements which is recognized as part of contract assets included under SCA or concession financial receivables and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

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

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

*Revenue recognized at a point in time*

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

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

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

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

*Contract Asset*. A contract asset is the right to consideration, which is conditional, in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. If the construction revenue is recognized which is determined based on the percentage-of-completion for the construction of the sold property is higher than the amount due (i.e. receivable) as of date arising from the contract with customer, a contract asset is recognized for the difference representing the earned consideration in which the right of the Group on the consideration still conditional. Upon completion and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade receivables

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

Foreign Currency Transactions and Translations
Foreign exchange differentials arising from foreign currency transactions of MWCI's loans and concession fees are credited to or charged against operations. For MWCI, as approved by the MWSS BOT under Amendment No.1 of the Concession Agreement, the following will be recovered or refunded through billings to customers:

a) restatement of foreign currency-denominated loans;
b) difference of actual and twelve (12)-month projected concession fee payments against 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 rates are ₱53.16:US$1.00, ₱0.475: ¥1.00,
c) ₱62.156: €1.00 based on the latest rate rebasing exercise effective January 1, 2018;
d) difference of actual and twelve (12)-month projected interest payments translated using the exchange spot rate on settlement date and average forex of the month immediately preceding the cut-off information date, respectively, against the amount of interest translated at drawdown rate; and
e) difference of actual and twelve (12)-month projected payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date and average forex of the month immediately preceding the cut-off information date, against the amount of other financing charges translated at drawdown rate.

Beginning November 18, 2021, the FCDA was no longer applied to water rates of MWCI's customers. The RCA stipulates the exclusion of FCDA from charges billed to customers (see Note 1).

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

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

In view of the automatic reimbursement mechanism (up to November 18, 2021 for the MWC), the Group recognizes deferred FCDA (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by the MWSS RO during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

The functional 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.

The functional currency of MWAP, MWSAH, TDWH, KDWH, MSEA, MWTH, Menatech and Prime Global is the United States Dollar (US$ or USD), while Thu Duc Water, Kenh Dong Water, Saigon Water and Cu Chi Water's functional currency is the Vietnamese Dong (VND), PTMWI and PTSTU's is the Indonesian Rupiah (IDR), MWTC and East Water's is the Thailand Baht (THB), and IWP's is the Saudi Riyal (SAR). As of reporting date, the assets and liabilities of these subsidiaries and associates are translated into the presentation currency of the Group at the rate of exchange at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in OCI and reported as "Cumulative translation adjustment", a separate component of equity. On disposal of a foreign entity, the "Cumulative translation adjustment" relating to that particular foreign operation shall be recognized in profit or loss.

*Transactions and balances.* Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

*Translation and consolidation of foreign subsidiaries.* Upon consolidation, the financial statements of a foreign operation are translated directly into the functional currency of the Parent Company. The assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period.

Translation differences arising on monetary items that form part of the Parent Company's net investment in a foreign operation are recognized initially in OCI in the consolidated financial statements of the Group and reclassified to profit or loss on disposal of the foreign operation.

*Translation of non-monetary items.* Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Interest Income

Interest income is recognized as the interest accrues using the effective interest method. Interest income on deposits with banks is presented net of final tax.

Costs and Expenses

Costs and expenses are recognized in profit or loss utilization of the service or at the date they are incurred. Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in the consolidated statement of comprehensive income upon utilization of the service or at the date they are incurred.

Borrowing Costs

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

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

The capitalization of those borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all activities necessary in preparing the related assets for their intended use are complete. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds and the foreign exchange differences from the Group's foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. Premiums and/or discounts on long-term debt are included in the "Short-term and Long-term debt" account in the consolidated statement of financial position and are amortized using the EIR method.

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

*Initial Recognition and Measurement Prior to Adoption of PFRS 16, Leases*

*Group as a Lessee.* A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as interest expense in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*Initial Recognition and Measurement Upon Adoption of PFRS 16*

Effective January 1, 2019, PFRS 16*,* superseded PAS 17*, Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

*Group as a Lessee.* The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets.* Refer to policy under "Property, plant and equipment".

*Lease liabilities*
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases of equipment and other rentals (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Taxes

*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 authority. The tax rates and laws used to compute the amount are those that have been enacted or substantively enacted as at financial reporting date.

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

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

Deferred tax relating to items recognized outside the consolidated statement of comprehensive is recognized outside profit or loss or directly in equity. Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss or in OCI.

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

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

*Value-Added Tax (VAT).* Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

- When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position.
- When input VAT exceeds output VAT, the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Deferred input VAT pertains to input VAT on accumulated purchases of property, plant and equipment and service concession assets for each month amounting to ₱1.00 million or more. This is amortized over five (5) years or the life of the property, plant and equipment or service concession assets, whichever is shorter, in accordance with the Bureau of Internal Revenue (BIR) regulation.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepayments and other current assets" or "Accounts payable and other current liabilities" account in the consolidated statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in profit or loss, net of any reimbursement.

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 assessments 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 interest expense.

Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

Financial information on business segments is presented in Note 35 to the consolidated financial statements. The Group has two geographical segments and derives substantially all of its revenues from domestic operations.

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

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

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

Defined benefit costs comprise the following:

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

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

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

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets 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.

For PMBC, retirement liability is accrued based on the minimum requirements of the RA 7641, *Retirement Pay Law*. RA 7641 requires an accrual of retirement liability to qualified private sector employees in absence of any retirement plan in the entity. PMBC accounts for its retirement obligation as a contractual obligation similar to a defined benefit plan.

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 (12) months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Group during the reporting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Employee Leave Entitlement

Employee leave entitlements are recognized as a liability when they are accrued to the employees. The undiscounted liability for employee leaves is recognized for services rendered by employees up to the end of the reporting period.

Discontinued Operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "net income or loss after tax from discontinued operations" in the consolidated profit or loss. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise. The related results of operations of the disposal group that qualified as a discontinued operation are separated from continuing operations and prior year's consolidated profit or loss have been restated.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding during the year and adjusted to give retroactive effect to any stock dividends declared, if any, during the period.

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

Assets Held in Trust

Assets which are owned by MWSS, CWD, TIEZA, CDC, OWD, BuWD, PGL, CCWD, TnWD, PAGWAD, LWD, and CIWD that are operated by the Group under the Group's concession agreements are not reflected in the consolidated statement of financial position but are considered as "Assets held in trust" (see Note 32).

Events after the Reporting Period

Post year-end events that provide additional information about the Group's financial position at reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

## 3. Management's Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best estimates and assumptions of certain amounts, giving due consideration to materiality. 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 those estimates, and such estimates will be adjusted accordingly.

Judgments

*Determination of Functional Currency.* Each entity in the Group determines its own functional currency and items included in the separate financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

The presentation currency of the Group is the Philippine Peso, which is the Parent Company's functional currency. The functional currency of each of the Group's subsidiaries, as disclosed in Note 2 to the consolidated financial statements, is determined based on the economic substance of the underlying circumstances relevant to each subsidiary.

*Service Concession Arrangement.* Based on management's judgment, the provisions of Philippine Interpretation from IFRIC 12 apply to the MWSS, CWD, TIEZA, CDC, OWD, BuWD and PGL; JVAs with CCWD, TnWD, PAGWAD, and LWD; SMA with CIWD; and MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag qualify under the Intangible Asset model as it receives the right (license) to charge users of public service (see Notes 2 and 10).

On the other hand, the Group has made a judgment that the bulk water sale and purchase agreements with CIWD, TWD and MCWD qualify under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from CIWD, TWD, and MCWD.

For WI's and MWCI's Offtake Agreement with MWSS, management has established that MWSS (1) controls what services the WI must provide with the water facility; (2) regulates pricing by the required review or approval of the total systems cost which include the tariff rates and (3) controls the water facility as WI will not be able to operate the infrastructure independently without government's approval at the end of the contract period. WI Offtake Agreement is accounted for under the financial asset model, as discussed in Note 2.

For PMPHC' Offtake Agreement with GCPI, management has likewise established that GCPI (1) controls usage produced by the Umm Qasr Power Plant Project (the Project); (2) regulates pricing of power produced by virtue of the contract with GCPI, and (3) controls through ownership any significant residual interest of the Project at the end of the contract period. Such agreement was accounted for under the financial asset model.

*PIHI's investment in MWCI, SP Tanuan and TSPI.* PIHI has determined that it has control over MWCI, SP Tanauan and TSPI despite holding less than or equal to 50.00% of economic interest in their outstanding shares of stock. PIHI considers several factors including its representation in the BOD, and its voting power through share ownership and proxy agreement to determine PIHI's power to govern in the financial and operating policy decisions of MWCI, SP Tanauan and TSPI.

*Investments in associates.* MWCI has determined that it has significant influence over East Water despite holding less than 20.00% of East Water's outstanding shares of stock. MWCI considers several factors including its representation in East Water's BOD, representation in East Water's Investment Committee, and its voting power through share ownership to determine the Group's power to participate in the financial and operating policy decisions of East Water. As of December 31, 2021, the Group through MWCI owns 6.66% of East Water (see Note 4).

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

*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. As of December 31, 2021, 2020, 2019 and 2018 the Group considers the Parent Company and Others, Construction, Water and Power as its operating segments that are aggregated based on the geographical location and source of revenues (see Note 35).

*Determination of lease term of contracts with renewal and termination options – the Group as a lessee.* The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset) (see Note 18).

*Provisions and contingencies.* The Group is currently involved in various legal proceedings and exposures in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the defense in these matters and is based upon an analysis of potential results (see Note 36).

*Discontinued operations.* As of December 31, 2021, the operations of Zamboanga Water qualified as discontinued operations because the termination of the NRWRSA resulted to the cessation of Zamboanga Water's operations. Zamboanga Water's noncurrent assets, such as property and equipment, which it used for its operations were closed or disposed of to third parties rather than being sold or distributed back to its owners. Zamboanga Water is a joint venture company incorporated solely for the execution of the NRWRSA, which represents a separate major line of business or geographical area of operation.

Estimates

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

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

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

In compliance with the mandate of MWSS and in line with the Bayanihan to Heal as One Act, the Parent Company suspended disconnection activities; extended payment terms for specific billing periods covered by the enhanced community quarantine (ECQ) or modified ECQ (MECQ) during 2020; and provided installment payment schemes to customers, as necessary, without incurring interests, penalties and other charges. Similarly, beginning September 16, 2021, the MWSS RO required the Parent Company to suspend all service disconnection activities in areas under Alert Level 5 or areas under Granular Lockdown, until such time that the Alert Level 5 or Granular Lockdown has been lifted. These factors were incorporated in the Group's determination of historical observed default rates.

As of December 31, 2021 and 2020, the allowance for expected credit losses of receivables from customers amounted to ₱620.5 million and ₱160.4 million, respectively, while nil for December 31, 2019 and 2018 (see Note 6).

*Valuation of Investment in SPTC.* When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow

(DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 12 for the valuation methodology used and key inputs to valuation of the investments in unquoted shares of stock.

The fair value of investment in SPTC amounted to ₱1,520.9 million and ₱1.086.2 million as at December 31, 2021 and 2020, respectively (see Note 12).

*Revenue and cost recognition – development and rehabilitation works.* The Group measures revenue from development and rehabilitation works at the fair value of the consideration received or receivable. The Group's revenue from development and rehabilitation works is recognized over time, using the input method. Under this method, progress is measured by reference to the actual costs incurred to date. Revenue from development and rehabilitation works recognized by the Group is equivalent to the costs of development and rehabilitation works incurred, as these costs are recovered by the Group through its right to charge the customers, plus a mark-up of 1%. The Group's revenue from development and rehabilitation works amounted to ₱14,355.7 million, ₱1,138.3 million, ₱2,706.8 million and nil in 2021, 2020, 2019 and 2018 (see Notes 9 and 10).

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

*Estimating useful lives of water rights.* MW Consortium and MWPVI estimate that the useful lives of the water rights to be indefinite, considering that the water permits remain valid for as long as water is beneficially used. It is possible that future results of operations could be materially affected by changes in MW Consortium and MWPVI's estimates. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

*Impairment of nonfinancial assets.* The Group assesses the impairment of nonfinancial assets (property, plant and equipment, SCA, contract assets representing SCA under construction, right-of-use assets, project development costs, input VAT, investments in associates, customer relationship, water rights, deposits under other current and noncurrent assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business;
- significant negative industry or economic trends;
- significant decline in net worth or market capitalization; and
- significant decline in distributed profits or increase in losses.

As described in the accounting policy, the Group estimates the recoverable amount as the higher of the fair value less cost to sell and VIU.

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, 2021, the Group has determined that there are no indicators of impairment on its investments in Thu Duc Water, Kenh Dong Water, Saigon Water, East Water, PT STU, and IWP (see Note 10).

As of December 31, 2021, 2020, 2019, and 2018, there were no indicators of impairment on the Group's property, plant and equipment and SCA, right-of-use assets, input VAT, project development cost customer relationship, water rights, and deposits under other current assets and other noncurrent assets (see Notes 9, 10, 11, 13, 14 and 15).

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

No impairment of goodwill arising from the acquisition of SP Tanuan was noted as at December 31, 2021. This is in line with the recent valuation performed to determine the value of goodwill upon acquisition on December 13, 2021. The carrying amount of goodwill amounted to ₱98.8 million (see Note 4).

*Estimating billable water volume.* The SCAs related to the concession agreements of the MWCI and subsidiaries are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. MWCI and subsidiaries considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. In 2021, MWCI and subsidiaries also considered the impact on future billable volume considering the ongoing coronavirus pandemic which has affected the billed volume mix and consumption. For the year ended December 31, 2021, SCA amortization expense based on the UOP method are disclosed in Notes 10 and 24.

*Deferred FCDA.* Under the concession agreements entered into by MWCI and Boracay Water with MWSS and TIEZA, respectively, MWCI and Boracay Water are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWCI and Boracay Water recognized deferred FCDA (included as part of "Other noncurrent assets" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWCI and Boracay Water as a result of past events and from which future economic benefits are expected to flow to MWCI and Boracay Water. Net 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, 2021, MWCI and Boracay Water's deferred FCDA classified under "Other noncurrent assets" amounted to ₱528.69 million (see Note 15).

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.

Beginning November 18, 2021, MWCI's RCA has removed FCDA from the water rates of MWCI's customers. MWCI's profit or loss now reflects the unrealized and realized foreign exchange gains and losses from long-term debt and service concession obligations which are no longer expected to be recovered under the FCDA recovery mechanism. As of December 31, 2021, MWCI has not recognized any realized foreign exchange gains or losses arising from payments from long-term debt and service concession obligations. Boracay Water, on the other hand, still maintains this natural hedge and does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

*Retirement liabilities.* The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, incapacity rates, retirement rate, and termination rates. The amounts of defined benefit obligations are highly sensitive to changes due to the complexity of the valuation and its long-term nature. Discount rate, salary increase rate, retirement rate, and termination rate assumptions are reviewed at each reporting date. The net retirement liability amounted to ₱160.7 million, ₱27.5 million, ₱14.3 million, and ₱9.9 million as of December 31, 2021, 2020, 2019, and 2018 (see Note 19).

In determining the discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. Retirement and termination rates are based on expected rates at which employees are assumed to retire or leave the employment of the Group.

Further details about the assumptions used are provided in Note 19.

*Estimating the incremental borrowing rate of lease asset.* The Group cannot readily determine the interest rate implicit in the lease of transportation equipment, office space, storage and plant facilities, land, right-of-way and furniture and fixtures, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Group's lease liabilities amounted to ₱497.5 million, ₱61.2 million, ₱77.5 and ₱190.9 million as of December 31, 2021, 2020, 2019, and 2018, respectively (see Note 18).

*Estimating useful lives of property and equipment and customer relationship.* The Group estimates the useful lives of its property and equipment and customer relationship based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and customer relationship are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of property and equipment and any changes in the agreement for customer relationship. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

As at December 31, 2021, 2020, 2019 and 2018, the carrying amount of property and equipment (except land) amounted to ₱6,903.9 million, ₱514.1 million, ₱380.0 million and ₱275.0 million, respectively (see Note 13). As at December 31, 2021, the carrying amount of customer relationship amounted to ₱1,779.3 million (see Note 15).

*Recognition of Deferred Tax Assets.* The Group reviews the carrying amounts at the end of each reporting period and reduced these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and unused NOLCO is based on the level and timing of forecasted taxable income of the subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized.

The Group has recognized deferred tax assets amounting to ₱3,850.1 million, ₱169.6 million, ₱113.1 million, ₱100.2 million as of December 31, 2021, 2020, 2019 and 2018, respectively (see Note 26). NOLCO and other temporary differences for which no deferred tax assets have been recognized, since management believes that it is not probable that taxable profit will be available against which the deferred tax assets can be utilized, amounted to ₱2,930.8 million, ₱263.2 million, ₱255.3 million and ₱156.7 million as of December 31, 2021, 2020, 2019 and 2018, respectively (see Note 26).

*Estimating fair values for the purchase price allocation of MWCI and SP Tanauan.* The Group acquired shares of stocks of MWCI and SP Tanauan in 2021. The fair value of the net assets of the investee company was determined using a combination of multi-period excess earnings valuation method, which assumed expected future earnings stream attributable to the identified income-generating asset discounted using the rate of return commensurate to the asset, and fair value less cost to sell valuation method. The Group estimated the cash flows based on average life of the identified assets.

## 4. Business combination

MWCI

- On April 14, 2020, TWCHI purchased through BDO Securities Corporation 50,000,000 common shares of MWCI (₱10.48 per share, totaling ₱524.0 million) for a voting interest of 0.73% and economic interest of 1.54%. In 2020, TWCHI accounted this investment as financial asset at FVOCI. The carrying amount of the investment amounted to ₱799.0 million as of December 31, 2020 (see Note 12).

- On February 1, 2020, PSHI signed with MWCI a Subscription Agreement for the acquisition of 820,000,000 common shares of MWCI (₱13.0 per share, totaling ₱10,660.0 million, resulting in a 24.96% economic stake and 11.91% voting stake) subject to certain closing conditions.

- February 15, 2021

    a. TWCHI was included as a party to the Subscription Agreement signed by PSHI with MWCI in 2020 to assume the rights and obligation of PSHI, as well as the updated payment terms of subscription price and other provisions.

       Philwater Holdings Company, Inc. ("Philwater") and TWCHI executed a Share Purchase Agreement (SPA) selling Philwater's 2,691,268,205 preferred shares in MWCI to TWCHI (₱1.8 per share, totaling ₱4,844.28 million resulting in an 8.19% economic stake and 39.09%

voting stake). However, all dividend and economic rights accruing on the shares shall be retained by Philwater until full payment of the agreed consideration.

- June 3, 2021

  a. TWCHI tendered a total of 462,660 common shares of MWCI (₱13.0 per share totaling ₱6.0 million)

  b. MWCI issued the 820.0 million common shares subscribed by TWCHI.

  c. AC, Philwater, and Trident executed a Shareholder's Agreement and a Proxy in favor of TWCHI for the 2,691,268,205 preferred shares of MWCI, valid for five (5) years until completion date of the SPA

  As at June 3, 2021, TWCHI has acquired cumulative 51.73% of voting rights and 34.69% economic interest.

  Further, on June 24, 2021, TWCHI purchased additional 29,589,499 common shares of MWCI from PSHI (₱17.62 per share, totaling ₱521.37 million) for cash and this is accounted for as linked transaction with the June 3, 2021 acquisition.

  The total ownership interest acquired by TWCHI in MWCI amounted to 52.16% voting interest and 35.59% economic interest.

The following table summarizes the total purchase consideration for 35.59% interest in MWCI and the amounts of the assets acquired, and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non–controlling interest in MWCI.

| | At June 3, 2021 |
|---|---:|
| **Consideration** | **Amount** |
| Preferred shares | |
| Cash | ₱100,000,000 |
| Share purchase payable | 4,053,261,756 |
| Common shares | |
| Cash | 5,857,381,570 |
| Subscription payable | 5,330,000,000 |
| **Total consideration** | 15,340,643,326 |
| **Fair value of previously held interest** (see Note 12) | 709,000,000 |
| **Total** | ₱16,049,643,326 |
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | **Amount** |
| Financial assets | ₱32,579,724,631 |
| Inventory | 395,653,895 |
| Other current assets | 2,733,934,835 |
| Service concession assets | 109,502,164,528 |
| Property, plant and equipment | 5,898,663,014 |
| Investment in associate | 10,946,096,667 |
| Right-of-use assets | 382,780,715 |
| Other noncurrent assets | 4,714,340,503 |
| Financial liabilities | (92,295,673,912) |
| Other noncurrent liabilities | (2,287,079,106) |
| **Total identifiable net assets** | 72,570,605,770 |
| **Non-controlling interest** | (47,400,674,492) |
| **Gain on acquisition** | (9,120,287,952) |
| **Total** | ₱16,049,643,326 |

The gain on acquisition largely results from the lower market price associated with the pending approval of MWCI's legislative franchise as of acquisition date. Acquisition related costs amounted to ₱8.4 million in 2021 and was recognized directly to profit and loss.

The net assets recognized as of December 31, 2021 were based on provisional assessment of their fair values. The fair value of the non–controlling interest in MWCI, was valued equal to its proportionate share in MWCI's identifiable net assets at fair value.

The Group recognized an additional loss of ₱90.0 million in 2021 as a result of re-measuring at fair value of less than 1% equity interest in MWCI held at the date of the acquisition. The loss is included in OCI in the consolidated statement of comprehensive income for the year ended December 31, 2021.

MWCI's revenue and net income to be included in the 2021 consolidated statement of comprehensive income will be ₱20,292.4 million and ₱3,754.1 million, respectively, if it was acquired beginning January 1, 2021.

SP Tanauan

On December 13, 2021, PII signed a subscription agreement with Solar Philippines Tanauan Corporation (SP Tanauan) for the acquisition of 176,041,000 common shares issued out of its authorized capital of 581,000,000 with a par value of P1 per share for a subscription price of ₱2,000,000,000 paid in full upon signing of the subscription agreement. Proceeds were to be used solely to acquire from Solar Philippines Power Projects Holdings, Inc. (Solar) or its affiliates the SP Tanauan Properties to be used for the SP Tanauan Project.

As of the signing date, 352,082,000 common shares have been issued, of which Solar owns 176,041,000 common shares. Upon issuance and delivery, the SP Tanauan shares issued to Prime constitutes fifty percent (50%) of the resulting total issued and outstanding share capital of SP Tanauan.

SP Tanauan also issued a proxy to Prime for 1 share. Under the 1 Share Proxy, Solar nominates Prime to represent and vote 1 share registered in its name at regular and special meetings of the stockholders of the Corporation and at adjournments and postponements thereof, as fully to all intents and purposes as it might and could do if present, and to sign any and all proper written assent of the stockholders; provided that the proxy shall be subject to the terms of the Shareholders' Agreement (SHA) and shall not entitle the Proxy holder to vote the share in respect of any Reserved Matters as defined in the SHA.

The following table summarizes the consideration paid for SP Tanauan and the amounts of the assets acquired, and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non–controlling interest in SP Tanauan.

| | **At December 13, 2021** |
|---|---|
| **Consideration** | **Amount** |
| Cash | ₱2,000,000,000 |
| | |
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | |
| Financial assets | ₱920,090 |
| Other current assets | 40,333,568 |
| Land | 302,217,000 |

*(Forward)*

| | At December 13, 2021 |
|---|---|
| Customer relationship | ₱1,783,396,847 |
| Right-of-use assets | 19,645,152 |
| Other noncurrent assets | 2,064,946,326 |
| Financial liabilities | (164,549,330) |
| Other noncurrent liabilities | (244,595,552) |
| **Total identifiable net assets** | 3,802,314,101 |
| **Non-controlling interest** | (1,901,157,050) |
| **Goodwill** | 98,842,949 |
| **Total** | ₱2,000,000,000 |

The net assets recognized as of December 31, 2021 were based on provisional assessment of their fair values. The fair value of the non–controlling interest in SP Tanauan, was valued equal to its proportionate share in SP Tanauan's identifiable net assets at fair value. Acquisition related costs amounted to ₱1.8 million and was directly recognized to profit and loss.

SP Tanauan's revenue and net loss to be included in the 2021 consolidated statement of comprehensive income will be nil and ₱169.0 million, respectively, if it was acquired beginning January 1 ,2021.

The goodwill amounting to ₱98.8 million arising from the acquisition of SP Tanauan comprises the value of expected synergies.

Notes to cash flow - Acquisition of subsidiaries and effect of business combination

| | MWCI | SP Tanauan |
|---|---|---|
| Fair value of identifiable net assets | ₱72,570,605,770 | ₱3,802,314,101 |
| Purchase consideration: | | |
| Share purchase payable and subscription payable | (9,383,261,756) | – |
| Non-controlling interests | (47,400,674,492) | (1,901,157,050) |
| Goodwill (gain on bargain purchase) | (9,120,287,952) | 98,842,949 |
| Previously held interest | (709,000,000) | – |
| Net cash in subsidiaries acquired | (21,638,562,865) | (2,000,920,090) |
| | (₱15,681,181,295) | (₱920,090) |

5. **Non-controlling Interests**

The summarized financial information (separate financial statements before inter-company eliminations within the Group) of subsidiaries with material non-controlling interests are provided below:

Summarized Statements of Financial Position

| | | 2021 | |
|---|---|---|---|
| | **PII** | **PMIHC** | **PMPHC** |
| Current assets | **₱20,889,964,724** | **₱2,580,444,215** | **₱1,326,925,887** |
| Noncurrent assets | **150,669,144,870** | **7,175,063,804** | **3,547,449,058** |
| Current liabilities | **(20,024,662,891)** | **(1,833,063,563)** | **(137,976,730)** |
| Noncurrent liabilities | **(90,543,798,327)** | **(5,663,327,851)** | **(1,493,189,750)** |
| Net assets | **₱60,990,648,376** | **₱2,259,116,606** | **₱3,243,208,465** |
| Attributable to: | | | |
| Equity holders of the Parent Company | **₱11,026,250,255** | **₱2,028,445,458** | **₱3,247,511,211** |
| Non-controlling interests | **49,964,398,121** | **230,671,148** | **(4,302,746)** |
| | **₱60,990,648,376** | **₱2,259,116,606** | **₱3,243,208,465** |

| | 2020 | |
|---|---|---|
| | PMIHC | PMPHC |
| Current assets | ₱2,807,333,488 | ₱561,091,192 |
| Noncurrent assets | 3,415,481,938 | 3,220,631,046 |
| Current liabilities | (2,178,378,329) | (123,786,709) |
| Noncurrent liabilities | (2,711,044,200) | (4,062,885,234) |
| Net assets | ₱1,333,392,897 | (₱404,949,705) |
| Attributable to: | | |
| Equity holders of the Parent Company | ₱1,144,208,647 | (₱401,337,408) |
| Non-controlling interests | 189,184,250 | (3,612,207) |
| | ₱1,333,392,897 | (₱404,949,705) |

| | 2019 | 2018 |
|---|---|---|
| | PMIHC | PMIHC |
| Current assets | ₱967,547,659 | ₱699,788,294 |
| Noncurrent assets | 1,595,702,073 | 563,352,788 |
| Current liabilities | (1,186,145,394) | (898,431,199) |
| Noncurrent liabilities | (548,120,964) | (197,824,233) |
| Net assets | ₱828,983,374 | ₱166,885,650 |
| Attributable to: | | |
| Equity holders of the Parent Company | ₱706,737,159 | ₱101,990,269 |
| Non-controlling interests | 122,246,215 | 64,895,381 |
| | ₱828,983,374 | ₱166,885,650 |

Summarized Statements of Comprehensive Income

| | | **2021** | |
|---|---|---|---|
| | **PMIHC** | **PII** | **PMPHC** |
| Revenue | **₱2,673,849,268** | **₱11,982,922,600** | **₱493,778,098** |
| Cost of services | **(2,047,503,054)** | **(3,267,502,742)** | **(114,411,378)** |
| Gross profit | **626,346,214** | **8,715,419,858** | **379,366,720** |
| General and administrative expense | **(519,339,036)** | **(2,320,753,685)** | **(352,041,864)** |
| Other loss – net | **(282,850,232)** | **5,255,991,876** | **148,862,471** |
| Income (loss) before income tax | **(175,843,054)** | **11,650,658,049** | **176,187,327** |
| Income tax provision (benefit) | **(72,558,411)** | **(611,103,735)** | **(30,898,015)** |
| Net income (loss) | **(248,401,465)** | **11,039,554,314** | **145,289,312** |
| Other comprehensive income | **16,177,988** | **872,343,143** | **119,835,069** |
| Total comprehensive income | **(₱232,223,477)** | **₱11,911,897,457** | **₱265,124,381** |
| Attributable to: | | | |
| Equity holders of the Parent Company | **(₱271,205,629)** | **₱9,856,486,463** | **₱265,225,175** |
| Non-controlling interests | **38,982,152** | **2,055,410,994** | **(100,794)** |
| | **(₱232,223,477)** | **₱11,911,897,457** | **₱265,124,381** |

| | 2020 | |
|---|---|---|
| | PMIHC | PMPHC |
| Revenue | ₱4,004,073,574 | ₱510,471,046 |
| Cost of services | (3,348,636,237) | (124,523,322) |
| Gross profit | 1,303,437,337 | 385,947,724 |
| General and administrative expense | (299,143,284) | (400,179,353) |
| Other loss – net | (40,631,463) | 253,282,209 |
| Income (loss) before income tax | 267,162,598 | 239,050,580 |
| Income tax provision (benefit) | 79,554,135 | (183,868) |
| Net income (loss) | 186,193,755 | 239,234,448 |
| Other comprehensive income | – | (576,852,916) |
| Total comprehensive income | ₱186,193,755 | (₱337,618,468) |

| | 2020 PMIHC | 2020 PMPHC |
|---|---|---|
| Attributable to: | | |
| Equity holders of the Parent Company | ₱99,250,940 | (₱337,452,699) |
| Non-controlling interests | 86,942,815 | (165,769) |
| | ₱186,193,755 | (₱337,618,468) |

| | 2019 PMIHC | 2018 PMIHC |
|---|---|---|
| Revenue | ₱2,572,163,652 | ₱1,179,523,952 |
| Cost of services | (2,094,149,049) | 1,040,226,931 |
| Gross profit | 478,014,603 | 139,297,021 |
| General and administrative expense | (304,730,728) | (228,854,817) |
| Other loss - net | (11,204,440) | (863,630) |
| Income (loss) before income tax | 162,079,435 | (90,421,426) |
| Income tax provision (benefit) | 61,038,187 | (24,769,316) |
| Net income (loss) | 101,041,248 | (65,652,110) |
| Other comprehensive income | – | (25,870,049) |
| Total comprehensive income | (₱101,041,248) | (₱39,782,061) |
| Attributable to: | | |
| Equity holders of the Parent Company | (₱101,041,248) | (₱11,901,133) |
| Non-controlling interests | 57,350,834 | (27,880,928) |
| | (₱101,041,248) | (₱39,782,061) |

Summarized Cash Flow Information:

| | **2021 PII** | **2021 PMIHC** | **2021 PMPHC** |
|---|---|---|---|
| Operating | **(₱1,796,460,030)** | **(₱730,993,107)** | **(₱384,694,339)** |
| Investing | **(2,255,037,607)** | **(543,687,243)** | **(917,900,115)** |
| Financing | **1,130,498,612** | **2,143,214,591** | **1,122,269,463** |
| Effect of foreign exchange rate changes | **(450,146)** | **(209,754)** | **(3,929,787)** |
| Net increase (decrease) in cash and cash equivalents | **(₱2,921,449,170)** | **₱868,324,487** | **(₱184,254,778)** |

| | 2020 PMIHC | 2020 PMPHC |
|---|---|---|
| Operating | (₱730,993,107) | (₱384,694,339) |
| Investing | (543,687,243) | (917,900,115) |
| Financing | 2,143,214,591 | 1,122,269,463 |
| Effect of foreign exchange rate changes | (209,754) | (3,929,787) |
| Net increase (decrease) in cash and cash equivalents | ₱868,324,487 | (₱184,254,778) |

| | 2019 PMIHC | 2018 PMIHC |
|---|---|---|
| Operating | ₱15,599,795 | ₱281,176,413 |
| Investing | (335,175,043) | (140,013,666) |
| Financing | 469,188,712 | 44,179,893 |
| Effect of foreign exchange rate changes | (1,177,532) | (14,665) |
| Net increase in cash and cash equivalents | ₱148,435,932 | ₱163,571,357 |

Dividends to Non-controlling Interest
In 2020, PMBC under PMIHC declared dividends to non-controlling interests amounting to ₱24.0 million.

In 2021, MWCI under PII declared dividends to non-controlling interests amounting to ₱1,407.6 million.

## 6. Cash and Cash Equivalents and Short-term Investments

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Cash on hand and in banks | **₱6,481,291,649** | ₱1,039,504,546 | ₱433,839,810 | ₱143,017,631 |
| Cash equivalents | **9,421,005,215** | 303,761,124 | 252,372,580 | 179,967,963 |
| | **₱15,902,296,865** | ₱1,343,265,670 | ₱686,212,390 | ₱322,985,594 |

Cash in banks earn interest at their prevailing bank deposit rates. Cash equivalents are highly liquid investments with varying periods of up to three (3) months and earn interest at their respective short-term rates.

Short-term investments pertaining to MWCI's time deposits with maturities of more than three (3) months up to one (1) year and earned interest of 0.16% to 1.00% in 2021. As of December 31, 2021, short-term investments amounted to ₱458.5 million.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱48.2 million, ₱2.9 million, ₱7.6 million and ₱0.7 million in 2021, 2020, 2019 and 2018, respectively.

## 7. Trade and Other Receivables

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Trade receivables | **₱2,727,257,218** | ₱354,395,650 | ₱328,038,439 | ₱149,071,480 |
| Concession receivables | **1,308,574,541** | 594,093,793 | – | – |
| Retention receivables | **92,188,236** | 180,021,050 | 189,385,774 | 6,824,747 |
| Receivable from ZCWD | **39,509,823** | – | – | – |
| Advances to officers and employees | **23,400,262** | 473,271 | – | – |
| Interest from banks | **8,149,445** | – | – | – |
| Other receivables | **284,684,840** | 6,468,377 | 6,094,791 | 2,085,635 |
| | **4,483,764,365** | 1,135,452,141 | 523,519,004 | 157,981,862 |
| Less allowance for ECLs | **620,536,464** | 160,405,324 | – | – |
| | **₱3,863,227,901** | ₱975,046,817 | ₱523,519,004 | ₱157,981,862 |

The movement in allowance for doubtful accounts for concession receivables are as follows:

| | **2021** | 2020 |
|---|---|---|
| Balance at beginning of year | **₱160,405,324** | ₱– |
| Provision (see Note 24) | **500,547,561** | 201,701,123 |
| Write-off | **(42,993,085)** | – |
| Reversals (see Note 24) | **(10,489,877)** | – |
| Translation adjustment | **13,066,541** | (41,295,799) |
| Balance at end of year | **₱620,536,464** | ₱160,405,324 |

There is no allowance for doubtful accounts as of and for the years ended December 31, 2019 and 2018.

Trade receivables arising from rendering of construction services to the Group's related parties and third-party customers. These are noninterest-bearing and are generally collected on a 30-day term.

Trade receivables arising from water and used water services rendered to customers, also collectible within thirty (30) days from billing date, follow:

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

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

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

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

Concession receivables are contract assets reclassified to receivables upon billing (see Note 9). These are non-interest bearing and are generally collected on a 30-day term.

Receivable from ZCWD pertains to billed charges for service fees, construction revenue, and performance fees arising from Zamboanga Water's NRWRSA.

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

Interest from banks are accrued interest arising from the Group's cash equivalents and short-term investments.

Retention receivables pertain to the portion of the contract price withheld by the customers as security and shall be released after the guarantee period, usually one year after the completion of the project. The retention serves as security of customers for the discovery of defects and other non-compliance from the specifications indicated.

Other receivables include receivables from associates for advances made to IWP and Saigon Water, for cross-border billings, and for shared facilities.

## 8. Inventories

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Water treatment chemicals - at NRV | **₱216,025,093** | ₱– | ₱– | ₱– |
| Maintenance materials - at NRV | **131,213,239** | – | – | – |
| Water meters and connection supplies - at NRV | **85,889,946** | – | – | – |
| Spare parts - at NRV | **17,564,238** | – | – | – |
| Construction materials - at cost | **51,526,886** | 79,799,038 | 11,271,510 | 8,347,941 |
| | **₱502,219,402** | ₱79,799,038 | ₱11,271,510 | ₱8,347,941 |

The cost of inventories and allowance for obsolescence amounted to ₱513.4 million and ₱11.2 million, respectively, as of December 31, 2021. Loss from inventory obsolescence is presented in "Other expenses" under operating expenses in the consolidated statements of comprehensive income (see Note 24).

Total cost of inventories used and charged to cost of services amounted to ₱1,516.6 million, ₱968.9 million, ₱418.0 million and ₱390.8 million in 2021, 2020, 2019 and 2018 respectively (see Note 23).

## 9. Prepayments and Other Current Assets and Contract Assets

a. Prepayment and other current assets

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Input VAT - net | **₱995,447,660** | ₱29,460,218 | ₱31,215,388 | ₱1,144,100 |
| Prepaid expenses | **816,386,191** | 27,434,072 | 17,652,648 | 10,575,344 |
| Advances to suppliers and contractors | **589,429,519** | 144,909,653 | 23,657,655 | 159,648,012 |
| Creditable withholding tax | **88,853,537** | 17,553,463 | – | 21,486,862 |
| Restricted cash | **40,171,366** | – | – | – |
| Current portion of deferred input VAT | **18,111,969** | 18,215,103 | 8,746,481 | 5,894,812 |
| Advances to officers and employees | **273,075** | 55,481 | 2,167,680 | 227,441 |
| Current portion of security deposits | **–** | 145,063 | 3,727,493 | 3,856,267 |
| Others | **7,952,456** | 13,916,115 | 2,537,397 | 10,000 |
| | **2,556,625,773** | 251,689,168 | 89,704,742 | 202,842,838 |
| Less allowance for impairment loss on input VAT | **–** | 220,134 | 220,134 | 220,134 |
| | **₱2,556,625,773** | ₱251,469,034 | ₱89,484,608 | ₱202,622,704 |

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

Prepaid expenses consist of advance payments for business taxes, regulatory costs, insurance, interest, and employee health care expenses and other employee benefits.

Advances to suppliers, contractors, and deposits pertain to the Group's advance payments for various contractual projects and other advance payments for goods and services that can be recovered within one (1) year.

Restricted cash pertains to funds to be used as deposits for land acquisition within the next financial reporting date.

Creditable withholding taxes will be utilized through application against the Group's future income tax payable.

b. Contract assets

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Contract assets from: | | | | |
| Supervision fees | **₱440,253,955** | ₱– | ₱– | ₱– |
| Pipeworks and integrated used water services | **102,492,770** | – | – | – |
| Bulk water contracts: | | | | |
| MCWD | **186,625,445** | – | – | – |
| TWD | **92,755,188** | – | – | – |
| MWSS | – | 176,305,175 | 20,135,214 | 38,857,132 |
| Construction revenue | **588,470,158** | – | – | – |
| Current portion | **1,410,597,516** | 176,305,175 | 20,135,214 | 38,857,132 |
| Bulk water contracts: | | | | |
| MCWD | **899,444,330** | – | – | – |
| TWD | **770,329,761** | – | – | – |
| CIWD | **9,249,943** | – | – | – |
| MWSS | **3,478,482,689** | 1,651,771,455 | 631,212,552 | – |
| Contract with GCPI | **1,795,083,345** | 1,844,045,919 | 2,380,946,076 | – |
| Noncurrent portion | **6,952,590,068** | 3,495,817,374 | 3,012,158,628 | – |
| | **8,363,187,584** | 3,672,122,549 | 3,032,293,842 | 38,857,132 |
| Less allowance for ECLs (see Note 24) | **13,711,636** | – | – | – |
| | **₱8,349,475,948** | ₱3,672,122,549 | ₱3,032,293,842 | ₱38,857,132 |

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

Contract assets from pipeworks and integrated used water services are initially recognized for revenue earned arising from water and wastewater network related services. These contract assets are reclassified to "Receivables" upon acceptance of and billings to customers of MWTS and MWTV.

Contract assets arising from the Bulk Water Supply Agreement with MCWD and the BWSPA with TWD and CIWD consist of the cost of rehabilitation works.

In 2021, 2020 and 2019, Cebu Water invoked the force majeure clause of its Bulk Water Supply Agreement due to high water turbidity which resulted to intermittent delivery of the required thirty-five (35.00) million liters of water per day to MCWD. As a result, Cebu Water recognized a provision for ECL amounting to ₱9.2 million in 2021 (see Note 24).

In 2020, Tagum Water was not able to meet the contractual obligations under the Bulk Water Sales and Purchase Agreement due to the low yield of the Riverbank Filtration Intake structures and delay in the construction of the artificial recharge structure which resulted to intermittent delivery of the required twenty-six (26) million liters of water per day to TWD. As a result, Tagum Water recognized a provision for ECL amounting to ₱4.6 million in 2021 (see Note 24).

For the WawaJVCo. offtake agreement, the current portion of contract assets represents excess of recognized revenues from contracts with customers determined based on percentage-of-completion against amounts billed to customers. Whereas, the noncurrent potion represents the discounted value of minimum volume multiplied by the fixed tariff rate determined at the inception of the contract. As at December 31, 2021 and 2020, ₱356.6 million consists of the fair value of WawaJVCo.'s service concession obligation at the contract inception date relative to the annual right to use fee for the 80 MLD of raw water from the Tayabasan River for the 30-year concession period.

Under the contract, the Group's future minimum undiscounted guaranteed cash payment as of December 31, 2021 are as follows:

| | |
|---|---|
| 2022 | ₱284,700,000 |
| 2023 | 592,176,000 |
| 2024 | 615,863,040 |
| 2025 | 4,147,221,711 |
| 2026 and thereafter | 168,852,293,327 |
| | ₱174,492,254,078 |

Contract asset pertaining to PMPHC's offtake agreement were partially reclassified to "Concession receivable" starting February 18, 2020 when the commercial operation of the power plant commenced and monthly billings for the supplied power were billed to GCPI. The carrying value of the concession receivable and contract assets is computed based on the discounted cash flow method using an EIR.

Under the contract, the Group's future minimum undiscounted guaranteed cash payment as of December 31, 2021 are as follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| 1 year | **₱801,222,356** | ₱801,222,356 | ₱711,430,195 | ₱711,430,195 |
| more than 1 years to 2 years | **801,222,356** | 801,222,356 | 801,222,356 | 711,430,195 |
| more than 2 years to 3 years | **801,222,356** | 801,222,356 | 801,222,356 | 801,222,356 |
| more than 3 years to 4 years | **801,222,356** | 801,222,356 | 801,222,356 | 801,222,356 |
| more than 4 years | **12,755,173,755** | 13,556,396,111 | 14,357,618,467 | 15,158,840,823 |
| | **₱15,960,063,179** | ₱16,761,285,535 | ₱17,472,715,730 | ₱18,184,145,925 |

The rollforward of Cebu Water, Tagum Water, Ilagan Water, WawaJVCo and PMPHC's contract assets follows (see Note 33):

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Cost | | | |
| Balance at beginning of year | **₱3,495,817,374** | ₱3,012,158,628 | ₱– |
| Addition resulting from business combination (see Note 4) | **1,925,386,164** | – | – |
| Annual royalty fees to MWSS (see Note 10) | – | – | 356,623,614 |
| Development and rehabilitation works | **2,255,912,228** | 1,138,264,490 | 2,706,765,892 |
| Construction revenue | **588,470,159** | – | – |
| Operating revenue (see Note 22) | **493,778,098** | 377,181,611 | – |
| Reclassification to concession receivables | **(1,272,434,366)** | (711,430,195) | – |
| Collections | **(180,009,948)** | – | – |
| Service income | **27,916,622** | – | – |
| Accretion of financing income | **345,158,539** | 270,455,070 | 3,010,566 |
| Translation adjustment | **140,445,990** | (590,812,230) | (54,241,444) |
| Balance at end of year | **7,820,440,860** | 3,495,817,374 | 3,012,158,628 |
| Less allowance for ECL - | | | |
| Balance at end of year/ Provisions during the year (Note 24) | **13,711,636** | – | – |
| Net book value | **₱7,806,729,222** | ₱3,495,817,374 | ₱3,012,158,628 |

The contract assets will be reclassified to "Receivables" when Cebu Water, Tagum Water, and Ilagan Water's performance obligations are completed under its concession arrangements with MCWD, TWD, and CIWD, respectively, and once monthly billings for the supplied power were billed by PMPHC to GCPI.

## 10. Service Concession Asset and Service Concession Obligation

*Service Concession Asset (SCA)*

| | 2021 |
|---|---|
| Cost | |
| Addition resulting from business combination (see Note 4) | ₱109,502,164,528 |
| Additions: | |
| Rehabilitation works | 12,099,837,220 |
| Local component cost | 3,401,187 |
| Balance at end of year | 121,605,402,935 |
| Accumulated amortization | |
| Balance at end of year/Amortization during the year | 1,784,871,644 |
| Net book value | ₱119,820,531,291 |

The Group's SCA as at December 31, 2020, 2019 and 2018 amounted to nil.

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, of Manila Water Company, Inc., Calasiao Water, Boracay Water, Calbayog Water, Clark Water, Obando Water, Bulakan Water, Ilagan Water (septage management), South Luzon Water, Laguna Water, and Aqua Centro (Lambunao Project) pursuant to the Group's concession agreements, JVAs and SMA; the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the concession arrangements, JVAs and SMA, and WawaJVCo.'s service concession obligation at the contract inception date relative to the annual right to use fee for the 80 MLD of raw water from the Tayabasan River for the 30-year concession period. As of December 31, 2021, SCA includes MWCI and subsidiaries' assets under construction amounting to ₱27,680.8 million.

SCA also includes prepaid concession fees which represent the thirty percent (30.00%) ownership of PGL in Laguna Water. These are amortized based on the terms set forth in Laguna Water's concession agreement (see Note 1). As of December 31, 2021, the unamortized portion of prepaid concession fees presented as part of SCA amounted to nil.

Contract assets shown as part of SCA arising from concession agreements consist of the cost of rehabilitation works covered by the respective concession agreements, JVAs and SMAs of the Parent Company, Calasiao Water, Boracay Water, Calbayog Water, Clark Water, Obando Water, Bulakan Water, Ilagan Water, South Luzon Water, Laguna Water, Tagum Water, Cebu Water, and Aqua Centro (Lambunao Project).

Total interest and other borrowing costs capitalized as part of the rehabilitation works amounted to ₱1,881.14 million in 2021. The capitalization rates used ranged from 0.87% to 9.37% in 2021.

As of December 31, 2021, noncash acquisitions of SCA by MWCI and subsidiaries amounted to ₱362.66 million, respectively.

*Service Concession Obligation (SCO)*

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current | **₱626,529,444** | ₱– | ₱– |
| Noncurrent | **8,840,974,693** | 386,434,850 | 366,343,972 |
| | **₱9,467,504,137** | ₱386,434,850 | ₱366,343,972 |

The Group's SCO as at December 31, 2018 amounted to nil.

<u>MWSS Concession Fees</u>
The aggregate concession fees of the MWCI are equal to the sum of the following:

i. 10.0% 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. 10.0% 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. 10.0% of the local component costs and cost overruns related to the UATP;
iv. 100.0% 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 MWCI for continuation;

v. 100.0% of the local component costs and cost overruns related to existing projects;
vi. MWCI's share in the repayment of MWSS loan for the financing of new projects; and
vii. one-half of MWSS annual corporate operating budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II. Total loan facility amounted to $116.6 million with a maturity of twenty (20) years including a five (5)-year grace period. The interest rate is 3.0% per annum.

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

On May 12, 2015, MWSS entered into a MOA with MWCI and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered into a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.3 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, MWCI and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2020, a supplemental MOA was entered into by MWSS with MWCI and Maynilad for the separate loan to be obtained by MWSS to finance the construction of Aqueduct No. 7, which is a new and seventh aqueduct downstream of Ipo Dam from Bigte Basin to Novaliches Portal that will convey the additional output to further strengthen the reliability and adequacy of the water supply system. The loan amounts to US$126.0 million. As stipulated in the MOA, all expenses to be incurred by the Concessionaires in connection with the Angat Water Transmission Improvement Project and Aqueduct No. 7, including the amortization payment as well as the local counterpart funds, shall be part of the Concessionaire's respective business plans which shall be considered in the next rate rebasing exercise.

In 2016, MWCI paid MWSS ₱500.00 million as compensation for additional water allocation in the Angat reservoir.

In 2016, MWSS entered into a MOA with the Parent Company and Maynilad which was subsequently amended in 2018 for the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP aims to develop a new water source in order to meet the increasing water demand by constructing a dam for MWSS service area's domestic water supply.

To partially finance the NCWS-KDP, MWSS entered into a Preferential Buyer's Credit Loan Agreement with The Export-Import Bank of China in 2018 amounting to US$211.2 million with a maturity of twenty (20) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

The schedule of undiscounted future concession fee payments follows:

| Year | Foreign Currency-Denominated Loans (Translated to US$) | Peso Loans/ Project Local Support | Total Peso Equivalent* |
|---|---|---|---|
| 2022 | $7,062,305 | ₱395,714,907 | ₱755,885,387 |
| 2023 | 8,673,190 | 395,714,907 | 838,038,911 |
| 2024 | 8,510,585 | 395,714,907 | 829,746,236 |
| 2025 | 8,089,349 | 395,714,907 | 808,263,620 |
| 2026 | 7,644,432 | 395,714,906 | 785,573,279 |
| 2027 onwards | 67,071,931 | 3,957,149,068 | 7,377,750,467 |
| | $107,051,792 | ₱5,935,723,602 | ₱11,395,257,900 |

**Peso equivalent is translated using the closing rate as of December 31, 2021 amounting to ₱50.9990 to US$1.*

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

<u>TIEZA Concession Fees</u>
The aggregate concession fees pursuant to Boracay Water's concession agreement with TIEZA is equal to the sum of the following:
i. servicing the aggregate Peso equivalent of all liabilities of BWSS as of commencement date;
ii. 5.0% of the monthly gross revenue of Boracay Water, inclusive of all applicable taxes which are for the account of Boracay Water; and
iii. payment of annual operating budget of the TIEZA-RO starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, Boracay Water shall pay ₱20.0 million, subject to annual CPI adjustments.

<u>CCWD Revenue Share</u>
Under Calbayog Water's JVA with CCWD, Calbayog Water is required to pay, on a monthly basis, an annual revenue share, amounting to ₱18.0 million subject to an increase of ₱1.00 million every five (5) years, conditioned upon the approval by the CCWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱18.0 million |
| Years 6 to 10 | ₱19.0 million |
| Years 11 to 25 | ₱20.0 million |
| Years 16 to 20 | ₱21.0 million |
| Years 21 to 25 | ₱22.0 million |

Subject to the provision of the JVA on EPA, Calbayog Water shall increase the revenue share due to CCWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

<u>CDC Concession Fees</u>
The aggregate concession fees pursuant to Clark Water's concession agreement with CDC is equal to the sum of the following:
i. annual franchise fee of ₱1.5 million; and
ii. semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

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

OWD Concession Fees

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

i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD (which includes OWD's loan with LWUA) and 2.00% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer impose penalties from OWD.

As of December 31, 2021, concession fees recognized as part of SCA arising from the concession agreement with OWD amounted to ₱412.3 million. As of December 31, 2021, concession fees recognized as part of SCO arising from the concession agreement with OWD amounted to ₱399.2 million.

BuWD Concession Fees

The aggregate concession fee pursuant to Bulakan Water's concession agreement with BuWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the BuWD; and
ii. additional concession fees composed of:
    - 2.00% of the gross monthly water sales of Bulakan Water,
    - one-time expenditures and payables applicable only for Year 1 of the concession agreement, and
    - an amount equivalent to the monthly consumption of BuWD under a bulk water supply agreement with Luzon Clean Water Development Corporation, including any minimum guaranteed volume consumption.

Any loss or reduction in profit for any given year as a result of the operation of the facilities in the service area of BuWD shall not in any way affect or reduce the payment of the base concession fee.

TnWD Fees

Under South Luzon Water's JVA with TnWD, South Luzon Water is required to pay, on an annual basis, a revenue share, amounting to ₱17.5 million subject to an increase of ₱1.00 million every five (5) years, conditioned upon the approval by the TnWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱17.5 million |
| Years 6 to 10 | ₱18.5 million |
| Years 11 to 25 | ₱19.5 million |
| Years 16 to 20 | ₱20.5 million |
| Years 21 to 25 | ₱21.5 million |

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 | 4.0% |
| Years 6 to 25 | 3.0% |

Seventy percent (70.00%) of the concession fees shall be applied against any advances made by Laguna Water to PGL. The remaining thirty percent (30.00%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by Laguna Water, starting on the first operational period, which begins upon the expiration of the transition period.

PAGWAD Revenue Share
Under Laguna Water's JVA with PAGWAD, Laguna Water is required to pay, on a calendar year basis, an annual revenue share, amounting to the higher of:

i. ₱10.5 million for a twelve (12)-month period or the proportionate amount for those years with less than twelve (12) months (the "base revenue share"); or
ii. seven percent (7.00%) of the annual gross operating revenues for the immediately preceding year based on the audited financial statements (the "variable revenue share").

The revenue share shall be payable by Laguna Water in advance at the start of the relevant year. The base revenue share shall be payable within fifteen (15) calendar days from the start of the relevant year. In the event the variable revenue share is higher than the base revenue share, the difference between the variable revenue share and the base revenue share shall be payable to PAGWAD within fifteen (15) calendar days after the approval of Laguna Water's audited financial statements.

Subject to the provision of the JVA on EPA, Laguna Water shall increase the revenue share due to PAGWAD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the period of the JVA.

On July 19, 2021 and February 20, 2020, the annual revenue share was increased to ₱12.0 million and ₱11.5 million, respectively, to provide additional provision for government mandated salary increases as stated in Section 9.3.1 of its JVA.

Municipalities of Sta. Barbara, San Fabian, and Manaoag Fees
Under North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag, North Luzon Water is required to pay a royalty amounting to:

| Municipality | Percentage of Gross Sales* |
|---|---|
| Sta. Barbara | Not exceeding 0.6% |
| San Fabian | Not exceeding 0.5% |
| Manaoag | Not exceeding 0.5% |

**Gross sales from water supply or distribution less VAT*

LWD Fees
Under Aqua Centro's JVA with LWD, Aqua Centro is required to pay, on a monthly basis, an annual revenue share, amounting to ₱15.8 million, conditioned upon the approval by the LWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share shall no longer be guaranteed and shall be subject to adjustment by mutual agreement and discussion of Aqua Centro and LWD if the tariff adjustment is not secured or obtained from LWUA. The revenue share for the duration of the appointment period follows:

| Appointment Period | Revenue Share |
|---|---|
| Years 1 to 5 | ₱15.8 million |
| Years 6 to 10 | ₱17.5 million |
| Years 11 to 25 | ₱17.5 million |
| Years 16 to 20 | ₱17.5 million |
| Years 21 to 25 | ₱20.7 million |
| Years 26 to 30 | ₱25.8 million |
| Years 31 to 35 | ₱35.3 million |

Subject to the provision of the JVA on EPA, Aqua Centro shall increase the revenue share due to LWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

WawaJVCo.'s Annual Royalty Fees
WawaJVCo. recognized at the inception of the contract a service concession obligation equal to the present value of the annual royalty fees to MWSS for the right-to-use the Tayabasan River. MWSS shall be entitled to receive a fixed annual royalty fee amounting to ₱26.1 million.

*Performance Security*
On August 7, 2019, the Group acquired a Domestic Standby Letter of Credit from BDO Unibank, Inc. amounting to ₱23.0 million assigning MWCI as the beneficiary with an expiry date of December 31, 2025. On January 24, 2020, the Group increased the Domestic Standby Letter of Credit by an additional amount of ₱23.0 million.

The letter of credit was issued to secure the obligations of the Group pursuant to the Offtake Agreement with MWCI and MWSS. As at December 31, 2021, 2020 and 2019, the performance security amounting to ₱46.0 million and ₱23.0 million, respectively, is presented as part of "Other noncurrent assets" in the consolidated statements of financial position (see Note 15).

The performance security will be increased further to ₱150.0 million after full commercial operations date, which shall not be later than December 31, 2025 and shall be maintained at all times, throughout the term of the Offtake Agreement.

The Group's interest expense on its service concession obligations amounted to ₱382.3 million, ₱20.1 million, ₱9.7 million and nil in 2021, 2020, 2019 and 2018, respectively (see Note 24).

## 11. **Investments in Associates**

| | 2021 |
|---|---|
| Acquired cost | ₱10,947,377,468 |
| Accumulated equity in net earnings | (147,860,679) |
| Cumulative translation adjustments | 652,929,148 |
| | ₱11,452,445,937 |

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

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

On October 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 (equivalent to 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.

MWCI's acquisition cost of the investment amounted to ₱1,788.00 million (VND857.50 billion). The investments in associate account includes a notional goodwill amounting to ₱1,455.51 million (VND698.04 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 year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱155,901,844 |
| Noncurrent assets | 3,722,525,351 |
| Current liabilities | 449,061,340 |
| Noncurrent liabilities | 226,209,213 |
| Revenue | 897,082,781 |
| Net income | 562,918,104 |

*The conversion rates used was ₱0.0022 to VND1.00 as of December 31, 2021.*

The share of the Group in the net income of Thu Duc Water for the year ended December 31, 2021 amounted to ₱155.91 million.

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

On May 17, 2012, MWCI, through KDWH, entered into a sale and purchase agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The payment for the shares was done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent, for a total purchase price of ₱1,659.89 million.

As of December 31, 2012, considerations paid by MWCI for its investment in Kenh Dong Water amounted to ₱1,571.92 million (VND785.24 billion). 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 ₱1,373.57 million (VND650.85) billion.

The financial information of Kenh Dong Water as of and for the year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱401,733,323 |
| Noncurrent assets | 2,396,171,907 |
| Current liabilities | 59,354,923 |
| Noncurrent liabilities | 60,850,233 |
| Revenue | 654,546,245 |
| Net income | 349,474,774 |

*The conversion rates used was ₱0.0022 to VND1.00 as of December 31, 2021.*

The share of the Group in the net income of Kenh Dong Water for the year ended December 31, 2021 amounted to ₱92.36 million.

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

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

On October 8, 2013, MWCI, 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 ₱293.65 million (VND139.51 billion) arising from the acquisition of shares of stock in Saigon Water by the Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water for ₱229.16 million (VND103.87 billion), which increased MWSAH's holding in Saigon Water's outstanding capital stock from 31.47% to 37.99%. The notional goodwill arising from the additional subscription amounted to ₱42.05 million (VND19.06 billion).

No impairment loss was recognized in 2021.

The financial information of Saigon Water as of and for the year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱256,189,029 |
| Noncurrent assets | 3,676,562,180 |
| Current liabilities | 1,033,425,310 |
| Noncurrent liabilities | 1,165,015,858 |
| Revenue | 613,462,756 |
| Net loss | (160,006,705) |

*The conversion rates used was ₱0.0022 to VND1.00 as of December 31, 2021.*

The share of the Group in the consolidated net loss of Saigon Water for the year ended December 31, 2021 amounted to ₱64.76 million. The closing share price of Saigon Water as of December 31, 2021 was VND16,250 per share.

*Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)*
Cu Chi Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam. As of December 31, 2021, Cu Chi has no commercial operations.

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water in the total amount of ₱318.16 million (VND154.35 billion). Pursuant to the Capital Transfer Agreement, Saigon Water granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. On October 29, 2021, the Capital Transfer Agreement has been extended for one (1) year. As of December 31, 2021, no trigger event has occurred and the value of the put option was determined to be nil.

In 2020, MWSAH fully impaired its investment in Cu Chi Water amounting to ₱336.67 million due to the current and prospective financial performance and condition of Cu Chi Water.

The financial information of Cu Chi Water as of and for the year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱104,859 |
| Noncurrent assets | 1,407,735,887 |
| Current liabilities | 234,596 |

*The conversion rates used was ₱0.0022 to VND1.00 as of December 31, 2021.*

*PT. Triguna Rapindo Mandiri (PT STU)*
PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia. PT STU is a bulk water supply company servicing Perusahaan Daerah Air Minum (PDAM) Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.50 million liters per day.

On March 6, 2018, PTMWI signed a SPA with PT. Triguna Rapindo Mandiri to acquire 4,478 ordinary shares in PT STU to own 20.00% of its outstanding capital stock.

The financial information of PT STU as of and for the year ended December 31, 2021:

| | 2021 |
|---|---|
| Current assets | ₱62,758,176 |
| Noncurrent assets | 141,219,958 |
| Current liabilities | 6,560,034 |
| Revenue | 88,841,528 |
| Net income | 15,130,315 |

*The conversion rates used was ₱0.00364 to IDR1.00 as of December 31, 2021.*

MWCI's acquisition cost of the investment amounted to ₱37.00 million (IDR10.00 billion). The investment in associate account includes a notional goodwill amounting to ₱1.01 million (IDR295.46 million) arising from the acquisition of shares of stock in PT STU. The share in the net identifiable assets of PT STU on the date of acquisition amounted to ₱35.91 million.

The share of the Group in the net income (loss) of STU for the year ended December 31, 2021amounted to ₱1.58 million.

<u>*Eastern Water Resources Development and Management Public Company Limite (East Water)*</u>
East Water is incorporated in Thailand with principal place of business in Bangkok, Thailand. East Water is listed in the Stock Exchange of Thailand.

On February 19, 2018, MWCI signed a SPA with Electricity Generating Public Company Limited (EGCO) to acquire EGCO's 18.72% equity in East Water. East Water is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 14, 2018, MWTC acquired 311.44 million ordinary shares in East Water representing 18.72% equity of East Water.

The financial information of East Water as of and for the year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱1,040,481,650 |
| Noncurrent assets | 56,138,786,968 |
| Current liabilities | 4,415,645,975 |
| Noncurrent liabilities | 18,010,456,003 |
| Revenue | 5,579,666,018 |
| Net income | 843,262,095 |
| Other comprehensive loss | (5,214,841) |

*The conversion rates used was ₱1.5277 to THB1.00 as of December 31, 2021.*

MWCI's acquisition cost of the investment amounted to ₱8,834.04 million (THB5.29 billion). As of December 31, 2021, the investment in associate account includes a notional goodwill amounting to ₱1,298.10 million (THB 811.30 million).

The share of the Group in the net income (loss), after fair value adjustments of East Water for the year ended December 31, 2021 amounted to ₱57.30 million. The closing share price of East Water as of December 31, 2021 was THB9.30 per share.

*IWP*
IWP is incorporated in Saudi Arabia with principal place of business in the city of Madinah, Kingdom of Saudi Arabia. IWP is a mixed capital limited liability company incorporated under the laws of the Kingdom of Saudi Arabia by Saur Saudi Arabia Ltd., Miahona Company, and MWAP with equity shareholdings of 40.00%, 40.00%, and 20.00%, respectively.

The financial information of IWP as of and for the year ended December 31, 2021 follows:

| | 2021 |
|---|---|
| Current assets | ₱619,349,328 |
| Noncurrent assets | 5,659,914 |
| Current liabilities | 425,951,211 |
| Noncurrent liabilities | 62,250,517 |
| Revenue | 476,039,353 |
| Net income | 140,278,233 |

*The conversion rate used was ₱13.60 to SAR1.00 as of December 31, 2021.*

The share of the Group in the net income of IWP for the year ended December 31, 2021 amounted to ₱28.05 million.

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

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| Associate | Net Assets of Associate* | Proportionate Ownership Interest | Share in Net Identifiable Assets | Notional Goodwill (Impairment) | Fair value adjustment** | Carrying Values |
| Thu Duc Water | ₱3,203,156,642 | 49.00% | ₱1,569,546,755 | ₱1,559,593,006 | ₱– | ₱3,129,139,761 |
| Kenh Dong Water | 2,677,700,074 | 47.35% | 1,267,890,985 | 1,454,158,716 | – | 2,722,049,701 |
| Saigon Water | 1,734,310,041 | 37.99% | 658,864,385 | 213,116,345 | – | 871,980,730 |
| Cu Chi Water | 1,407,606,150 | 24.50% | 344,863,507 | (344,863,507) | – | – |
| PT STU | 197,418,100 | 20.00% | 39,483,620 | 1,055,355 | – | 40,538,975 |
| East Water | 34,753,166,640 | 18.72% | 6,505,792,795 | 1,239,422,085 | (3,083,839,613) | 4,661,375,267 |
| IWP | 136,807,516 | 20.00% | 27,361,503 | – | – | 27,361,503 |
| Total | ₱44,110,165,163 | | ₱10,413,803,550 | ₱4,122,482,000 | (₱3,083,839,613) | ₱11,452,445,937 |

**Attributable to common shareholders.*
***Fair value adjustment was made to obtain the fair value of MWCI's net assets at acquisition date.*

The rollforward of acquisition cost follows:

| | 2021 |
|---|---|
| Acquired from business combination (see Note 4) | ₱10,946,096,666 |
| Additions | 1,280,802 |
| Balance at end of year | ₱10,947,377,468 |

The rollforward of accumulated equity in net earnings follow:

| | 2021 |
|---|---|
| Equity in net earnings during the year | ₱270,439,725 |
| Dividend income during the year | (418,300,404) |
| Balance at end of year | (₱147,860,679) |

Share in net income per associate from acquisition date to December 31, 2021 is as follows:

| Associate | Share in net income (loss) *(in millions)* |
|---|---|
| Thu Duc Water | ₱155.91 |
| Kenh Dong Water | 92.36 |
| Saigon Water | (64.76) |
| PT STU | 1.58 |
| East Water | 57.30 |
| IWP | 28.06 |
| Total | ₱270.44 |

12. **Financial Asset at FVOCI**

As at December 31, 2021, this account represents the Group's investment in unlisted corporate preferred shares of Solar Philippines Tarlac Corporation (SPTC) and unlisted preferred shares of Wastefuel Global LLC. As at December 31, 2020, this account represents the Group's investment in unlisted corporate preferred shares of SPTC and listed shares of MWCI and as follows:

| | **2021** | 2020 |
|---|---|---|
| Quoted shares | **₱–** | ₱799,000,000 |
| Unquoted shares | **1,617,040,000** | 1,086,168,729 |
| | **₱1,617,040,000** | ₱1,885,168,729 |

| | **2021** | 2020 |
|---|---|---|
| Beginning balance | **₱1,885,168,729** | ₱– |
| Derecognition due to step-acquisition (see Note 4) | **(709,000,000)** | – |
| Additions | **596,140,000** | 1,525,052,425 |
| Unrealized gain (loss) on fair value changes | **(155,268,729)** | 360,116,304 |
| | **₱1,617,040,000** | ₱1,885,168,729 |

MWCI
In April 2020, TWCHI purchased from the stock market 50.0 million common shares, representing less than 1% of MWCI's outstanding capital stock amounting to ₱525.1 million

On June 3, 2021, PIHI became the intermediate parent of MWCI (see Notes 1 and 4). The investment in MWCI as financial asset at FVOCI was derecognized as a result of the step-acquisition. The carrying amount of the investment amounted to nil and ₱799.0 million as of December 31, 2021 and 2020 respectively.

Wastefuel Global LLC
On February 1, 2021, PIHI purchased and subscribed 2,000,000 Class A units with a total purchase price of $2.0 million from Wastefuel Global, LLC, a newly-incorporated entity in 2021. The investment balance amounted to ₱96.1 million as at December 31, 2021.

SPTC
Investment in unquoted shares of stock represent unlisted corporate preferred shares in SPTC. On June 3, 2020, PMPHC entered into an investment agreement with SPTC for a 150MW solar power plant in Concepcion, Tarlac. The Group paid ₱535.0 million, ₱465.0 million and ₱500.0 million on

July 6, 2020, August 14, 2020, and January 15, 2021, respectively, for the three (3) tranches of 1.5 billion preferred shares investment

The Group determined the fair value of the non-quoted equity investments using the DCF method. Under the DCF method, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*Valuation inputs and assumptions:*

| Inputs | Assumptions |
|---|---|
| Risk-free rate | Philippine peso (₱) risk-free rate matched to maturity as of valuation date |
| Dividend | Fixed rate of 12% per annum on its issue price and cumulative |
| Implied credit spread | 6.88% |

No dividend income was earned in 2021 and 2020. The carry amount of investment amounted to ₱1,520.9 million and ₱1,086.2 million as of December 31, 2021 and 2020, respectively.

## 13. Property, Plant and Equipment

| 2021 | Land | Plant and Technical Equipment | Office Furniture and Equipment | Transportation Equipment (see Note 18) | Building and Leasehold Improvements | Construction-in-Progress | Software | Right-of-use Assets (ROU) (see Note 18) | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| Balance at beginning of year | ₱2,447,934 | ₱561,313,680 | ₱56,236,730 | ₱32,866,105 | ₱1,090,796 | ₱– | ₱6,663,640 | ₱90,124,867 | ₱744,080,112 |
| Additions resulting from business combination (see Note 4) | 528,608,550 | 2,768,190,492 | 120,634,856 | 710,518,724 | 85,747,005 | 1,945,063,879 | 42,116,508 | 402,425,867 | 6,603,305,881 |
| Additions | 33,506,247 | 529,403,351 | 108,235,213 | 80,406,233 | 13,722,196 | 184,221,920 | 27,371,737 | 130,506,948 | 1,107,373,845 |
| Lease modification | – | – | – | – | – | – | – | (7,817,571) | (7,817,571) |
| Transfers | – | 743,399,866 | 6,286 | – | 3,812,763 | (745,076,455) | – | – | 2,142,460 |
| Disposals | – | (85,274,760) | (422,678) | (80,266,179) | – | – | – | – | (165,963,617) |
| Retirement | – | (238,187) | – | – | (159,594) | – | – | – | (397,781) |
| Balance at end of year | 564,562,731 | 4,516,794,442 | 284,690,407 | 743,524,883 | 104,213,165 | 1,384,209,344 | 76,151,885 | 615,240,111 | 8,282,723,329 |
| Accumulated Depreciation: | | | | | | | | | |
| Balance at beginning of year | – | 136,021,154 | 33,909,023 | 11,326,516 | 33,707 | – | 5,716,448 | 47,169,223 | 234,176,071 |
| Depreciation (see Notes 18, 23 and 24) | – | 245,678,146 | 83,608,536 | 131,535,589 | 22,949,348 | – | 13,753,582 | 108,799,992 | 606,325,193 |
| Disposals | – | (13,123,672) | (272,621) | (5,878,636) | – | – | – | – | (19,274,929) |
| Retirement | – | (238,187) | – | – | (159,594) | – | – | – | (397,781) |
| Balance at end of year | – | 368,337,441 | 117,244,938 | 136,983,469 | 22,823,461 | – | 19,470,030 | 155,969,215 | 820,828,554 |
| | ₱564,562,731 | ₱4,148,457,002 | ₱167,445,469 | ₱606,541,414 | ₱81,389,704 | ₱1,384,209,344 | ₱56,681,855 | ₱459,270,896 | ₱7,468,558,415 |

| 2020 | Land | Plant and Technical Equipment | Office Furniture and Equipment | Building and Leasehold Improvement | Transportation Equipment (see Note 18) | Software | Right-of-use Assets (ROU) (see Note 18) | Total |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| Balance at beginning of year | ₱– | ₱345,800,598 | ₱37,382,724 | ₱49,553 | ₱14,039,940 | ₱5,701,051 | ₱90,124,867 | ₱493,098,733 |
| Additions | 2,447,934 | 215,513,082 | 18,854,006 | 1,041,243 | 18,826,165 | 962,589 | – | 257,645,019 |
| Balance at end of year | 2,447,934 | 561,313,680 | 56,236,730 | 1,090,796 | 32,866,105 | 6,663,640 | 90,124,867 | 750,743,752 |
| Accumulated Depreciation: | | | | | | | | |
| Balance at beginning of year | – | 63,446,528 | 17,818,230 | 1,239 | 3,157,779 | 5,099,720 | 22,972,125 | 112,495,621 |
| Depreciation (Notes 18, 23 and 24) | – | 72,574,626 | 16,095,666 | 32,468 | 8,168,737 | 616,728 | 24,197,098 | 121,685,323 |
| Translation adjustment | – | – | (4,873) | – | – | – | – | (4,873) |
| Balance at end of year | – | 136,021,154 | 33,909,023 | 33,707 | 11,326,516 | 5,716,448 | 47,169,223 | 234,176,071 |
| | ₱2,447,934 | ₱425,292,526 | ₱22,327,707 | ₱1,057,089 | ₱21,539,589 | ₱947,192 | ₱42,955,644 | ₱516,567,681 |

| 2019 | Plant and Technical Equipment | Office Furniture and Equipment | Building and Leasehold Improvement | Transportation Equipment (see Note 18) | Software | Right-of-use Assets (see Note 18) | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Balance at beginning of year | ₱274,883,742 | ₱20,017,384 | ₱– | ₱3,701,593 | ₱5,535,872 | ₱– | ₱304,138,591 |
| Effect of adoption PFRS 16 (see Note 18) | – | – | – | – | – | 10,899,597 | 10,899,597 |
| Additions | 70,916,856 | 17,365,340 | 49,553 | 10,338,347 | 165,179 | 79,225,270 | 178,060,545 |
| Balance at end of year | 345,800,598 | 37,382,724 | 49,553 | 14,039,940 | 5,701,051 | 90,124,867 | 493,098,733 |
| Accumulated Depreciation: | | | | | | | |
| Balance at beginning of year | 17,619,541 | 5,863,261 | – | 77,850 | 1,602,761 | – | 25,163,413 |
| Depreciation (see Notes 18, 23 and 24) | 45,826,987 | 11,954,969 | 1,239 | 3,079,929 | 3,496,959 | 22,972,125 | 87,332,208 |
| Balance at end of year | 63,446,528 | 17,818,230 | 1,239 | 3,157,779 | 5,099,720 | 22,972,125 | 112,495,621 |
| | ₱282,354,070 | ₱19,564,494 | ₱48,314 | ₱10,882,161 | ₱601,331 | ₱67,152,742 | ₱380,603,112 |

| 2018 | Plant and Technical Equipment | Office Furniture and Equipment | Transportation Equipment (see Note 18) | Software | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balance at beginning of year | ₱– | ₱8,385,358 | ₱– | ₱430,782 | ₱8,816,140 |
| Additions | 274,883,742 | 11,632,026 | 3,701,593 | 5,105,090 | 295,322,451 |
| Balance at end of year | 274,883,742 | 20,017,384 | 3,701,593 | 5,535,872 | 304,138,591 |
| Accumulated Depreciation: | | | | | |
| Balance at beginning of year | – | 1,062,413 | – | 11,966 | 1,074,379 |
| Depreciation (see Notes 18, 23 and 24) | 17,619,541 | 4,800,848 | 77,850 | 1,590,795 | 24,089,034 |
| Balance at end of year | 17,619,541 | 5,863,261 | 77,850 | 1,602,761 | 25,163,413 |
| | ₱257,264,201 | ₱14,154,123 | ₱3,623,743 | ₱3,933,111 | ₱278,975,178 |

## 14. **Project Development Cost**

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Chico Hydropower Project | **₱104,649,206** | ₱104,649,206 | ₱104,649,206 | ₱100,000,000 |
| Ahunan Hydropower Project | **107,852,882** | 33,576,176 | − | − |
| Wastefuel Project | **10,393,343** | − | − | − |
| Umm Qasr Power Plant Project | − | − | − | 314,391,872 |
| Wawa Water Project | − | − | − | 100,000,000 |
| | **₱222,895,431** | ₱138,225,382 | ₱104,649,206 | ₱514,391,872 |

<u>Chico Hydropower Project</u>
This pertains to the payments to San Lorenzo Ruiz Piat Energy and Water, Inc. (SLRPEWI) as part of the total consideration for the assignment of the Chico Hydropower Service Contract (CHSC) and Chico Hydropower Project (CHP) to ChicoJVCo in accordance with the Joint Venture Agreement (JVA) entered into by the Parent Company and SLRPEWI for the development of CHP (see Note 1).

<u>Ahunan Hydropower Project</u>
This is composed of amounts paid to various service providers for the pre-development of 1,400 MW pumped-storage hydropower project in Laguna. Out of the total amount capitalized, ₱27.9 million pertains to amount paid to JBD Management and Consulting Services, Inc. for the achievement of milestone in relation to incorporation of the Company and issuance of Certificate of Non-Overlap by the National Commission on Indigenous People. API capitalized additional ₱74.3 million in 2021 for the project.

<u>Wastefuel Project</u>
This is mainly composed of amounts paid for waste analysis and characterization study as part of the feasibility study for the Wastefuel project. Wastefuel Philippines, Inc. capitalized ₱10.4 million in 2021 for the project.

<u>Umm Qasr Power Plant Project</u>
This includes advances for the development of the Project. The construction of the Project commenced in 2019 and completed in 2020 (see Note 29).

<u>Wawa Water Project (WWP)</u>
Project development costs also include payments to SLRBDGI, in connection with the development of the WWP. The construction of the Project commenced in 2019 and expected to be completed in 2022.

## 15. **Goodwill, Intangible Assets and Other Noncurrent Assets**

<u>Goodwill and other intangible assets</u>

| | 2021 |
|---|---|
| Goodwill (see Note 4) | ₱98,842,949 |
| Customer relationship (see Note 4) | 1,779,321,881 |
| Water rights (see Note 4) | 182,247,140 |
| Others | 930,000 |
| | ₱2,061,341,970 |

Customer relationship
Presented below is the rollforward analysis of customer relationship as at December 31, 2021:

| | 2021 |
|---|---|
| Cost acquired from business combination (see Note 4) | ₱1,783,396,847 |
| Accumulated amortization/Amortization during the year | (4,074,966) |
| | ₱1,779,321,881 |

The fair value of customer relationship amounting to ₱1,783.4 million resulting from the acquisition of SP Tanauan on December 13, 2021 has been estimated using the income approach and DCF method, specifically the With-and-Without method. The fair value measurements are based on significant inputs that are not observable in the market which includes a discount rate of 13.2% and revenue growth rate of 4.8%.

The remaining life of the customer relationship is 19.95 years as of December 31, 2021.

Water rights
Water rights pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River, Agno River, and Cagayan River.

On August 22, 2012, the NWRB approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows Cebu Water to use for its project. As of December 31, 2021, Cebu Water's water right amounted to ₱45.00 million.

In 2020, MWPVI incurred costs to acquire conditional water permits from the NWRB amounting to ₱137.25 million (nil in 2021). A conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring device and water distribution system, and environmental compliance certification by the DENR, among others. On April 23, 2018, the NWRB granted MWPVI the permit to use the water from the Pampanga River and on September 24, 2018, granted permits to use the water from the Abacan River and Pasig-Potrero River which superseded the conditional water permits granted to MWPVI on April 20 and September 20, 2017, respectively. On August 27, 2019, the NWRB granted MWPVI the permit to use water from the Agno River which superseded the conditional water permit granted on March 21, 2018. As of December 31, 2021, all requirements for the conversion of the conditional water permit in Cagayan River were submitted to NWRB.

Other noncurrent assets

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Advances to contractors and suppliers | **₱5,430,980,000** | ₱14,478,597 | ₱80,408,535 | ₱8,707,151 |
| Deposit for land acquisition | **2,450,297,664** | 6,952,310 | 7,885,844 | 1,361,889 |
| Deferred input VAT | **665,653,137** | 74,063,939 | 32,508,890 | 53,061,347 |
| Deferred FCDA | **528,692,315** | – | – | – |
| Derivative assets | **386,711,746** | – | – | – |
| Prepaid debt issue costs (see Note 17) | **299,265,590** | 264,708,377 | – | – |

*(Forward)*

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Escrow fund | **₱225,000,000** | ₱– | ₱– | ₱– |
| Restricted cash (see Note 17) | **225,403,315** | 78,206,535 | 23,000,000 | – |
| Receivable from Ayala Multi-Purpose Cooperative (AMPC) | **37,554,385** | – | – | – |
| Deposit for future investment | **25,000,000** | – | – | – |
| Retention receivables from: | | | | – |
| Related parties (see Note 28) | **66,377,324** | 47,261,394 | – | – |
| Third-party customers | **45,110,610** | 14,549,733 | – | – |
| Others | **68,028,958** | 2,714,003 | 2,241,283 | – |
| | **₱10,454,075,044** | ₱502,934,888 | ₱146,044,552 | ₱63,130,387 |

Advances to contractors and suppliers are advance payments for the construction and development of the Group's property and equipment and service concession assets. These are being recouped for more than one (1) year against progress billings based on contract provisions.

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 revaluations (see Note 2).

Deposits pertain to those made for land acquisition, for leased properties, for environmental guaranty funds, and for guaranty deposits with Manila Electric Company for electric connections and its related deferred charges.

Derivative assets consist of principal only swap and currency option agreements used to hedge the MWCI's exposure to foreign currency risk on its long-term debt.

Prepaid debt issue costs primarily pertain to documentary stamp tax and other fees on the undrawn balance of the loan facility. Such amount will be presented in the consolidated statement of financial position as reduction from long-term debt upon drawdown and will be amortized over the term of the loan.

Escrow fund was established by Laguna Water to facilitate the repurchase of its redeemable preferred shares to comply with the pertinent rules of the SEC.

Restricted cash pertains to the debt collateral accounts required for the loans (see Note 17).

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

Noncurrent portion of retention receivables pertain to portion of progress billings withheld by the customers. These are expected to be released after period allotted for the rectification of defects and other noncompliance from the specifications indicated. Retention related to the projects will be released one year after completion.

Other noncurrent assets include Cebu Water's advances to the Carmen Development Fund for its permit to extract water at the Carmen property in Cebu, long-term prepayments, and time deposits with maturities of more than one (1) year.

## 16. **Accounts Payable and Other Current Liabilities and Contract Liabilities**

a. Accounts payable and other current liabilities

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Trade payables | **₱9,603,892,952** | ₱325,599,309 | ₱399,521,010 | ₱510,254,206 |
| Accrued expenses: | | | | |
| Contractual services | **663,147,341** | 335,848,098 | 117,017,001 | – |
| Salaries, wages, and employee benefits | **607,976,165** | 28,547,881 | 40,221,186 | 20,672,608 |
| Repairs and maintenance | **301,973,726** | – | – | – |
| Management and professional fees | **257,435,011** | 18,650,319 | – | – |
| Utilities | **145,575,816** | – | – | – |
| Occupancy costs | **113,449,983** | – | – | – |
| Water treatment chemicals | **68,494,495** | – | – | – |
| Wastewater costs | **56,938,898** | – | – | – |
| Water service connections | **44,845,013** | – | – | – |
| Collection fees | **35,709,263** | – | – | – |
| Water tankering and bulk water costs | **17,099,667** | – | – | – |
| Printing and communication | **15,262,637** | – | – | – |
| Rental of equipment | **5,586,558** | – | – | – |
| Taxes | – | 15,821,589 | – | – |
| Business development | – | 8,720,508 | – | – |
| Miscellaneous | **245,501,316** | 60,696,747 | 34,614,805 | – |
| Advances | **187,454,659** | 110,895,735 | – | – |
| Contractors' payable | **1,016,752,846** | – | – | – |
| Interest payable (Note 17) | **1,035,544,483** | 9,690,393 | 240,792 | – |
| Provision for defects liability | **102,909,375** | 237,909,375 | – | – |
| Retention payables | **34,697,563** | 39,378,090 | 29,245,968 | 26,815,537 |
| Deferred output VAT payable | **40,503,964** | 38,941,239 | 26,838,702 | 11,848,845 |
| Dividends payable | **–** | 24,000,000 | – | – |
| Statutory payables | **91,248,586** | 39,261,986 | 21,804,202 | 9,351,348 |
| Others | **269,738,513** | 759,476 | – | 5,854,326 |
| | **₱14,961,738,830** | ₱1,294,720,745 | ₱669,503,666 | ₱584,796,870 |

Trade payables and accrued expenses are noninterest-bearing and are due for payment within 15-120 days term.

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

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

Provision for defects liability pertains to estimated obligation to repair any defects/deviations from the required standard of work that will arise in the period allotted following the completion of the project.

Advances pertain to the unsecured non-interest bearing advances received by PMBC from BMD International (BMD) payable upon demand by BMD and advances received by WFPI from Wastefuel Global, LLC.

Retention payables pertain to the portion of the contract price withheld from the contractors until the activities required of them under the contract are properly completed or delivered.

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

b. Contract liabilities

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Supervision fees | **₱521,261,203** | ₱– | ₱– | ₱– |
| Connection fees - current | **1,053,325** | – | – | – |
| Construction contracts | **361,106,053** | 303,053,934 | 475,618,769 | 264,960,892 |
| Current portion | **883,420,581** | 303,053,934 | 475,618,769 | 264,960,892 |
| Connection fees - noncurrent portion | **151,548,734** | – | – | – |
| | **₱1,034,969,315** | ₱303,053,934 | ₱475,618,769 | ₱264,960,892 |

Contract liabilities from supervision fees consist of advance customer payments for the provision of design and project management services in the development of water and used water facilities and for future water service. Contract liabilities are reclassified to “Supervision fees” under “Other operating income” upon completion of performance milestones for these services throughout the concession period.

Contract liabilities from connection fees pertain to customer payments for the set-up of a connection from the customer’s establishment to the Group’s water or used water network. These are initially recognized at the time of receipt of customer payments and reclassified to “Connection fees from water and service connections” under “Other operating income” upon provision of the related water and used water services to customers.

Contract liabilities from construction contracts represents excess of advance payments against revenue recognized from contracts with construction customers which are determined based on percentage-of-completion against amounts billed to customers. These are normally paid at the commencement of construction to be applied at each progress billing.

Revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to ₱303.1 million, ₱475.6 million, ₱265.0 million and nil in 2021, 2020, 2019, and 2018 respectively.

## 17. **Loans**

a. Short-term loans

*₱52.5 million TWCHI BPI loan*
This account pertains to an unsecured loan obtained from Bank of the Philippine Islands with interests at 3.5% in 2021 amounting to ₱52.5 million as at December 31, 2021. The loans mature within one year from the reporting period. Interest expense amounted to ₱0.6 million in 2021.

*AUD 3.7 million PMBC BMD International convertible loan*
On November 2, 2017, PMBC and BMD International (BMD) executed a master loan agreement wherein the latter shall make available to the Company a medium-term loan facility in the aggregate principal amount of up to 3.7 million Australian dollars (AUD) to finance the capital expenditures and working capital requirements of PMBC. The loan facility is interest-bearing upon which the interest rate is subject to the agreement of both parties but shall not be less than one percent (1%) per annum. All of the outstanding balance of the loan shall be due and payable upon demand of BMD, which demand shall in no case be made earlier than thirty-six (36) months nor later than sixty (60) months from the date of the execution of loan agreement.

Further, included in the clause of the master loan agreement is the conversion right of BMD International wherein the latter has the right to convert, in whole or in part, the outstanding principal amount of the loan plus any accrued and unpaid interest at the time of conversion, into new, unissued common shares with a translation rate of ₱38 per AUD1, and a conversion price of ₱1 per share. Fractions of conversion shares shall not be issued and the equivalent cash amount in respect thereof shall be paid by PMBC to BMD together with the delivery of conversion shares. In 2018, PMBC's outstanding loan amounting to AUD1.4 million (equivalent to ₱53.3 million), was converted into equity.

As of December 31, 2021, 2020, 2019 and 2018, the loan amounting to nil, nil, AUD1.2 million (equivalent to ₱42.2 million) and AUD1.3 million (equivalent to ₱47.2 million), respectively, is outstanding and is included as part of "Short-term loans" in the consolidated statements of financial position.

b. Long-term loans

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| **MWCI loans:** | | | |
| USD bonds - | | | |
| US$500.00 million sustainability bonds | **₱24,988,118,390** | ₱– | ₱– |
| USD loan - | | | |
| MWMP Loan | **6,061,670,460** | – | – |
| Japanese Yen (JP¥) loan - | | | |
| JP¥40.00 billion Loan | **1,495,423,436** | – | – |
| MTSP Loan | **74,158,057** | – | – |
| European (EUR) loan: | | | |
| EUR250.00 million Loan | **6,792,854,823** | – | – |
| PHP loans: | | | |
| ₱5.00 billion PNB Loan | **3,661,967,363** | – | – |
| ₱5.00 billion BDO Loan | **5,052,719,329** | – | – |
| **MWCI Subsidiaries' loans:** | | | |
| Thailand Baht (THB) loan - | | | |
| THB5.30 billion MWTC Loan | **8,074,043,037** | – | – |
| Canadian Dollar (CAD) loan - | | | |
| CAD0.87 million Laguna Water Loan | **34,792,542** | – | – |
| PHP loans: | | | |
| ₱0.50 billion Laguna Water DBP Loan | **344,999,590** | – | – |
| ₱0.83 billion Laguna Water DBP Loan | **592,174,094** | – | – |
| ₱2.50 billion Laguna Water SBC Loan | **1,722,318,958** | – | – |
| ₱2.50 billion Laguna Water BPI Loan | **1,291,374,036** | – | – |
| ₱0.50 billion Boracay Water DBP-SBC Loan | **292,041,983** | – | – |

*(Forward)*

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| ₱0.50 billion Boracay Water DBP-SBC Loan | **₱312,447,740** | ₱– | ₱– |
| ₱0.65 billion Boracay Water DBP-SBC Loan | **537,048,270** | – | – |
| ₱2.40 billion Boracay Water BPI Loan | **1,409,578,349** | – | – |
| ₱1.15 billion Clark Water RCBC Loan | **834,170,452** | – | – |
| ₱0.54 billion Clark Water DBP Loan | **531,361,311** | – | – |
| ₱0.80 billion Cebu Water DBP Loan | **525,120,750** | – | – |
| ₱7.00 billion MWPVI Loan | **6,361,442,784** | – | – |
| ₱0.45 billion Tagum Water PNB Loan | **360,079,276** | – | – |
| ₱0.15 billion Tagum Water PNB Loan | **139,659,451** | – | – |
| ₱0.23 billion Aqua Centro BPI Loan | **106,264,735** | – | – |
| ₱0.47 billion South Luzon Water BPI Loan | **100,000,000** | – | – |
| ₱0.39 billion Calbayog Water BPI Loan | **70,000,000** | – | – |
| **Other loans** | | | |
| ₱5.5 billion TWCHI BPI loan facility | **5,341,871,851** | – | – |
| ₱20.0 billion Wawa loan facility | **4,888,784,917** | 1,544,393,664 | – |
| ₱3.5 billion PII Unionbank loan facility | **1,985,313,777** | – | – |
| ₱1.5 billion PMHPHC Unionbank loan facility | **1,490,026,524** | | |
| ₱1.0 billion PII HSBC loan facility | **987,426,086** | – | – |
| ₱178.7 million PMBC BDOLFI loan facility | **149,180,386** | 87,258,828 | 139,405,155 |
| | **86,608,432,757** | 1,631,652,492 | 139,405,155 |
| Less current portion of long-term debt | **5,371,667,319** | 56,820,537 | 52,746,836 |
| | **₱81,236,765,438** | ₱1,574,831,955 | ₱86,658,319 |

No outstanding long-term loans and short-term loans as at December 31, 2018.

Unamortized debt discounts (premiums) and issuance costs of the Group's long-term debt are as follows:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| USD loans | **₱549,106,279** | ₱– | ₱– |
| JPY loans | **4,126,240** | – | – |
| EUR loan | **108,549,177** | – | – |
| THB loan | **22,733,766** | – | – |
| PHP loans | **(37,471,563)** | 21,121,132 | 1,314,429 |
| | **₱647,043,899** | ₱21,121,132 | ₱1,314,429 |

The movements in unamortized net debt discount follow:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Unamortized debt discount at beginning of year | **₱21,121,132** | ₱1,314,429 | ₱– |
| Additions resulting from business combination (see Note 4) | **526,960,007** | – | – |
| Additions | **199,614,953** | 22,471,853 | 2,196,233 |
| Amortization | **(100,652,193)** | (2,665,150) | (881,804) |
| Unamortized debt discount at end of year | **₱647,043,899** | ₱21,121,132 | ₱1,314,429 |

Future repayment of the principal follows:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Within 1 year | **₱8,461,817,959** | ₱57,268,301 | ₱53,567,416 |
| After 1 year but not more than 5 years | **34,979,037,749** | 58,675,323 | 87,152,168 |
| Beyond 5 years | **43,814,620,948** | 1,536,830,000 | – |
| | **₱87,255,476,656** | ₱1,652,773,624 | ₱140,719,584 |

Interest expense recognized related to long-term loans amounted to ₱1,308.5 million, ₱21.3 million and nil in 2021, 2020 and 2019, respectively.

All proceeds from loan drawdowns of the MWCI were used for the East Zone business.

MWCI Bonds

*US$500.00 million sustainability bonds*
On July 22, 2020, MWCI announced its plan to issue an offering of USD-denominated senior unsecured notes, which qualified as ASEAN sustainability bonds. Proceeds from the issuance of the bond were intended to refinance debt and finance programmed capital expenditures for 2020 to 2021 of the East Zone, pursuant to the Sustainability Financing Framework (SFF) which MWCI established; proceeds are targeted towards financing projects related to (1) Sustainable water and wastewater management, (2) Terrestrial and aquatic biodiversity conservation, and (3) Affordable basic infrastructure categories. MWCI's SFF is aligned with the Green Bond Principles 2018 and Social Bond Principles 2018 and likewise complies with the ASEAN Sustainability Bond Standards 2018 and SEC Memorandum Circular No. 8, series of 2019.

On July 23, 2020, MWCI successfully issued the US$500.00 million ASEAN sustainability bonds, debuting in the international debt capital markets. MWCI is the first Philippine Corporate to issue an ASEAN sustainability bond. Equally important, this issuance is the single largest green, social or sustainability bond issued by a listed private water utility in Asia.

The ten (10)-year bond was priced at 99.002 with a coupon rate of 4.375% p.a. payable in equal installments semi-annually in arrear, on January 30 and July 30 of each year. The bonds will be redeemed at their principal amount on July 30, 2030 unless previously redeemed or repurchased and cancelled as provided in the following conditions:

*Gross-up Event*

- If a Gross-up Event occurs, MWCI may redeem the Notes (in whole but not in part) at 100% of the principal amount of the Notes plus any accrued but unpaid interest, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Noteholders.

*Change of Control Event*

- Following the occurrence of a Change of Control triggering event, each bondholder will have a right at such bondholder's option to require MWCI to redeem in whole but not in part such bondholder's notes on the change of control triggering event put date at 101% of the principal amount plus any accrued but unpaid interest.

*Regulatory Redemption Event*

- Upon a regulatory redemption triggering event, each bondholder will have the right to require MWCI to repurchase all or any part of such holder's bonds pursuant to a Special Repurchase Offer. In the Special Repurchase Offer, MWCI will offer to purchase the bonds at a purchase price in cash equal to the special redemption price and additional amounts, if any, to but excluding the date of repurchase (subject to the right of bondholders of record on the relevant record date to receive interest due on the relevant interest payment date), except to the extent MWCI has previously or concurrently elected to redeem the Notes in full as described under the conditions of an early redemption due to a gross-up event.

*Redemption at the Option of the Issuer*

- On any payment business day on or after July 30, 2025, and up to but excluding the maturity date, MWCI may on one or more occasions redeem all or a part of the bonds, at the redemption prices plus accrued and unpaid interest, if any, to the date of redemption, if redeemed during the twelve (12)-month period commencing on the call dates set forth below:

| Call Dates | Prices |
|---|---|
| July 30, 2025 | 102.188% |
| July 30, 2026 | 101.094% |
| July 30, 2027 | 100.547% |
| July 30, 2028 and thereafter | 100.000% |

The successful bond issuance enabled MWCI to diversify its fund sources, to refinance maturing obligations, as well as fund its committed water and wastewater infrastructure projects in the East Zone concession. The carrying value of the bonds as of December 31, 2021 amounted to US$489.97 million.

<u>MWCI Loans</u>

*MWMP Loan*
On October 2, 2012, MWCI entered into a Subsidiary Loan Agreement with Land Bank of the Philippines under the Metro Manila Wastewater Management Project (MWMP) with the World Bank (MWMP Loan). The MWMP aims to improve wastewater services in Metro Manila through increased wastewater collection and treatment. The loan has a term of twenty-five (25) years and was made available in United States Dollar in the aggregated principal amount of US$137.50 million, payable via semi-annual installments after the seven (7)-year grace period. MWCI has made four (4) drawdowns in 2015 with an aggregate amount of US$22.60 million, three (3) drawdowns in 2016 with an aggregate amount of US$17.46 million, three (3) drawdowns in 2017 with a total amount of US$22.40 million, one (1) drawdown in 2018 amounting to US$8.88 million, and four (4) drawdowns in 2019 with an aggregate amount of US$41.68 million. In 2020, MWCI made three (3) additional drawdowns with a total amount of US$24.48 million to fully utilize the facility. The carrying value of the MWMP loan as of December 31, 2021 amounted to US$118.86 million.

*JP¥40.00 billion Loan*
On September 30, 2015, MWCI signed a seven (7)-year JP¥40.00 billion term loan facility, payable semi-annually, with three (3) international banks: MUFG Bank, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation. The proceeds of the loan were used to finance the East Zone's capital expenditures. MWCI made its first drawdown on March 9, 2016 amounting to JP¥13.40 billion. In 2017, MWCI made two (2) additional drawdowns totaling

JP¥26.60 billion. The loan's carrying value as of December 31, 2021 amounted to JP¥3,388.68 million.

*MTSP Loan*
On October 20, 2005, MWCI entered into a Subsidiary Loan Agreement with Land Bank of the Philippines (MTSP Loan) to finance the improvement of the sewerage and sanitation conditions in the Manila Concession. The loan has a term of seventeen (17) years and was made available in JP¥ in the aggregate principal amount of JP¥6.59 billion payable via semi-annual installments after the five (5)-year grace period.

MWCI made its last drawdown on October 26, 2012. Total drawn amount from the loan is JP¥3.99 billion. As of December 31, 2021, the outstanding balance of the MTSP loan amounted to JP¥168.04 million.

*EUR250.00 million Loan*
On August 27, 2019, MWCI entered into a syndicated loan agreement amounting to €250.00 million to fund the capital investment program of the East Zone starting in 2019. The loan will be prepaid in eight (8) installments starting April 2023 and is financed by a syndicate of two (2) banks namely Bank of China (Hong Kong) Limited and Bank of China Limited, Manila Branch. MWCI has made a drawdown amounting to €40.00 million in 2019, and €90.00 million in 2020. In August 2021, MWCI prepaid the outstanding loan amounting to €130.00 million with a prepayment cost of ₱7.74 million (see Note 24). In the same month, MWCI drew €120.00 million which it will use to continue funding its capital investment program. The carrying value of the loan as of December 31, 2021 amounted to €118.11 million.

*₱5.00 billion PNB Loan*
On May 11, 2018, MWCI signed a ₱5.00 billion, ten (10)-year term loan facility with the PNB. The loan will be used to finance general corporate requirements and capital investment programs in the East Zone as well as to refinance existing concessionaire loans. On July 31, 2018, MWCI made its first and only drawdown amounting to ₱5.00 billion. The carrying value of the loan as of December 31, 2021 amounted to ₱3,662.0 million.

*₱5.00 billion BDO Unibank, Inc. (BDO) Loan*
On November 13, 2019, MWCI signed a ₱5.00 billion, five (5)-year term, revolver loan facility with BDO with principal payable at bullet after sixty (60) months. The loan proceeds were used for the expansion and improvement of the water source, distribution and sewerage systems, and other general corporate requirements as well as to refinance existing concessionaire loans. MWCI made two (2) drawdowns in 2019 with an aggregate amount of ₱3,800.00 million, and an additional drawdown in 2020 amounting to ₱1,200.00 million. The carrying value of the loan as of December 31, 2021 amounted to ₱5,052.7 million.

*Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements*
On July 17, 2008, MWCI, 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 MWCI 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 MWCI 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 MWCI, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWCI 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 DOF Undertaking Letter), all insurance policies where MWCI 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, MWCI 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 MWCI or MWSS. Currently, all lenders of MWCI are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWCI signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWCI more operational and financial flexibility. The loan amendments include the shift to the use of MWCI from consolidated financial statements to stand-alone 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.

*MWTC Loan*
On February 27, 2019, MWTC signed a THB5.30 billion, five (5)-year term loan facility with Mizuho Bank Ltd. – Bangkok Branch and Bank of Ayudhya Public Company Limited to refinance the previous bridge loan used for the acquisition of an 18.72% equity stake in East Water. This loan bears interest of BIBOR plus margin and is guaranteed by MWCI. The carrying value of the loan as of December 31, 2021 amounted to THB5,285.12 million.

*Laguna Water Loans*
On April 29, 2013, Laguna Water entered into a loan agreement with DBP to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.00 million. The first and second drawdowns were made in July and November 2013 which amounted to ₱250.00 million each. The carrying value of this loan as of December 31, 2021 amounted to ₱345.00 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 loan amounted to ₱592.17 million as of December 31, 2021.

On October 23, 2015, Laguna Water entered into a loan agreement with Security Bank Corp. (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.50 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015 amounting to ₱600.00 million. The second drawdown was made in two tranches in April 2016 amounting to ₱150.00 million and ₱300.00 million. The third drawdown was made in September 2016 amounting to ₱400.00 million. The fourth drawdown was made in three (3) tranches, the first tranche in March amounting to ₱100.00 million and the second and third tranches in April 2017 amounting to ₱50.00 million and ₱350.00 million. The fifth drawdown was made in two (2) tranches in September 2017 amounting to ₱150.00 million and ₱400.00 million. The carrying value of the loan amounted to ₱1,722.32 million as of December 31, 2021.

On March 29, 2017, Laguna Water entered into a loan agreement with Grand Challenges Canada to fund a project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CAD873,000. The project supported by the loan is the "Bundling water and sanitation services for the poor in informal urban communities." As of December 31, 2021, the carrying value of the loan amounted to CAD873,000.

On June 28, 2019, Laguna Water signed a ten (10)-year term loan facility amounting to ₱2.50 billion with BPI. The loan will be used to partially finance Laguna Water's capital expenditure program. The first drawdown was made in July 2019 amounting to ₱200.00 million. The second drawdown was made in December 2019 amounting to ₱500.00 million. The third drawdown was made in March 2020 amounting to ₱400.00 million. The fourth drawdown was made in December 2021 amounting to ₱200.00 million. The carrying value of the loan amounted to ₱1,291.37 million as of December 31, 2021.

*Boracay Water Loans*

Boracay Water entered into various Omnibus Loan and Security Agreements with DBP, SBC, and BPI to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and wastewater services for its service area under its concession agreement with TIEZA, as well as the operation and maintenance of the completed drainage system.

*Omnibus loan and security agreement - Sub-tranche 1*

On July 29, 2011, Boracay Water entered into an Omnibus Loan and Security Agreement with DBP and SBC. The loan shall not exceed the principal amount of ₱500.00 million and is payable in twenty (20) years inclusive of a three (3)-year grace period. 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, second, and final loan drawdowns amounted to ₱150.00 million on August 25, 2011, ₱155.00 million on August 25, 2012, and ₱195.00 million on August 23, 2013, respectively. The carrying value of the loan as of December 31, 2021 amounted to ₱292.04 million.

*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 its internally-generated funds.

In consideration of DBP undertaking to purchase sub-tranches 1C and 2C, Boracay Water will pay DBP purchase commitment fee which is equivalent to 0.25% per annum of the purchase price on a quarterly basis. Purchase commitment fee payable amounted to ₱0.35 million as of December 31, 2021.

The first, second, and final loan drawdowns amounted to ₱75.00 million on November 23, 2012, ₱200.00 million on August 26, 2014, and ₱225.00 million on November 25, 2015, respectively. The carrying value of the loan amounted to ₱312.45 million as of December 31, 2021.

*Omnibus Loan and Security Agreement – Sub-tranche 3*
On October 9, 2014, Boracay Water signed a Third Omnibus Loan and Security Agreement amounting to ₱650.00 million with SBC. The first, second, and third drawdowns on this loan were made on November 25, 2016, May 25, 2017, and September 25, 2017, amounting to ₱200.00 million, ₱250.00 million, ₱200.00 million, respectively. The carrying value of the loan amounted to ₱537.05 million as of December 31, 2021.

*Omnibus Loan and Security Agreement – BPI*
On December 20, 2017, Boracay Water signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.40 billion with the BPI. The drawdowns on this loan made on April 30, 2018, September 25, 2018, and December 20, 2018 amounted to ₱250.00 million, ₱250.00 million and ₱100.00 million respectively. On February 13, 2020, March 31, 2020, April 7, 2020, and December 22, 2020, additional drawdowns were made amounting to ₱50.00 million, ₱30.00 million, ₱520.00 million, and ₱50.00 million respectively. On January 28, 2021 and May 26, 2021, drawdowns were made amounting to ₱100.00 million and ₱70.00 million, respectively. The carrying value of loan amounted to ₱1,409.58 million as of December 31, 2021.

<u>*Clark Water Loans*</u>
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 capital expenditures program. Under the agreement, principal payments will be made in forty-eight (48) consecutive equal quarterly installments starting December 2018. The first and second drawdowns on the loan were made on September 29, 2015 and December 29, 2015, amounting to ₱800.00 million and ₱200.00 million, respectively. The last drawdown was made on August 29, 2016 amounting to ₱150.00 million. The carrying value of the loan amounted to ₱834.17 million as of December 31, 2021.

On March 11, 2019, Clark Water signed a term loan agreement amounting to ₱535.00 million with the DBP. The proceeds of the loan will be used to partially finance Clark Water's capital expenditure programs. Under the agreement, principal payments will be made in forty-eight (48) consecutive equal quarterly installments starting March 2022. The first, second, third, and fourth drawdowns on this loan were made on March 22, 2019, December 20, 2019, April 24, 2020, and December 23, 2020 amounting to ₱100.00 million, ₱80.00 million, ₱80.00 million, and ₱60.00 million, respectively. The last drawdown was made on May 7, 2021 amounting to ₱215.00 million. The carrying value of the loan amounted to ₱531.36 million as of December 31, 2021.

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

In 2013, MW Consortium entered into a real estate mortgage agreement with the DBP, as third-party mortgagor, in consideration for this Cebu Water loan.

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 ₱14.79 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2021 amounted to ₱525.12 million.

*MWPVI Loan*
On October 5, 2016, MWPVI signed a fifteen (15)-year fixed rate term loan facility amounting to ₱4.00 billion with SBC and Metrobank. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.00 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements.

On February 24, 2017, MWPVI made a bridge loan drawdown amounting to ₱150.00 million each from SBC and Metrobank. These bridge loans had a 119-day term. On June 23, 2017, these bridge loans were rolled-over for additional 180 days, repriced monthly. On November 9, 2017, MWPVI repaid its ₱300.00 million bridge loan and made the first drawdown on its loan facility amounting to ₱450.00 million from each bank.

On October 5 and December 19, 2018, MWPVI made its subsequent drawdowns amounting to ₱50.00 million and ₱175.00 million from each bank, respectively. In 2019, MWPVI made additional drawdowns totaling to ₱800.00 million from each bank. These loan drawdowns have a term of thirteen (13) to fifteen (15) years, with interest payable semi-annually and principal repayments starting on November 9, 2022.

On January 15, February 19, and April 7, 2020, MWPVI made additional drawdowns amounting to ₱150.00 million, ₱200.00 million and ₱175.00 million from each bank, respectively.

MWPVI has exercised its option to borrow an additional ₱3.00 billion under the Greenshoe Option of the Omnibus Loan and Security Agreement (OLSA) with SCB and Metrobank. MWPVI signed the Second OLSA on May 22, 2020 and made the first drawdown of ₱750.00 million from each lender. The proceeds of the loan will be used to finance MWPVI's capital expenditures, existing projects of subsidiaries or equity investments, and other general corporate requirements.

On March 12, August 10 and October 5, 2021, MWPVI made additional drawdowns in equal tranches of ₱150.00 million from each bank. The carrying value of the loan as of December 31, 2021 amounted to ₱6,361.44 million.

*Tagum Water Loan*
On October 6, 2016, Tagum Water signed an OLSA in the amount of ₱450.00 million with PNB. The loan will be used to partially finance the construction works in relation to the Tagum Bulk Water Supply Project. Principal payments will be made in forty-eight (48) equal quarterly installments starting December 2020. The first, second, and third drawdowns on this loan were made on September 25, 2017, April 18, 2018, and November 23, 2018, amounting to ₱130.00 million, ₱120.00 million, and ₱154.00 million, respectively. The carrying value of the loan as of December 31, 2021 amounted to ₱360.08 million.

On April 22, 2021, the OLSA was amended for the loan upsize request to fund the additional construction works for the bulk water supply project. The lender has agreed to grant an additional loan in the principal amount of ₱150.00 million under the same payment terms of the initial loan. The first drawdown was made on August 2, 2021 amounting to ₱150.00 million, payable quarterly. The carrying value of the loan as of December 31, 2021 amounted to ₱139.66 million.

*Aqua Centro Loan*
On March 1, 2021, Aqua Centro signed a ₱233.00 million ten (10)-year term loan facility with BPI to partially finance its capital expenditures, future acquisitions and other general corporate requirements. On March 19 and November 26, 2021, Aqua Centro made its first and second drawdown amounting to ₱80.00 million and ₱27.00 million, respectively. These loan drawdowns have a term of nine (9) to ten (10) years, with interest payable quarterly and principal repayments starting on March 19, 2024. The carrying value of the loan as of December 31, 2021 amounted to ₱106.26 million.

*South Luzon Water Loan*
On August 18, 2021, South Luzon Water signed a ₱465.00 million term loan facility with BPI to partially finance its capital expenditure projects. Under the agreement, principal payments will be made in fifteen (15) consecutive equal semi-annual installments starting August 2024. The first and second drawdowns were made on August 25, 2021 and December 6, 2021, respectively, amounting to ₱50.00 million each. The carrying value of the loan as of December 31, 2021 amounted to ₱100.00 million.

*Calbayog Water Loan*
On October 12, 2021, Calbayog Water signed a ₱393.00 million term loan facility with BPI to partially finance its capital expenditure projects. Under the agreement, principal payments will be made in fifteen (15) equal semi-annual payments starting October 24, 2024. The first drawdown was made on October 22, 2021 amounting to ₱70.00 million. The carrying value of the loan as of December 31, 2021 amounted to ₱70.00 million.

South Luzon Water, Aqua Centro, Boracay Water, Laguna Water, Clark Water, and MWPVI have assigned their rights under their respective concession agreements or project documents as their loan collateral, while Cebu Water and Tagum Water's loans are secured by real estate mortgages on real assets with total carrying value amounting to ₱53.60 million as of December 31, 2021.

Other loans

*Wawa loan*
On November 7, 2019, Wawa (the "Borrower") entered into a ₱20.0 billion five-year term loan facility with BDO Unibank, Inc. (the "Lender" or "BDO"). The purpose of the loan is to finance 75% of the total project cost of the Wawa Bulk Water Supply Project.

As of December 31, 2021, the Borrower has made the following drawdowns:

| Drawdown Date | Amount |
|---|---|
| October 31, 2020 | ₱720,000,000 |
| November 13, 2020 | 845,000,000 |
| May 25, 2021 | 2,178,000,000 |
| September 1, 2021 | 1,257,000,000 |
| | ₱5,000,000,000 |

Interest on the unpaid principal amount shall be paid on quarterly payments from the initial drawdown date while the principal amount is payable over 10 years in quarterly installments commencing July 30, 2025 (60th month from initial drawdown date) as follows:

| Principal Repayment Date (Month from Initial Drawdown Date) | Installment Due for Each Facility on Each Repayment date |
|---|---|
| 60th, 63rd, 66th, 69th and 72nd | 0.900% |
| 75th, 78th, 81st and 84th | 1.375% |
| 87th, 90th, 93rd and 96th | 1.625% |
| 99th, 102nd, 105th and 108th | 2.000% |
| 111th, 114th, 117th and 120th | 2.250% |
| 123rd, 126th, 129th and 132nd | 2.500% |
| 135th, 138th, 141st and 144th | 2.875% |
| 147th, 150th, 153rd and 156th | 3.250% |
| 159th, 162nd, 165th and 168th | 3.750% |
| 171st, 174th, 177th, and 180th | 4.250% |

The loans under this facility, by default, are subject to a floating interest rate. However, the Borrower may exercise its one-time interest rate conversion option and avail a fixed interest rate. The Borrower has not elected to exercise its conversion option. Floating interest rate is the higher of the sum of a floating interest benchmark rate equal to the simple average of the closing PHP BVAL reference rate with a tenor of 3 months or a Minimum Interest Rate equal to the sum of the prevailing BSP term deposit with the longest tenor, plus a spread of either 2.25% or 1.75%, divided by an interest premium factor of either 0.99 or 0.95. The carrying value of the loan amounted to ₱4,967.6 million and ₱1,544.4 million as of December 31, 2021 and 2020, respectively.

*Prepayment Option*
The Borrower also has the option to prepay the loan after the Full Commercial Operations Date of the Wawa Bulk Water Supply Project, in whole or in part, together with the accrued interest thereon, subject to further conditions. There will be no prepayment penalties charged in case of a floating interest, provided that the prepayment is made on an interest payment date. In case of a fixed interest rate, prepayment penalty based on the amount of the loan to be prepaid is 1% during the 6th to 10th year and 0.5% on the 11th to 14th year. The prepayment option was assessed as clearly and closely related to the loan and does not require bifurcation.

*Debt Covenants*

- The Borrower's loan facility contains certain restrictive covenants that require the Borrower to comply with specified financial ratios such as debt-to-equity ratio of a maximum of 3 times and debt service coverage ratio of a minimum of 1.1 times, commencing one year after the Full Commercial Operations Date until the loans' final repayment date.
- The Borrower also may not declare or pay dividends on shares (whether common or preferred), return capital or make any other distributions to its stockholders, until the later of the Full Commercial Operations Date or beginning the 61st month from the initial drawdown date. Provided further that, among others, a debt service coverage ratio not greater than 1.10 times prior to payment and 1.25 times after payment is maintained.

*Collateral*

i) Security Interest

*On Personal Properties*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes in favor of the BDO Unibank, Inc. – Trust and Investments Group (Security Trustee) for the benefit of the Lender, a first ranking security interest on its future personal properties excluding (a) vehicles owned by the Company and (b) supplies and consumables which are used by the Borrower in the ordinary course of business. The security interest over the personal properties shall stand as security for the Secured Indebtedness in the aggregate principal amount of up to ₱10.0 billion, and all penalties, default interests, and interest accrued.

*On Project Accounts and Receivables*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes, in favor of the Security Trustee, for the benefit of the Lender, a security interest over its rights, title, and interests in, to, and under the following:

a. Wawa Water Project Receivables;
b. Dividend Receivables;
c. All monies standing in the Project Accounts, to the extent they are not effectively assigned under Assignment of Collateral Accounts;
d. Proceeds of any asset and business continuity insurance obtained by the Grantor after application of the same to complete, repair, rehabilitate, replace or reconstruct such assets of the Wawa Water Project; and
e. The proceeds, products, and fruits of (a) – (d) above.

The security interest over the project accounts and receivables shall constitute as a security for all amounts payable.

*On Project Agreements and Permits*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes, in favor of the Security Trustee, for the benefit of the Lender, a security interest over all of the Company's right, title, and interest, present and future, in and to the Project Agreements (i.e. the Raw Water Supply and Offtake Agreement, dated August 6, 2019) including that of the Wawa Water Permit.

ii)Assignment

*Collateral Accounts*. The Borrower establishes in favor of the Security Trustee and shall maintain thereafter so long as any Secured Obligation shall remain outstanding in whole or in part, the following accounts (Project Accounts) which shall be under the control of the Security Trustee:

a. *Loan Proceeds Account (LPA)*. The LPA shall be used as the repository of the proceeds of loan drawdowns and equity infusion.

b. *Revenue and Insurance Proceeds Account (RIPA)*. The RIPA shall be used as the repository of the revenue to be generated from the Wawa Water Project, proceeds from insurance claims, liquidated damages, and all other amounts received by the Borrower from counterparties under Project Arrangements.

c. *Operating and Maintenance Account (OMA)*. This account shall be funded from transfers made by the Security Trustee on the first day of each calendar month from RIPA from and after the Tayabasan Multi-basin System Commercial Operation date.

d. *Debt Service Reserve Account (DSRA)*. The level of funds standing in the DSRA (DSRA Maintaining Balance) on any date prior to Full Commercial Operations Date shall be at least the amount of the interest due on the immediately two succeeding repayment date while from and after Full Commercial Operations Date, at least the amount of principal due on the twice the amount of the interest due on the immediately succeeding principal payment date and at least the amount of the interest due on the immediately two succeeding repayment date.

e. *Debt Service Payment Account (DSPA)*. The level of funds standing in the DSPA (DSPA Maintaining Balance) at least five banking days from a payment date shall at least equal to the amount of the principal and interest due on such payment date.

f. *Balance Account (BA)*. The BA, otherwise known as “Borrower-Controlled Account” contains the excess funds in the Project Accounts. Funds therein may be used by the Security Trustee to fund any other Project Accounts or used by the Borrower to fund dividend payments or make voluntary prepayments of the Loan, upon the same's written instruction, subject to further conditions.

The Borrower’s debt collateral account related to the ₱20.0 billion Omnibus Loan Facility amounted to ₱103.1 million and ₱32.6 million, presented under “Cash” in the 2021 and 2020 consolidated statements of financial position, respectively (see Note 6).

*Project Agreements*. As a security for timely payment, discharge, observance and performance of the loan, the Borrower assign, convey, set over and transfer to the Security Trustee absolutely and unconditionally, for the benefit of the Lender, its successors and assigns, all of the Borrower’s right, title, and interest in, to and under the following:

a. All monies standing in the Project Accounts;
b. The proceeds of any asset and business continuity insurance obtained by the Borrower except for proceeds of insurance policies arising from damage to or destruction of any of the assets of the Wawa Water Project, to the extent that such proceeds shall first be used to complete, repair, rehabilitate, replace or reconstruct such assets of the Wawa Water Project, as may be necessary as a result of the incident or event giving rise to a claim under the relevant insurance policy; and
c. The proceeds, products and fruits of all the forgoing (all of the above, collectively, the “Collateral Accounts”).

iii) Real Estate Mortgage

As a security for timely payment, discharge, observance and performance of the loan, the Borrower establishes in favor of the BDO Unibank, Inc. – Trust and Investments Group (Security Trustee) for the benefit of the Lender, a first ranking real estate mortgage on the present real assets, i.e. the land owned by the Borrower located in Brgy. San Isidro, Montalban, Rizal (see Note 9) and future real assets.

*TWCHI loan*

On May 20, 2021, TWCHI entered into a 3-year term loan facility agreement with BPI having an aggregate amount of ₱5.5 billion to be used in financing the MWCI acquisition.

On June 3, 2021, TWCHI made an initial drawdown of ₱5.4 billion. The principal amount of the loan shall be fully paid on the maturity date, June 3, 2021, while the interest on the unpaid principal amount shall be paid in quarterly payments from the initial drawdown date. The loan bears an interest rate based on the higher of PHP BVAL reference rates plus a spread of 2.5% and O/N RRP ("Overnight Reverse Restriction Repurchase") rate of BSP plus a spread of 0.95%.

For a floating rate loan, TWCHI is permitted to make prepayments in part or in full without penalty if made on interest payment date and subject to thirty (30) calendar day's prior notice. TWCHI's loan arrangement with the bank is secured by a collateral comprising rights, title and interest to the 820,000,000 common shares of MWCI and the 2,691,268,205 preferred shares mentioned in Note 4. It is also subject to compliance with certain financial ratios such as debt-to-equity ratio of 3.0:1.0 (computed as total liabilities divided by total equity) by TWCHI's Surety (PSHI). The carrying value of the loan amounted to ₱5,341.9 million as of December 31, 2021.

*PII loans*

*₱3.5 billion PII Unionbank*

On December 6, 2021, PII entered into a 7 year term loan facility agreement with Union Bank of the Philippines (Union Bank) having an aggregate amount of ₱3.5 billion to be used in partially financing PII's investment in Wawa JVCo, Inc.

On December 13, 2021, PII made an initial drawdown of ₱2.0 billion. The principal amount and interest of the loan shall be paid quarterly with principal payments starting on the 8th quarter following the initial drawdown date. The loan bears a fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum. PII's loan arrangement is secured by the full and unconditional guaranty of PII's parent company, PIHI and the ultimate parent, PSHI.

The following cash waterfall accounts were also established subject to hold-out rights, control and security interest of the bank:

(a)Management fee deposit account (MFDA) was established where consultancy fees assigned by PIHI to PII shall be deposited into. PII has a right of withdrawal over the MFDA only if the balance has exceeded ₱10.0 million.

(b) DSRA and DSPA were also established. DSRA shall be funded in an amount equivalent to the debt service due and payable for the subsequent interest or principal payment dates at anytime during the lifetime of the loan and DSPA shall be deposited the amount of applicable debt service for each repayment date at least 10 days prior to each relevant interest payment date or principal repayment date.

It is also subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1.2x and debt to Equity of 2.5x. The foregoing ratios shall be computed on the basis of PII's annual audited financial statements beginning December 31, 2022.

The carrying value of the loan amounted to ₱1,985.3 million as of December 31, 2021.

*1.0 billion PII HSBC loan*
On October 19, 2021, PII entered into a 5-year term loan facility agreement with HSBC having an aggregate amount of ₱1.0 billion to be used in financing the equity infusion into, or provide advances in relation to, a solar power project.

The principal amount of the loan shall be paid in equal quarterly payments over the last 4 years of the loan for the drawdowns of ₱500.0 million on October 27, 2021 and December 9, 2021. Whereas interest on the unpaid principal amount shall be paid in quarterly payments from the initial drawdown date. The loan bears an interest rate of either a 3-month PHP BVAL plus a spread of 2.35% to be reset every three months or a 5-year PHP BVAL plus a spread of 2.35% fixed for the duration of the loan at the option of PII which is to be communicated to the bank prior to the drawdown date and is applicable for the entire life of the facility. PII's loan arrangement is secured by a corporate guarantee issued by PIHI covering all obligations of PII under the term loan. As of date, PII has opted for the 5-year PHP BVAL rate plus a spread of 2.35% fixed for the duration of the loan.

It is also subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1.0x to be tested annually beginning on the first year of principal repayment in 2023. The carrying value of the loan amounted to ₱987.4 million as of December 31, 2021.

*PMPHC loan*
On April 21, 2021. PMPHC signed a 7-year term loan facility agreement with Union Bank for an aggregate amount of ₱1.5 billion to finance the investment in Solar Philippines Tarlac Corporation (SPTC) via the purchase of SPTC's redeemable preferred shares. Drawdown was made on May 18, 2021.

The principal amount of the loan shall be repaid through sculpted quarterly principal amortizations in five years after a two-year grace period from initial drawdown date. Interest on the loan shall also be paid quarterly from initial drawdown date. The loan interest is fixed at 7-year BVAL plus 200 basis points. The loan is secured by a full and unconditional guaranty of Prime Strategic Holdings, Inc. (PSHI). The carrying value of the loan amounted to ₱1,490.0 million as of December 31, 2021.

*Debt Covenants*
PMPHC is subject to compliance with certain financial ratios such as debt service coverage ratio (DSCR) ratio of 1. The ratio shall be computed based on PMPHC's annual audited financial statements beginning December 31, 2021.

*PMBC loan*

On March 18, 2019, BDO Leasing and Finance Inc. (BDOLFI) approved the conversion of the remaining finance lease obligation amounting to ₱178.7 million (arising from Sale and Leaseback Agreement entered into by PMBC and BDOLFI in 2018) into a commercial loan facility (see Note 13). The conversion indicates a modification of a debt and did not result to extinguishment of an old loan and recognition of a new loan. Accordingly, PMBC reclassified the finance lease obligation to long-term loan and capitalized the related debt transaction cost amounting to ₱2.2 million.

Interest rate upon conversion is 6.5% per annum, subject to annual reprising. The carrying value of the loan amounted to ₱149.2 million, ₱87.3 million and ₱139.4 million as of December 31, 2021, 2020 and 2019, respectively.

*Debt Covenant and Collateral*
There were no loan covenants that PMBC is required to comply. The long-term loan is secured by the construction equipment with a carrying value of ₱184.9 million and ₱219.4 million in 2020 and 2019, respectively, and will mature in 2022.

Compliance with loan covenants
All these loan agreements provide for certain covenants which must be complied by the Group which include compliance with certain financial ratios such as the debt-to-equity, debt-service-coverage and early termination, as well as limitations in the declaration of dividends to stockholders in some of the subsidiaries. As of December 31, 2021, 2020 and 2019, the Group is in compliance with all the loan covenants required by the creditors.

## 18. Lease Arrangements

The Group has lease contracts related to its transportation equipment, office space, storage and plant facilities, land, right-of-way and furniture and fixtures (see Note 1 and 29). The Group's obligations under these leases are secured by the lessor's title to the leased assets. Extension and termination options are normally mutually agreed by lessor and lessee.

Set out below are the carrying amounts of right-of-use assets recognized as "Properties and equipment" in the consolidated statements of financial position (see Note 13) and the movements during the year:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **Office Space and Parking** | **Storage and Plant Facilities** | **Land and Right-of-Way** | **Transportation equipment** | **Furniture and fixtures** | **Total** |
| **Cost** | | | | | | |
| Balance at beginning of year | **₱58,464,553** | **₱–** | **₱–** | **₱11,163,766** | **₱20,496,548** | **₱90,124,867** |
| Acquired from business combination (see Note 4) | **199,375,703** | **175,829,291** | **27,220,873** | **–** | **–** | **402,425,867** |
| Additions | **95,541,248** | **–** | **5,207,555** | **29,758,144** | **–** | **130,506,948** |
| Lease modification | **(7,817,571)** | **–** | **–** | **–** | **–** | **(7,817,571)** |
| Balance at end of year | **345,563,934** | **175,829,291** | **32,428,428** | **40,921,910** | **20,496,548** | **615,240,111** |
| **Accumulated amortization** | | | | | | |
| Balance at beginning of year | **27,533,653** | **–** | **–** | **9,472,404** | **10,163,166** | **47,169,223** |
| Amortization | **56,515,465** | **34,423,707** | **1,677,315** | **6,868,758** | **9,314,747** | **108,799,992** |
| Balance at end of year | **84,049,118** | **34,423,707** | **1,677,315** | **16,341,162** | **19,477,913** | **155,969,215** |
| **Net book value** | **₱261,514,816** | **₱141,405,584** | **₱30,751,113** | **₱24,580,748** | **₱1,018,635** | **₱459,270,896** |

Amortization of plant facilities used for construction amounting to ₱27.09 million was capitalized in 2021.

| | 2020 | | | |
|---|---|---|---|---|
| | Transportation equipment | Office space | Furniture and fixtures | Total |
| **Cost** | | | | |
| Balances at beginning and end of year | ₱11,163,766 | ₱58,464,553 | ₱20,496,548 | ₱90,124,867 |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | 4,653,980 | 13,394,942 | 4,923,203 | 22,972,125 |
| Depreciation | 4,818,424 | 14,138,711 | 5,239,963 | 24,197,098 |
| Balance at end of year | 9,472,404 | 27,533,653 | 10,163,166 | 47,169,223 |
| | ₱1,691,362 | ₱30,930,900 | ₱10,333,382 | ₱42,955,644 |

| | 2019 | | | |
|---|---|---|---|---|
| | Transportation equipment | Office space | Furniture and fixtures | Total |
| **Cost** | | | | |
| Balances at beginning of year | ₱– | ₱– | ₱– | ₱– |
| Effect of adoption of PFRS 16 | 10,899,597 | – | – | 10,899,597 |
| Additions | 264,169 | 58,464,553 | 20,496,548 | 79,225,270 |
| Balance at end of year | 11,163,766 | 58,464,553 | 20,496,548 | 90,124,867 |
| **Accumulated Depreciation** | | | | |
| Balances at beginning of year | – | – | – | – |
| Depreciation | 4,653,980 | 13,394,942 | 4,923,203 | 22,972,125 |
| Balance at end of year | 4,653,980 | 13,394,942 | 4,923,203 | 22,972,125 |
| | ₱6,509,786 | ₱45,069,611 | ₱15,573,345 | ₱67,152,742 |

The rollforward analysis of lease liabilities follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Balance at beginning of year | **₱61,180,947** | ₱77,527,386 | ₱190,924,672 | ₱– |
| Addition resulting from business combination (see Note 4) | **397,925,758** | – | – | – |
| Effect of adoption of PFRS 16 in 2019 | – | – | 25,036,789 | – |
| Reclassification | – | – | (178,676,844) | – |
| Additions | **125,850,765** | – | 64,458,749 | 268,897,205 |
| Interest expense | **15,328,459** | 5,780,623 | 10,250,595 | – |
| Lease modification | **(7,662,917)** | | | |
| Lease payments | **(95,075,827)** | (22,127,062) | (34,466,575) | (77,972,533) |
| Balance at end of year | **497,547,185** | 61,180,947 | 77,527,386 | 190,924,672 |
| Less current portion | **168,612,103** | 35,049,661 | 30,919,429 | 50,205,088 |
| Noncurrent portion | **₱328,935,082** | ₱26,131,286 | ₱46,607,957 | ₱140,719,584 |

The maturity analysis of lease liabilities is disclosed in Note 33.

The following are the amounts recognized in consolidated statements of comprehensive income:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Depreciation expense of ROU assets (Notes 23 and 24) | **₱108,799,992** | ₱24,197,098 | ₱22,972,125 |
| Interest expense on lease liabilities (Notes 23 and 24) | **15,328,459** | 5,780,623 | 7,214,173 |
| Expenses relating to short-term leases and lease of low-value assets (Notes 23 and 24) | **17,731,282** | 40,711,435 | 50,909,375 |
| | **₱141,859,733** | ₱70,689,156 | ₱81,095,673 |

## 19. Retirement Liability

MWCI, MWPVI, Boracay Water, Clark Water, and Laguna Water have funded noncontributory defined benefit pension plans while PMBC, MWTS, Obando Water, BMDC, and MWTV have unfunded, noncontributory defined benefit pension plans covering all of its regular employees.

MWCI's funding policies state that equivalent target funding ratio must always be at least 80% and should the ratio reach 120.00%, 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, MWCI has a maximum of three (3) years to comply with the required minimum funding ratio of 80.00%.

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

Changes in the net defined benefit liability of retirement plans are as follow:

| | 2021 | | |
|---|---|---|---|
| | **Present value of defined benefit obligations** | **Fair value of plan assets** | **Net defined benefit liabilities** |
| Balance at beginning of year | **₱27,502,184** | **₱–** | **₱27,502,184** |
| Addition resulting from business combination (see Note 4) | **1,103,990,954** | **841,281,950** | **262,709,004** |
| Net benefit costs in profit or loss: | | | |
| Current service cost | **51,023,625** | **–** | **51,023,625** |
| Net interest (see Note 24) | **45,392,698** | **41,500,274** | **3,892,424** |
| | **96,416,323** | **41,500,274** | **54,916,049** |
| Remeasurements in OCI: | | | |
| Return on plan assets (excluding amount included in interest) | **–** | **6,718,388** | **(6,718,388)** |
| Actuarial changes arising from: | | | |
| Experience adjustments | **2,325,504** | **–** | **2,325,504** |
| Changes in demographic assumptions | **1,545,514** | **–** | **1,545,514** |
| Changes in financial assumptions | **(121,177,379)** | **–** | **(121,177,379)** |
| | **(117,306,361)** | **6,718,388** | **(124,024,749)** |
| Benefits paid | **(137,102,474)** | **(135,158,336)** | **(1,944,138)** |
| Contributions | **–** | **58,460,000** | **(58,460,000)** |
| Balance at end of year | **₱973,500,626** | **₱812,802,276** | **₱160,698,350** |

| Present value of defined benefit obligations | 2020 | 2019 | 2018 |
|---|---|---|---|
| Beginning of the year | ₱14,323,727 | ₱9,917,017 | ₱2,660,387 |
| Retirement expense | 13,178,457 | 4,406,710 | 7,256,630 |
| Balance at end of year | ₱27,502,184 | ₱14,323,727 | ₱9,917,017 |

The components of the fair value of plan assets are as follows:

| | 2021 |
|---|---|
| Assets: | |
| Cash and cash equivalents | ₱3,635,181 |
| Debt investments - domestic | 628,622,969 |
| Equity investments - domestic | 197,659,965 |
| Interest receivable | 2,782,036 |
| Other receivable | 14,241,213 |
| | 846,941,364 |
| Liabilities: | |
| Accrued trust fees | 436,201 |
| Other payables | 33,702,887 |
| | 34,139,088 |
| | ₱812,802,276 |

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

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

The cost of defined benefit pension plans, 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 obligations for the defined benefit plans are shown below:

| | 2021 |
|---|---|
| Discount rate | 4.90% to 5.26% |
| Salary increase rate | 2.00% to 5.00% |

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

| | Increase (Decrease) | Effect on Defined Benefit Obligation in 2021 |
|---|---|---|
| Discount rate | 1.00% | (₱85,050,877) |
| | (1.00%) | 101,641,027 |
| Salary increase rate | 1.00% | 101,105,069 |
| | (1.00%) | (86,148,542) |

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

| | 2021 |
|---|---:|
| Less than 1 year | ₱159,607,263 |
| More than 1 year and up to 5 years | 394,313,518 |
| More than 5 years and up to 10 years | 363,634,906 |
| | ₱917,555,687 |

The average duration of the defined benefit obligation at the end of the reporting period is 13.57 years as of December 31, 2021.

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 MWCI, MWPVI, Boracay Water, Clark Water, Laguna Water, Obando Water, and BMDC in consideration of the contribution advice from the actuary. MWCI and Clark Water expect to make an additional contribution in 2022 amounting to ₱82.46 million while MWPVI, Boracay Water, and Laguna Water have no expected contributions to their respective defined benefit pension plans in 2022.

As of December 31, 2021, the plan assets' shares of stock of Bloomberry Resorts Corporation and International Container Terminal Services, Inc. (ICTSI) with a total fair value of ₱4.79 million in 2021.

## 20. **Other noncurrent liabilities**

| | 2021 |
|---|---:|
| Share purchase payable (see Note 4) | ₱4,143,482,635 |
| Deferred credits | 446,422,967 |
| Customers' guaranty deposits and other deposits | 424,557,898 |
| | ₱5,014,463,500 |

Share purchase payable pertains to the amount due to Philwater for the purchase of MWCI's preferred shares. The rollforward analysis of this account follows:

| | 2021 |
|---|---:|
| Balance at June 3, 2021 (see Note 4) | ₱4,053,261,756 |
| Accretion (see Note 24) | 90,220,879 |
| Balance at end of year | ₱4,143,482,635 |

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

| | 2021 |
|---|---|
| Acquired from business combination (see Note 4) | ₱445,365,847 |
| Additions | 18,053,690 |
| Amortization | (16,996,570) |
| Balance at end of year | ₱446,422,967 |

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.

## 21. **Equity**

Capital Stock and Additional Paid-in Capital as of December 31, 2021 and 2020:

| | Number of Shares | Capital Stock | Additional Paid-in Capital |
|---|---|---|---|
| Authorized shares - ₱1 par value | 50,000,000 | ₱50,000,000 | ₱– |
| Issued and subscribed: | | | |
| Issued shares | 47,416,770 | ₱47,416,770 | ₱5,725,047,914 |
| Subscribed shares | 2,583,230 | 2,583,230 | 593,540,585 |
| | 50,000,000 | ₱50,000,000 | ₱6,318,588,499 |

Upon incorporation, the Parent Company issued 2.5 million shares with a par value of ₱1.0 per share or an aggregate amount of ₱2.5 million to the Parent's incorporators, of which PSHI is the controlling shareholder.

On December 4, 2020, PSHI subscribed to 20.0 million shares of the Parent Company at par value, which was paid by way of assignment of deposits to PMIHC and PMPHC amounting to ₱10.0 million each.

On December 29, 2020, PSHI subscribed to an additional 10,335,470 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱2,385.1 million. The said subscription was paid by way of assignment of deposits to PMIHC of ₱726.8 million, PMPHC of ₱1,109.7 million, and TWCHI of ₱539.8 million, and PII of ₱6.3 million; and by way of assignment of PSHI's receivable from the Parent amounting to ₱2.5 million. As a result, additional paid-in capital of ₱2,374.8 million was recognized on this subscription.

On the same date, PSHI subscribed to an additional 14,581,300 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱3,364.9 million. The said subscription was paid by way of assignment of deposits to PMPHC and PMIHC amounting to ₱2,973.5 million and ₱391.4 million, respectively. As a result, additional paid-in capital of ₱3,350.3 million was recognized on this subscription.

On the same date, PSHI subscribed to an additional 2,583,230 shares of the Parent at a subscription price of approximately ₱230.77 per share for an aggregate consideration of ₱596.1 million. As a result, additional paid-in capital of ₱593.5 million was recognized on this subscription. As of

December 31, 2020, the said subscription remains unpaid and is presented as “Subscription receivable” in the 2020 statement of financial position.

| | **2021** | | | |
|---|---|---|---|---|
| | **Capital Stock** | **Additional Paid-in Capital** | **Subscription Receivable** | **Paid-in Capital** |
| Balance at beginning of year | **₱50,000,000** | **₱6,318,588,499** | **(₱596,123,815)** | **₱5,772,464,684** |
| Collection of subscription receivable | – | – | **596,123,815** | **596,123,815** |
| Balance at end of year | **₱50,000,000** | **₱6,318,588,499** | **₱–** | **₱6,368,588,499** |

| | 2020 | | | |
|---|---|---|---|---|
| | Capital Stock | Additional Paid-in Capital | Subscription Receivable | Paid-in Capital |
| Balance at beginning of year | ₱– | ₱– | ₱– | ₱– |
| Subscription and subscription payment | 50,000,000 | 6,318,588,499 | (596,123,815) | 5,772,464,684 |
| Balance at end of year | ₱50,000,000 | ₱6,318,588,499 | (₱596,123,815) | ₱5,772,464,684 |

The parent company was incorporated in 2020 and as such, has no paid-in-capital as at December 31, 2019 and 2018.

Deposit for Future Stock Subscription

On August 4, 2021, the BOD and stockholders of PIHI approved the increase in PIHI’s authorized capital stock from ₱50.0 million divided into 50.0 million shares with a par value of ₱1.00 per share to ₱1.4 billion divided into (a) 13.3 billion common shares with a par value of ₱0.1 per share and (b) 7.0 billion preferred shares with par value of ₱0.01 per share.

On November 19, 2021, PSHI subscribed to an additional 6,437,541,980 common shares of the Company at a subscription price of ₱0.10 per share for an aggregate consideration of ₱634,754,198. Pending the SEC approval for the increase in PIHI’s authorized capital stock, the total deposits received from PSHI were recognized as “Deposit for future stock subscription” under the equity section, in the consolidated statement of financial position as of December 31, 2021. On December 15, 2021 the SEC received the certificate of increase in capital stock of the Company. As at April 6, 2022, SEC approval is still pending.

Subscription Receivable

On December 29, 2020, PSHI made a subscription to 2,583,230 common shares of the Group at ₱230.77 per share or an aggregate amount of ₱596.1 million. The subscription receivable was fully settled in February 2021.

Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates accounted for under the equity method amounting to ₱1,389.4 million, ₱558.9 million, ₱23.6 million and nil as of December 31, 2021, 2020, 2019 and 2018, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies. The Group’s retained earnings as of December 31, 2021 also includes gain on acquisition of a subsidiary amounting to ₱9,120.3 million which is not available for dividend declaration (see Note 4).

## 22. Revenue from Contracts with Customers

Revenue

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Water and other related revenues | **₱11,982,732,675** | ₱– | ₱– | ₱– |
| Construction revenue | **2,673,849,268** | 2,857,245,666 | 2,294,564,148 | 1,179,523,952 |
| Sale of electricity | **493,778,098** | 377,181,611 | – | – |
| | **₱15,150,360,041** | ₱3,234,427,277 | ₱2,294,564,148 | ₱1,179,523,952 |

Other operating income included under water and other related revenues above are as follows:

| | 2021 |
|---|---|
| Supervision fees (Note 28) | ₱117,571,956 |
| Connection fees from water and service connections | 143,857,425 |
| Pipeworks and integrated used water services | 116,993,639 |
| Service income from bulk water contracts (Note 7) | 87,383,571 |
| Operations and maintenance services | 52,042,516 |
| Septic sludge disposal and bacteriological water analysis | 24,768,685 |
| Reconnection fee | 20,315,392 |
| Income from customer late payments | 20,491,847 |
| Recovery of expenses | 23,785,392 |
| Miscellaneous | 6,696,855 |
| | ₱613,907,279 |

## 23. Cost of Services

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Depreciation and amortization (Note 10, 13, and 18) | **₱2,154,671,052** | ₱91,573,952 | ₱53,670,699 | ₱13,287,089 |
| Salaries, wages and employee benefits | **1,063,561,876** | 362,320,326 | 159,412,760 | 131,766,528 |
| Other direct materials | **1,007,874,102** | 968,948,505 | 417,991,828 | 390,839,225 |
| Power, light and water | **909,736,336** | – | – | – |
| Contractual and outside services | **788,131,733** | 785,614,617 | 1,162,618,314 | 490,166,622 |
| Repairs and maintenance | **309,134,670** | – | – | – |
| Water treatment chemicals | **298,658,982** | – | – | – |
| Management, technical and professional fees | **235,278,081** | – | – | – |
| Regulatory costs | **165,007,508** | – | – | – |
| Wastewater costs | **105,149,065** | – | – | – |
| Water tankering and bulk water costs | **104,929,657** | – | – | – |
| Amortization of water service connections | **87,035,461** | – | – | – |
| Collection fees | **78,511,774** | – | – | – |
| Overhead | **276,407,930** | 145,154,030 | 28,585,212 | 14,167,467 |
| | **₱7,584,088,227** | ₱2,353,611,430 | ₱1,822,278,813 | ₱1,040,226,931 |

Overhead includes vehicle and equipment rental, indirect labor, repairs and maintenance, supplies, indirect labor and other overhead costs.

## 24. **Operating Expenses, Interest Income and Interest Expense**

a. Operating expenses consist of:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Personnel cost (Notes 19 and 28) | **₱1,000,178,526** | ₱203,788,001 | ₱193,427,334 | ₱136,214,370 |
| Management, technical, and professional fees (Note 28) | **417,407,255** | 105,078,915 | 31,529,171 | 75,335,196 |
| Provision for ECL (Notes 7 and 9) | **460,776,236** | 201,701,123 | – | – |
| Provisions and MWSS penalty (Notes 1 and 36) | **335,364,963** | – | – | – |
| Taxes and licenses | **303,968,542** | 34,087,111 | 13,814,533 | 4,355,554 |
| Depreciation and amortization (Notes 10, 13 and 15) | **240,600,751** | 30,111,371 | 33,661,509 | 10,801,945 |
| Outside services | **202,241,223** | 39,502,822 | 46,498,354 | 15,188,294 |
| Repairs and maintenance | **175,956,645** | 3,550,807 | 4,554,805 | 1,995,155 |
| Business development expense | **151,500,713** | 21,154,455 | 1,985,958 | – |
| Insurance | **78,949,603** | 16,179,979 | 3,977,464 | 3,289,768 |
| Representation and entertainment | **24,735,057** | 3,256,718 | 4,032,923 | 4,368,526 |
| Rent | **17,731,282** | 2,313,794 | 2,081,053 | 18,418,567 |
| Advertising and promotions | **17,219,210** | 3,104,645 | 1,775,744 | 257,002 |
| Transportation and travel | **17,083,014** | 16,379,302 | 21,705,748 | 13,030,444 |
| Communication, printing, light and water | **7,462,770** | 8,908,913 | 8,365,630 | 4,737,505 |
| Other personnel expenses | **2,160,474** | 4,085,553 | – | – |
| Fuel and oil | **3,662,897** | 1,272,126 | 2,595,490 | 2,449,487 |
| Recruitment, immigration and other services | **1,112,867** | 1,524,979 | – | 672,000 |
| Office supplies | **952,493** | 626,632 | – | 84,048 |
| Trainings and seminars | **–** | 394,425 | – | – |
| Staffing expenses | **–** | – | 15,519,740 | – |
| Others | **28,578,952** | 39,228,333 | 31,913,490 | 20,461,072 |
| | **₱3,487,643,473** | ₱736,250,004 | ₱417,438,946 | ₱311,658,933 |

b. Interest income is earned from the following:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Cash and cash equivalents and short-term investments (Note 6) | **₱48,192,421** | ₱2,885,754 | ₱7,633,012 | ₱705,760 |
| Finance income from contract assets (Note 9) | **345,158,539** | 270,455,070 | 3,010,566 | – |
| Others | **167,962** | – | – | – |
| | **₱393,518,922** | ₱273,340,824 | ₱10,643,578 | ₱705,760 |

c. Interest expense is incurred from the following:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Long-term debt (Note 17): | | | | |
| Coupon interest | **₱1,207,829,267** | ₱18,666,553 | ₱– | ₱– |
| Amortization of debt discount, issuance costs and premium | **100,652,193** | 2,665,150 | – | – |
| Service concession obligations (Note 10) | **382,301,434** | 20,090,878 | 9,720,358 | – |
| Share purchase payable (Note 20) | **90,220,879** | – | – | – |
| Lease liabilities (Note 18) | **15,328,459** | 5,780,623 | 7,214,173 | 3,644,747 |
| Retirement liability (Note 19) | **3,892,424** | – | – | – |
| Intercompany loan (Note 28) | **–** | 1,162,590 | 2,524,438 | 2,660,731 |
| Other financing charges (Notes 17 and 20) | **154,449,686** | – | – | – |
| | **₱1,954,674,342** | ₱48,365,794 | ₱19,458,969 | ₱6,305,478 |

Other financing charges consist of interest expense on short-term loans, hedging costs, hedging ineffectiveness, amortization of guaranty deposits, and loan pre-termination fees.

## 25. Discontinued Operations

*MWTS Healthy Family*
On August 26, 2020, MWTS announced the permanent closure of its Healthy Family business division effective October 31, 2020 due to its recurring losses and inability to financially sustain business operations, which qualified the MWTS Healthy Family division as a discontinued operation for the years ended December 31, 2020 and 2021.

As of December 31, 2021, MWTS Healthy Family division net income amounted to nil with net cash flows from operations amounting to ₱13.0 million.

*Zamboanga Water*
On April 3, 2020, the ZCWD requested for the termination of the NRWRSA citing the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the DMAs established by Zamboanga Water has rendered the NRWRSA impractical and unworkable. On April 30, 2020, Zamboanga Water approved the termination of the NRWRSA, without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRWRSA, which qualified Zamboanga Water as a discontinued operation.

The results of operations of Zamboanga Water in 2021 are as follows:

| | Amount |
|---|---|
| Revenue from contracts with customers | ₱189,925 |
| Cost of services and operating expenses and provision for income tax | (12,469,823) |
| Net loss from discontinued operations | (₱12,279,898) |

The net cash flows of Zamboanga Water in 2021 are as follows:

| | Amount |
|---|---|
| Operating | (₱3,862,160) |
| Financing | 3,500,000 |
| Net decrease in cash and cash equivalents | (₱362,160) |

The net income attributable to the owners of MWCI and noncontrolling interest from continuing and discontinued operations in 2021 are as follows:

| | Amount |
|---|---|
| Net income (loss) attributable to: | |
| Equity holders of Manila Water Company, Inc. | |
| Continuing operations | ₱3,681,924,333 |
| Discontinued operations | (8,595,725) |
| | ₱3,673,328,608 |
| Noncontrolling interests: | |
| Continuing operations | ₱84,493,792 |
| Discontinued operations | (3,683,882) |
| | ₱80,809,910 |
| EPS | |
| Basic/Diluted, net loss from discontinued operations | (₱0.2) |

## 26. Income Taxes

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Current | **₱917,337,905** | ₱125,446,230 | ₱121,750,461 | ₱– |
| Deferred | **(166,157,230)** | (41,452,043) | (55,935,616) | (29,517,748) |
| Final | **1,289,648** | – | – | – |
| | **₱752,470,323** | ₱83,994,187 | ₱65,814,845 | (₱29,517,748) |

The Group used the Itemized Deduction in determining the amount of their deductible expenses for income tax purposes. As a result, the applicable income tax rate is the Regular Corporate Income Tax rate of 25.00% and Minimum Corporate Income Tax rate of 1.00%, while foreign subsidiaries are subject to tax rates applicable in their respective countries.

A reconciliation of provision for income tax at the statutory income tax rate to provision for income tax as shown in the consolidated statements of comprehensive income follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Provision for income tax computed at statutory rate | **25.00%** | 30.00% | 30.00% | 30.00% |
| Income tax effects of: | | | | |
| Retrospective effect of the change in tax rate | **0.05** | – | – | – |
| Difference in statutory income tax rate of foreign subsidiaries | **(0.46)** | (9.90) | 22.79 | – |
| Income exempt from income tax | **(45.72)** | (5.32) | (4.25) | – |
| Interest income subject to final tax | **(0.08)** | (0.14) | (5.13) | 0.12 |
| Change in unrecognized deferred tax assets | **0.67** | 0.45 | 63.65 | (12.83) |

*(Forward)*

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Nondeductible expense | **25.18** | 0.43 | 3.05 | (0.39) |
| Expired/applied NOLCO | **0.59** | 3.64 | – | – |
| Translation adjustments | **(0.04)** | (5.41) | 33.59 | – |
| Excess of 40% Optional Standard Deduction (OSD) against allowable deductions | **0.01** | – | – | – |
| Share on provision for current income tax on joint operation (see Note 30) | **0.03** | 2.20 | 3.89 | – |
| Others | **1.05** | – | – | |
| | **6.28%** | 15.94% | 147.59% | 16.90% |

On March 26, 2021, President Rodrigo Duterte signed the RA No. 11534, the Corporate Recovery and Tax Incentives for Enterprises Act, (the "CREATE Law") which became effective on April 11, 2021. The CREATE Law intends to incentivize businesses by reducing corporate income tax, among others. The following are the key changes to the Philippine tax law pursuant to the CREATE Law which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.
- Foreign-sourced dividends shall only be exempt from taxation if (1) the funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation within the next taxable year from the time the foreign-sourced dividends were received; (2) shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure projects; (3) provided that the said domestic corporation holds directly at least 20.00% of the outstanding shares of the foreign corporation and has held the shares for at least two (2) years at the time of the dividend distribution.
- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.

The CREATE Law likewise rationalizes income fiscal incentives, making them time-bound, targeted, and performance-based. Holders of tax incentives are given a sunset period to adjust to the tax regime changes that will be brought about by the CREATE Law. Consequently, upon the effectivity of the CREATE Law, some tax exemptions or tax incentives enjoyed by certain members of the Group have expired, will be revoked, or have been repealed, or, if other new laws are enacted, the income from these sources will be subject to the regular corporate income tax rate after the lapse of the sunset period.

As of December 31, 2021, the CREATE Law's retrospective and 5% income tax rate reduction impact on the Group's current income tax expense amounted to a ₱231.7 million reduction, ₱145.7 million additional expense arising from deferred income taxes in the profit or loss, and ₱5.0 million additional expense from deferred income taxes in the OCI.

The component of the Group's net deferred tax assets follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Service concession liability, net of service concession asset | **₱1,720,907,947** | ₱8,943,371 | ₱2,916,107 | ₱– |
| Business acquisition fair value adjustments: | | | | |
| Investment in associates | **770,959,903** | – | – | – |
| Property, plant and equipment | **45,558,602** | – | – | – |
| Loans | **15,780,224** | – | – | – |
| Provision and accruals | **573,691,653** | 71,372,812 | – | – |
| Unrealized forex loss | **164,671,598** | 589,603 | – | – |
| NOLCO and MCIT | **141,464,697** | – | – | 20,679,377 |
| Allowance for ECL | **111,441,555** | – | – | – |
| Advances from customers/ contract liabilities | **128,747,630** | 76,229,891 | 107,148,530 | 79,488,267 |
| Retirement liability | **36,693,658** | 8,250,655 | – | – |
| Unrealized loss on financial asset at FVOCI | | | | |
| Lease liability, net of right-of-use assets | **3,291,344** | 4,040,772 | 2,985,394 | – |
| Others | **9,127,795** | – | – | – |
| | **3,722,336,606** | 169,427,104 | 113,050,031 | 100,167,644 |
| Deferred tax liabilities: | | | | |
| Difference between amortization expense of SCA per straight line method and per UOP | **(1,324,896,862)** | – | – | – |
| Business acquisition fair value adjustments: | | | | |
| Service concession assets | **(507,165,766)** | – | – | – |
| Service concession obligations | **(56,851,904)** | – | – | – |
| Right-of-use assets | **(1,035,756)** | – | – | – |
| Derivatives | **(140,746,814)** | – | – | – |
| Bond discount | **(71,266,284)** | – | – | – |
| Right-of-use assets-net | **(8,658,121)** | – | – | – |
| Advances to contractors | **(9,807,070)** | (12,892,807) | (2,975,537) | (47,894,403) |
| Difference between the carrying amount of contract asset and related tax base of construction in progress | – | (8,475,840) | (1,718,780) | – |
| Others | **(11,185,565)** | – | – | – |
| | **(2,131,614,142)** | (21,368,647) | (6,259,749) | (49,341,204) |
| | **₱1,590,722,464** | ₱148,058,457 | ₱106,790,282 | ₱50,826,440 |

The components of the Group's net deferred tax liabilities are as follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Deferred tax liabilities | | | | |
| Customer relationship | **₱177,932,188** | ₱– | ₱– | ₱– |
| Difference between amortization expense of SCA per straight-line method and per UOP | **170,151,426** | – | – | – |
| Contract assets from bulk water arrangements | **110,032,005** | – | – | – |
| Revaluation surplus on land | **99,706,312** | – | – | – |
| Accrued receivables | **57,551,112** | – | – | – |
| Unrealized gain on bargain purchase | **11,633,709** | – | – | – |
| Advances to contractors/contract assets | **11,879,944** | – | – | – |
| Unrealized gain on financial asset at FVOCI | **3,135,000** | 12,925,309 | – | – |
| Others | **30,221,638** | – | 28,226 | – |
| | **672,243,334** | 12,925,309 | 28,226 | – |
| Deferred tax assets: | | | | |
| Allowance for ECL | **(89,104,777)** | – | – | – |
| NOLCO | **(11,884,242)** | – | – | – |
| Retirement liability | **(11,401,978)** | – | – | – |
| Provision and accruals | **(15,411,592)** | – | – | – |
| Lease liability, net of right-of-use asset | **–** | (155,642) | – | – |
| | **(127,802,589)** | (155,642) | – | – |
| | **₱544,440,745** | ₱12,769,667 | ₱28,226 | ₱– |

Deferred tax assets on the following NOLCO and other temporary differences were not recognized since management believes that it is not probable that sufficient future taxable income will be available against which these can be utilized:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| | | *(in millions)* | | |
| NOLCO | **₱1,271.5** | ₱248.8 | ₱235.9 | ₱126.1 |
| Lease liability, net of right-of-use assets | **2.8** | 2.4 | 0.5 | – |
| Unrealized foreign exchange loss | **–** | 12.0 | 4.6 | – |
| Retirement liability | **–** | – | 14.3 | 9.9 |
| Allowance for ECL | **312.4** | – | – | – |
| | **₱1,586.7** | ₱263.2 | ₱255.3 | ₱136.0 |

*MWCI*
Deferred tax on allowance for ECL was not recognized by MWCI. The net reduction in deferred tax assets from applying the effective income 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 MWCI. As of December 31, 2021, deferred taxes on allowance for ECL amounting to ₱312.35 million was not recognized.

*NOLCO*
On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years

2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2021, the Group has incurred NOLCO before taxable year 2021 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years, as follows:

| Year Incurred | Availment Period | Amount | Applied/Expired | Unapplied |
|---|---|---|---|---|
| 2018 | 2019 to 2021 | ₱237,708,146 | ₱231,754,559 | ₱5,953,587 |
| 2019 | 2020 to 2022 | 421,950,241 | 122,769,297 | 299,180,944 |
| | | ₱659,658,387 | ₱354,523,856 | ₱305,134,531 |

As of December 31, 2021, the Group has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

| Year Incurred | Availment Period | Amount | Applied/Expired | Unapplied |
|---|---|---|---|---|
| 2020 | 2021 to 2025 | ₱708,849,056 | ₱645,680 | ₱708,203,376 |
| 2021 | 2022 to 2027 | 1,008,816,291 | – | 1,008,816,291 |
| | | ₱1,717,665,347 | ₱645,680 | ₱1,717,019,667 |

*MCIT*

The movements of the Group's MCIT as of December 31, 2021 which can be claimed against future Regular Corporate Income Tax due on taxable income, but not beyond three (3) succeeding taxable years from the year the excess MCIT arose, are as follows:

| Year Incurred | Amount | Applied/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2019 | ₱3,128,936 | ₱– | ₱3,128,936 | 2022 |
| 2020 | 8,636,013 | – | 8,636,013 | 2023 |
| 2021 | 8,172,044 | – | 8,172,044 | 2024 |
| | ₱19,936,993 | ₱– | ₱19,936,993 | |

## 27. Earnings per share

Earnings per share amounts attributable to equity holders of the Parent Company for the years ended December 31, 2021, 2020, 2019 and 2018 were computed as follows:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Net income (loss) attributable to common equity holders of the Parent Company: | | | | |
| Continuing operations | **₱9,368,001,224** | ₱356,020,597 | (₱78,572,684) | (₱117,267,595) |
| Discontinued operations | **(4,370,312)** | – | – | – |
| Net income attributable to common shareholders for basic and diluted earnings per share | **₱9,363,630,912** | ₱356,020,597 | (₱78,572,684) | (₱117,267,595) |

*(Forward)*

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Weighted average number of common shares for basic earnings per share | **₱50,000,000** | ₱50,000,000 | ₱50,000,000 | ₱50,000,000 |
| Dilutive common shares arising from stock options | **–** | – | – | – |
| Adjusted weighted average number of common stocks for diluted earnings per share | **–** | – | – | – |
| EPS before discontinued operations | | | | |
| Basic/Diluted earnings per share | **₱187.4** | ₱7.1 | (₱1.6) | (₱2.3) |
| EPS | | | | |
| Basic/Diluted earnings per share | **₱187.3** | ₱7.1 | (₱1.6) | (₱2.3) |

## 28. **Related Party Transactions**

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant transactions with related parties include the following:

| Category | Period | Amount of Transactions | Outstanding Balance of Receivable (Payable) | Terms | Conditions |
|---|---|---|---|---|---|
| ***Subsidiaries' Stockholders*** | | | | | |
| ***Ultimate Parent*** | | | | | |
| **Prime Strategic Holdings Inc. (PSHI)** | | | | | |
| *formerly Prime Metroline Holdings, Inc.* | | | | | |
| Due to related parties - deposit for conversion to equity | **2021** | **₱–** | **₱–** | Due and demandable; noninterest bearing | Unsecured, no impairment |
| | 2020 | – | – | | |
| | 2019 | (581,497,747) | (55,628,115) | | |
| | 2018 | 627,113,791 | (637,125,862) | | |
| Deposits received for future stock subscription | **2021** | **634,754,198** | **(634,754,198)** | To be applied to future stock subscription | Unsecured |
| | 2020 | (391,364,188) | – | | |
| | 2019 | 391,364,188 | (391,364,188) | | |
| | 2018 | – | – | | |
| ***Affiliates*** | | | | | |
| **Sureste Properties, Inc. (SPI)** | | | | | |
| Construction revenue | **2021** | – | – | 30 days; noninterest bearing | Unsecured, no impairment |
| | 2020 | 6,635,976 | – | | |
| | 2019 | 180,118,495 | – | | |
| | 2018 | 832,932,708 | 101,164,907 | | |
| Advances made | **2021** | **(480,631)** | **–** | Payable on demand; noninterest bearing | Unsecured, not impaired |
| | 2020 | (3,139,925) | 480,631 | | |
| | 2019 | 3,620,556 | 3,620,556 | | |
| | 2018 | – | – | | |
| **International Container Terminal Services, Inc. (ICTSI)-RHQ** | | | | | |
| Construction and project management revenue | **2021** | **805,980,226** | **17,260,232** | 30 days; noninterest bearing | Unsecured, no impairment |
| | 2020 | 1,851,520,897 | 309,694,702 | | |
| | 2019 | 1,905,941,763 | 177,554,882 | | |
| | 2018 | 331,838,143 | 44,259,665 | | |
| Retention receivable | **2021** | **–** | **87,974,582** | Shall be released upon lapse of period allotted; noninterest bearing | Unsecured, no impairment |
| | 2020 | **72,813,548** | 160,788,130 | | |
| | 2019 | 171,100,646 | 177,668,636 | | |
| | 2018 | 5,644,951 | 6,567,991 | | |
| Utilities charges | **2021** | **1,486,038** | **(3,583,952)** | No definite payment terms | Unsecured, no impairment |
| | 2020 | 1,565,346 | (2,097,914) | | |
| | 2019 | (1,572,680) | (532,568) | | |
| | 2018 | 2,105,248 | (2,105,248) | | |
| Lease liabilities* | **2021** | **4,628,829** | **(26,507,324)** | Payable for the lease period, noninterest bearing | Unsecured, no impairment |
| | 2020 | 19,354,519 | (47,215,786) | | |
| | 2019 | 20,389,433 | (58,475,861) | | |
| | 2018 | – | – | | |

| Category | Period | Amount of Transactions | Outstanding Balance of Receivable (Payable) | Terms | Conditions |
|---|---|---|---|---|---|
| **Cavite Gateway Terminal, Inc.** | | | | | |
| Construction revenue | **2021** | **–** | **–** | 30 days; noninterest bearing | Unsecured, no impairment |
| | 2020 | – | – | | |
| | 2019 | 218,947 | – | | |
| | 2018 | 12,737,134 | 3,021,908 | | |
| Trade receivables from related parties (see Note 7) | **2021** | | **₱17,260,232** | | |
| | 2020 | | 309,694,702 | | |
| | 2019 | | 177,554,882 | | |
| | 2018 | | 148,446,480 | | |
| Retention receivables from related parties (see Notes 7 and 15) | **2021** | | **₱87,974,582** | | |
| | 2020 | | 160,788,130 | | |
| | 2019 | | 177,668,636 | | |
| | 2018 | | 6,567,991 | | |
| Due from related parties | **2021** | | **₱–** | | |
| | 2020 | | 480,631 | | |
| | 2019 | | 3,620,556 | | |
| | 2018 | | – | | |
| Due to related parties - deposit for conversion to equity | **2021** | | **₱–** | | |
| | 2020 | | – | | |
| | 2019 | | (55,628,115) | | |
| | 2018 | | (637,125,862) | | |
| Lease liabilities | **2021** | | **(₱26,507,324)** | | |
| | 2020 | | (47,215,786) | | |
| | 2019 | | (58,475,861) | | |
| | 2018 | | – | | |
| Accounts payable and other liabilities | **2021** | | **(₱3,583,952)** | | |
| | 2020 | | (2,097,914) | | |
| | 2019 | | (532,568) | | |
| | 2018 | | (2,105,248) | | |
| Deposits received for future stock subscription | **2021** | | **(₱634,754,198)** | | |
| | 2020 | | – | | |
| | 2019 | | (391,364,188) | | |
| | 2018 | | – | | |

** Amount of transactions disclosed pertain to ROU asset amortization and interest accretion on lease liabilities.*

The transactions are generally settled in cash. Other significant transactions with related parties follow:

a. Total remuneration of key management personnel, consisting of short-term benefits, amounted to ₱52.4 million, ₱30.5 million, ₱16.7 million and nil since the management functions are undertaken by a related party for the years ended December 31, 2021, 2020, 2019 and 2018. There are no long-term benefits for key management personnel.

b. The Group has outstanding advances subject to liquidation from key management personnel recorded under "Trade and other receivables" in the consolidated statements of financial position amounting to ₱0.2 million, ₱3.4 million, ₱0.4 million and ₱0.6 million as at December 31, 2021, 2020, 2019, and 2018, respectively.

## 29. **Commitments**

Contract with Diyar AlRahma for Construction
In November 2018, the PMPHC engaged the services of Diyar AlRahma for Construction to implement the supply and installation of the natural gas pipeline for the Project site. As at December 31, 2020 and 2019, the total fees paid and outstanding payable to Diyar AlRahma amounted to ₱628.8 million and ₱29.8 million and ₱553.7 million and ₱104.9 million, respectively.

EPC Turnkey Contract with Butec S.A.L., and Payment Assignment Agreement with Butec S.A.L. and Wartsila Finland Oy
On October 11, 2018, the PMPHC entered into an Engineering, Procurement and Construction (EPC) Turnkey Contract with Butec S.A.L (Butec) for the Project.

On the same day, Butec and Wartsila Finland Oy (Wartsila) signed a supply contract for Butec to buy and for Wartsila to deliver equipment specified in the supply contract at the Port of Umm Qasr, Basra, Iraq, and to provide technical assistance during the installation and commissioning of the Project.

For consideration in ensuring efficiencies in the management of the Project, the Group entered into a payment assignment agreement with Butec and Wartsila so that certain payments under the EPC Turnkey Contract can be paid directly by the Group to Wartsila.

In February 2019, the construction of the Project commenced. The percentage of completion of the Project is at 90% as at December 31, 2019 with contract cost amounting to ₱2,432.2 million.

On February 18, 2020, the construction of the project was completed and a certificate of completion was issued by the Group. Additional construction cost incurred for 2020 amounted to ₱133.3 million.

As at December 31, 2021, 2020 and 2019, the total fees paid and outstanding payable to Butec amounted to ₱860.5 million and ₱12.6 million, ₱821.1 million and ₱23.2 million, and ₱802.2 million and ₱42.1 million, respectively.

Joint Venture Agreement with SLRPEWI
On January 17, 2020, the irrevocable option period was extended for another six (6) months from July 2, 2020, or up to January 2, 2021. On September 18, 2020, the irrevocable option period was extended again from January 2, 2021 up to April 30, 2022.

As at December 31, 2021 the due diligence review and feasibility study of the CHP project are still ongoing and was extended up to April 30, 2022 within which to study, consider and pursue the commercial development of the project.

Joint Venture Agreement with San Lorenzo Ruiz Builders and Developers Group, Inc. (SLRBDGI)
On January 2, 2018, PSHI entered into a JVA with SLRBDGI for the development of the WWP.

In accordance with the JVA, SLRBDGI shall apply for and obtain the required government approval for the assignment of the Wawa Water Permit (and the application for the volume increase) to WawaJVCo in exchange for the issuance of fully paid common shares of WawaJVCo equivalent to 18% of the outstanding common shares and the right to receive additional considerations from WawaJVCo. SLRBDGI shall also turn-over to WawaJVCo all permits and licenses that it has relating to the WWP. Under the JVA, the Parent Company shall undertake the necessary due diligence review and feasibility of the WWP and also cooperate and assist SLRBDGI in obtaining the required government approval for the assignment of the Wawa Water Permit (and the application for the volume increase) to WawaJVCo. In addition, PSHI shall subscribe to and pay for in cash 82% of the outstanding common shareholdings of the WawaJVCo.

Pursuant to the JVA, PSHI paid a down payment in the amount of ₱50.0 million to study, consider and pursue the commercial development of the WWP under WawaJVCo for 18 months (irrevocable option period).

On April 11, 2019, WawaJVCo, the resulting entity of the JVA, was incorporated with the Group owning 82% while the remaining 18% is owned by SLRBDGI.

On June 3, 2019, PSHI assigned its 82% ownership in WawaJVCo to Prime Metroline Infrastructure Holdings Corporation for ₱2.5 million.

On December 5, 2019, PMIHC and WawaJVCo entered into a reimbursement agreement wherein WawaJVCo will pay ₱100.0 million to the PMIHC, in connection with the down payment paid by the Group to SLRBDGI for the irrevocable option to study, consider and pursue the commercial development of the WWP, and for the payments made in accommodation and for the benefit of WawaJVCo.

MWC Concession Agreement
The significant commitments under the Concession Agreement and Extension are as follows:

a. To pay MWSS concession fees;
b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of MWC obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

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

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

With a minimum of ten (10)-day written notice period to the MWC, 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 MWC 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;

a. With the Extension, MWCI agreed to increase its annual share in MWSS operating budget by 100% from ₱100.00 million to ₱395.00 million, subject to annual CPI;
b. 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;
c. 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 MWC);
d. 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;
e. To ensure that at all times, the MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and
f. To ensure that no debt or liability that would mature after the life of the Concession Agreement will be incurred unless with the approval of MWSS.

MWC is committed to perform its obligations under the RCA to safeguard its continued right to operate the East Zone concession.

Calasiao Water’s Concession Agreement
The significant commitments of Calasiao Water under its concession agreement with CWD are as follows:
a. Finance, design, engineer, and construct new facilities for water;
b. Upgrade existing water facilities;
c. Operate, manage, and maintain water facilities and services; and
d. Bill and collect tariff for water services.

Calbayog Water’s JVA with CCWD
The significant commitments of Calbayog Water under its JVA are as follows:
a. Develop, improve, and expand the water infrastructure of CCWD;
b. Provide water supply and install new water service connections;
c. Ensure continuous water supply and appropriate pressure;
d. Connect water service connections to the water main;
e. Ensure potability of water supply and compliance with drinking water quality standards;
f. Provide high quality customer/after-sales service; and
g. Payment of revenue share of CCWD.

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-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, MWCI, as the main proponent of Boracay Water, shall post a bank security in the amount of US$2.50 million to secure MWCI's and Boracay Water's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWCI 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.

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

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

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

Clark Water's Concession Agreement
The significant commitments of Clark Water under its concession agreement with CDC are follows:
a. Pay franchise and lease fees of CDC;
b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;
c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the Clark Water; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;
d. Treat raw water and wastewater in CFZ;
e. Provide and manage all water and wastewater related services like assisting locator in relocating of pipes and assess internal leaks;
f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of RA No. 9400 effective 2007 even if it is located within the franchise area; and
g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

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

a. Extension of the original concession period for another fifteen (15) years up to October 1, 2040;
b. Additional investment of ₱4.00 billion provided under the amended concession agreement to be spent for further improvement and expansion water and wastewater services in the area. Investment requirement under the original CA amounted to ₱3.00 billion and the amended concession agreement required an additional investment of ₱2.00 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.00 billion;
c. Introduction of rate rebasing mechanism for every four (4) years starting 2014;
d. Reduction in tariff rates by 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/$m^3$ (from ₱24.63/$m^3$ to ₱25.04/$m^3$) in 2018
   ii. ₱0.42/$m^3$ (from ₱25.04/$m^3$ to ₱25.45/$m^3$) in 2019
   iii. ₱0.42/$m^3$ (from ₱25.45/$m^3$ to ₱25.87/$m^3$) in 2020
   iv. ₱0.43/$m^3$ (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 Clark Water's investment is now extended by another fifteen (15) years from 2025 to 2040.

On May 26, 2017, Clark Water submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in its concession agreement. As of December 31, 2021, Clark Water's 2018 rate rebasing is still ongoing which put on hold the approved tariff increases when the concession agreement was amended in August 15, 2014.

<u>Bulakan Water's Concession Agreement</u>
The significant commitments of Bulakan Water under its concession agreement with BuWD are as follows:

a. Financing, designing, engineering, and constructing new facilities for water and sanitation such as, but not limited to, deep wells, reservoirs, and booster pumps;
b. Upgrading of existing water and sanitation facilities, including water network replacement and expansion;
c. Operating, managing, and maintaining water and sanitation facilities and services; and
d. Billing and collection of tariff for water and sanitation services including a seven (7)-year replacement cycle program commencing on Year 1 of the concession.

<u>Ilagan Water's BWSPA with CIWD</u>
The significant commitments of Ilagan Water under the BWSPA are as follows:

a. Develop raw surface water sources which includes planning, designing, building, financing, testing, operating, and upgrading the bulk water facilities related thereto; and
b. Provision of minimum guaranteed volume of five (5) million liters of treated water per day on Year 1, gradually increasing to thirty (30) million liters per day on Year 23 of the operations of the bulk water facilities.

<u>Ilagan Water's SMA with CIWD</u>
The significant commitments of Ilagan Water under the SMA are as follows:

a. Develop septage facility which includes planning, designing, building, financing, testing, operating, and upgrading; and
b. Provision of septage management services to the customers of CIWD, particularly septage collection, septage treatment, and bio solids disposal for a period of twenty-two (22) years.

South Luzon Water's JVA with TnWD

The significant commitments of South Luzon Water under its JVA are as follows:

a. Develop, improve, and expand the water infrastructure of TnWD;
b. Provide water supply and install new water service connections;
c. Provide sanitation services and septage management within the service area;
d. Ensure continuous water supply and appropriate pressure;
e. Connect water service connections to the water main;
f. Ensure potability of water supply and compliance with drinking water quality standards;
g. Provide high quality customer/after-sales service;
h. Payment of revenue share to TnWD; and
i. Such other obligations as may be agreed upon by the Parties.

Obando Water's Concession Agreement

The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. Finance, design, engineer, and construct new facilities for water and sanitation;
b. Upgrade existing water and sanitation facilities;
c. Operate, manage, and maintain water and sanitation facilities and services; and
d. Bill and collect tariff for water and sanitation services.

Laguna Water's Concession Agreement

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

a. To pay PGL concession fees;
b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;
c. To design, construct and commission the new facilities during the cooperation period;
d. To provide and manage the services;
e. To bill and collect payment from the 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 MWPVI signed an amendment to their JVA dated November 10, 2000. Simultaneously, and consequent to the amendment of the JVA of Laguna Water, Laguna Water signed an amendment to its concession agreement with the PGL which includes the following:

a. Expansion of its concession area to cover all cities and municipalities in the PGL; and
b. Inclusion in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

Laguna Water's APA with LTI

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

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

c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by Laguna Water;
d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;
e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. Laguna Water shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

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

Laguna Water's JVA with PAGWAD
The significant commitments of Laguna Water under its JVA with PAGWAD are as follows:
a. Finance, design, engineer, and construct new facilities for water and sanitation;
b. Upgrade existing water and sanitation facilities;
c. Operate, manage, and maintain water and sanitation facilities and services; and
d. Bill and collect tariff for water supply and sanitation services.

North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag in Pangasinan
The significant commitments of North Luzon Water under its MOAs are as follows:
a. Construct, maintain, and operate a water system;
b. Construct, maintain, and implement a septage management system;
c. Supply, sell, and furnish water to any person or entity within the territorial limits and political boundaries of the Municipalities of Sta. Barbara, San Fabian, and Manaoag for domestic, commercial or other use, and to charge and collect tariff for the supply of water; and
d. Provide septage management services and to charge and collect septage management fees and sewage collection.

Aqua Centro's JVA with LWD
The significant commitments of Aqua Centro under its JVA are as follows:
a. Develop, improve, and expand the water infrastructure of LWD;
b. Provide water supply and install new water service connections;
c. Ensure continuous water supply and appropriate pressure;
d. Connect water service connections to the water main;
e. Ensure potability of water supply and compliance with drinking water quality standards;
f. Provide high quality customer/after-sales service; and
g. Payment of revenue share to LWD.

Tagum Water's Bulk Water Supply and Purchase Agreement
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 Tagum Bulk Water Project;
d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
e. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by Tagum Water to implement the bulk water project will be owned by Tagum Water even after the expiration of the BWSPA.

Cebu Water's Bulk Water Supply Agreement

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 eighteen (18) million liters per day for the first year and thirty-five (35) million liters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter;
b. Ensure that the source shall be sustainable and 100% reliable at any day for the duration of the agreement; and
c. Construct a facility capable of delivering a production capacity of thirty-five (35) million liters per day and maintain the same on its account.

MWPVI's MOA with ALI

MWPVI's significant commitments under its MOA with ALI are as follows:

a. Provision of water and used water services in existing ALI Group developments;
b. Connection and disconnection of services to customers;
c. Collection of billings for water and used water services, including service connection fees, from all customers;
d. Customer relations and compliance with regulatory requirements;
e. Develop, construct, finance, own, operate, maintain, rehabilitate, and upgrade future water and used water facilities; and
f. Maintain, rehabilitate, and upgrade existing water and used water facilities at MWPVI's own cost.

MWPVI's Lease Agreement with PEZA

On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ for the provision of water and used water services to the locators therein. The lease agreement has a term of twenty-five (25) years from signing of the contract and shall be effective on its commencement date on February 1, 2018.

MWPVI's MOA with LTI

On April 16, 2016, the MWPVI entered into a MOA with LTI, whereby through its division, Estate Water, MWPVI shall exclusively providee water and used water services to LTI's Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

MWPVI's Deed of Accession with Ayala Land Malls, Inc.

MWPVI's significant commitments are as follows:

a. Provision of used water services in ALI Malls Group;
b. Compliance with regulatory requirements; and
c. Maintain, rehabilitate, and upgrade existing water and used water facilities at MWPVI's own cost.

Aqua Centro's MOAs with the SM Group

Under Aqua Centro's MOAs with the SM Group, Aqua Centro will develop, construct, finance, own, operate, maintain, rehabilitate, and upgrade the potable water and/or grey water facilities of the SM Group development.

Sublease Contract with International Container Terminal Services, Inc. (ICTSI)
In January 2019, PMBC and PMIHC entered into sublease contracts with ICTSI for the lease of office space; and furniture and fixtures commencing on January 1, 2019 to March 31, 2023 (see Note 28). On December 1, 2021, the sublease contracts of PMBC with ICTSI were pre-terminated and transferred to PMIHC.

Lease Contract with BDO
In 2018, PMBC entered into a Sale and Leaseback Agreement with BDO Leasing and Finance Inc, (BDOLFI) for a four-year finance lease of construction equipment. On March 18, 2019, BDOLFI approved the conversion of the remaining finance lease obligation amounting to ₱178.7 million (arising from Sale and Leaseback Agreement entered into by the Company and BDOLFI in 2018) into a commercial loan facility (see Note 17). Interest expense recognized under this finance lease amounted to ₱3.0 million and ₱3.7 million for the year ended December 31, 2019 and 2018, respectively.

In 2018, PMBC entered into lease contracts with BDO Rental, Inc. for the lease of various transportation equipment for a period of 3 years.

Lease Contract for office space
In 2019, the PMPHC entered into a lease contract for its office space. Security deposit paid, equivalent to two (2) months gross rent, amounted to ₱629,331 as of December 31, 2019.

## 30. Interest in Joint Operation

*PBD Joint Venture* (the Joint Venture), an unincorporated joint venture established to construct the Solaire Metro North (the Project), was registered with the Bureau of Internal Revenue (BIR) on May 7, 2019. The Joint Venture was formed on February 21, 2019, pursuant to a joint venture agreement (JVA) between D.M. Consunji, Inc. (DMCI) and PMBC collectively referred to as “the Parties”). The respective interests of the Parties in PBD Joint Venture shall be 50% to PMBC and 50% to DMCI.

The Group’s share in the assets and liabilities of the joint operation at December 31, 2021, 2020 and 2019 which are included in the consolidated statements of financial position follows:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | **₱91,637,790** | ₱187,846,917 | ₱18,572,753 |
| Receivables | **47,412,927** | 43,928,266 | 13,842,049 |
| Inventory | **20,021,251** | 33,777,100 | – |
| Prepayments and other current assets | **215,375,897** | 168,823,280 | 14,359,621 |
| Total current assets | **374,447,865** | 434,375,563 | 46,774,423 |
| Non-current assets: | | | |
| Property and equipment | **39,109,078** | 42,328,055 | 833,931 |
| Other non-current assets | **140,481,399** | 62,280,655 | 4,683,187 |
| Total non-current assets | **179,590,477** | 104,608,710 | 5,517,118 |
| Total assets | **₱554,038,342** | ₱538,984,273 | ₱52,291,541 |
| | | | |
| Liabilities - | | | |
| Accounts payable and other current liabilities | **₱474,151,350** | ₱481,944,403 | ₱47,709,915 |

Below summarized is the Group's share in the revenue and expenses of the joint operation for the years ended December 31, 2021, 2020 and 2019:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Construction revenue | **₱1,096,282,876** | ₱516,846,634 | ₱56,018,600 |
| Cost of services | **(1,069,641,550)** | (453,155,981) | (46,382,908) |
| Operating expenses | **(16,282)** | (215,371) | (3,334,268) |
| Interest income | **166,151** | 447,836 | 14,627 |
| Other income | **–** | 108,550 | – |
| Income before income tax | **26,791,195** | 64,031,668 | 6,316,051 |
| Provision for income tax | **(4,054,352)** | (11,573,424) | (1,734,425) |
| Net income | **₱22,736,843** | ₱52,458,244 | ₱4,581,626 |

## 31. Significant Contracts with the West Zone Concessionaire

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

a. Interconnection Agreement that provides for the arrangements on the cross-border flows both incidental or permanent transfers, including the water interconnection points. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones. For sewerage, the MWC and Maynilad may enter into a separate contracts.

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

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

d. On May 12, 2015, MWSS entered into a MOA with MWC and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered into a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, MWC and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

c. In 2016, MWSS entered into a MOA with MWC and Maynilad which was subsequently amended in 2018 for the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP aims to develop a new water source in order to meet the increasing water demand by constructing a dam for MWSS service area's domestic water supply.

To partially finance the NCWS-KDP, MWSS entered into a Preferential Buyer's Credit Loan Agreement with The Export-Import Bank of China in 2018 amounting to US$211.21 million with a maturity of twenty (20) years including a seven (7)-year grace period. As stipulated in the MOA, MWC and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

d. In 2021, MWC and Maynilad entered into a contract with Dohwa Engineering, Co. Ltd. for the construction management of the proposed Angat Water Transmission Project (Tunnel 5). On January 25, 2022, MWC and Maynilad entered into a contract with China International Water and Electric Corp. for the design and build of the proposed Angat Water Transmission Project (Tunnel 5). The contractor will provide the necessary resources, skills and expertise for the performance and completion of certain civil, electro-mechanical, installation and other related works. The Angat Water Transmission Project (Tunnel 5) is part of the MWSS's water security program which aims to provide (i) additional nineteen (19) cubic meters per second of raw water supply, and (ii) improve the reliability and operational flexibility of the Umiray-Angat-Ipo raw water conveyance system.

## 32. Assets Held in Trust

MWSS

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

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 MWCI on Commencement Date based on MWSS' closing audit report amounted to ₱4.60 billion, with a sound value of ₱10.40 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 August 28, 2012, additional office space was leased by the MWCI. The lease was last renewed on July 8, 2019. Payments amounting to ₱26.70 million, ₱36.40 million, and ₱40.04 million was recorded in 2021, 2020 and 2019, respectively, as deduction to lease liabilities.

In March 2015, the MWCI and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by the MWCI 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 payments amounting to ₱16.20 million each year is recorded from 2019 to 2021 as deduction to lease liabilities.

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

CCWD
On July 3, 2019, Calbayog Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of CCWD.

TIEZA
Boracay Water was 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.

CDC
Clark Water was granted the right to finance, design and construct new facilities and to manage, exclusively possess, occupy, operate, repair, maintain, decommission, and refurbish all facilities, except private deep wells, to provide and manage the water and wastewater-related services in the CFZ.

BuWD
On June 14, 2019, Bulakan Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the service area of BuWD.

TnWD
On February 4, 2019, South Luzon Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of TnWD.

OWD
On October 12, 2017, Obando Water was granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

PGL
Laguna Water was 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.

PAGWAD
On January 21, 2019, Laguna Water was granted the right to operate, finance, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required and exclusively used to provide water delivery and sanitation services in the service area of PAGWAD.

LWD
On July 3, 2019, Aqua Centro was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply in the service area of LWD.

## 33. Financial Risk Management Objectives and Policies

Fair Value Information
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, 2021, 2020, 2019 and 2018:

| | 2021 | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value Quoted Market Prices (Level 1) | Fair Value Significant Observable Inputs (Level 2) | Fair Value Significant Unobservable Inputs (Level 3) |
| | | (In Thousands) | | |
| **Financial assets at fair value** | | | | |
| Derivative asset | **₱386,712** | **₱–** | **₱386,712** | **₱–** |
| Financial asset at FVOCI | **1,617,040** | **96,140** | **1,520,900** | **–** |
| **Financial assets at amortized cost** | | | | |
| Deposits | **2,450,298** | **–** | **2,450,298** | **–** |
| Restricted cash | **225,403** | **–** | **225,403** | **–** |
| | **₱4,679,453** | **₱96,140** | **₱4,583,313** | **₱–** |
| **Other financial liabilities** | | | | |
| Due to a related party | **₱–** | **₱–** | **₱–** | **₱–** |
| Long-term loan | **86,687,277** | **–** | **–** | **86,687,277** |
| Lease liabilities | **497,547** | **–** | **–** | **497,547** |
| Service concession obligations | **8,840,975** | **–** | **–** | **8,840,975** |
| Customers' guaranty deposits and other deposits | **424,557** | **–** | **–** | **226,355** |
| | **₱96,450,356** | **₱–** | **₱–** | **₱96,252,154** |

| | 2020 | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value Quoted Market Prices (Level 1) | Fair Value Significant Observable Inputs (Level 2) | Fair Value Significant Unobservable Inputs (Level 3) |
| | | (In Thousands) | | |
| **Financial assets at fair value** | | | | |
| Financial asset at FVOCI | ₱1,885,168 | ₱799,000 | ₱1,086,169 | ₱– |
| **Financial assets at amortized cost** | | | | |
| Deposits | 6,952 | – | 6,952 | – |
| Restricted cash | 78,206 | – | 78,206 | – |
| | ₱1,970,326 | ₱799,000 | ₱1,171,327 | ₱– |
| **Other financial liabilities** | | | | |
| Long-term loan | 1,631,652 | – | – | 1,631,652 |
| Lease liabilities | 61,181 | – | – | 61,181 |
| Service concession obligations | 386,435 | – | 386,435 | – |
| | ₱2,079,268 | ₱– | ₱386,435 | ₱1,692,833 |

| | 2019 | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value Quoted Market Prices (Level 1) | Fair Value Significant Observable Inputs (Level 2) | Fair Value Significant Unobservable Inputs (Level 3) |
| | | (In Thousands) | | |
| **Financial assets at amortized cost** | | | | |
| Deposits | ₱7,886 | ₱– | ₱7,886 | ₱– |
| Restricted cash | 23,000 | – | 23,000 | – |
| | ₱30,886 | ₱– | ₱30,886 | ₱– |
| **Other financial liabilities** | | | | |
| Long-term loan | 139,405 | – | – | 139,405 |
| Lease liabilities | 77,527 | – | – | 77,527 |
| Service concession obligations | 366,344 | – | 366,344 | – |
| | ₱583,276 | ₱– | ₱366,344 | ₱216,932 |

| | 2018 | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value Quoted Market Prices (Level 1) | Fair Value Significant Observable Inputs (Level 2) | Fair Value Significant Unobservable Inputs (Level 3) |
| | | (In Thousands) | | |
| **Financial assets at amortized cost** | | | | |
| Deposits | ₱1,362 | ₱– | ₱1,362 | ₱– |
| **Other financial liabilities** | | | | |
| Lease liabilities | ₱190,925 | – | – | ₱190,925 |
| | ₱190,925 | ₱– | ₱– | ₱190,925 |

The methods and assumptions used by the Group in estimating the fair value of the long-term financial assets at amortized cost and other financial liabilities such as long-term debt, service concession obligations, and customers' guaranty deposits and other deposits are as follows:

a. The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

b. The discount rates used for PHP-denominated loans were 0.37% to 10.18% in 2021 and 0.99% to 10.50% in 2020 while the discount rates used for foreign currency-denominated loans ranged from 1.09% to 6.88% in 2021.

*Financial Asset at FVOCI.* The fair values of the non-listed equity investments have been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cashflows, credit risk, market volatility and the discount rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments.

The significant unobservable inputs used in the fair value measurements categorized within level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2021 and 2020 are shown below:

| Inputs | Valuation technique | Significant unobservable inputs | Range (weighted average) | Sensitivity of the input to fair value |
|---|---|---|---|---|
| Non-listed equity investments – power sector | DCF Method | Discount rate | 6.00% to 12.00% | 12% (2020:12%) increase (decrease) in the discount rate would result in a decrease (increase) in fair value by ₱121.2 million (₱121.4 million) |

For the years ended December 31, 2021, 2020, 2019, and 2018, 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.

For MWCI, the recoverable amounts of its nonfinancial assets, particularly its property and equipment and service concession assets, have been determined through the assistance of external appraisers. The fair value, which was considered in the calculation of the recoverable amounts, was established as the current highest and best use of the property. This was further defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms' length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates, yield curves of the respective currencies and currency basis spreads between the respective currencies. As at December 31, 2021, the mark-to market value of other derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

Financial Risk Management Objectives and Policies

The Group's financial instruments comprise of cash and cash equivalents, short-term investments, receivables, contract assets, deposits, derivative assets, accounts payable and other current liabilities, short-term debt, long-term loan, lease liability, due to a related party, and service concession obligations, which arise directly from its operating and financing activities.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk for 2021 and credit risk and liquidity risk for 2020, 2019 and 2018. The inclusion of interest and credit risk under the main risks affecting the Group arise from the acquisition of MWCI as one of the Group's subsidiaries.

The Group's overall risk management program seeks to minimize these risks on the Group's financial performance.

Interest Rate Risk

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

The Group's policy is to manage the interest payments using a mix of fixed and variable rate debts to minimize the Group's exposure to changes in interest rates primarily from its long-term debt. As of December 31, 2021, the Group's mix of fixed interest and floating interest rate of long-term debt are 54.02% to 45.98%, respectively.

As of December 31, 2021, the fixed interest rates of the Group's foreign currency denominated long-term debt are from 1.39% to 4.38% and are from 4.63% to 9.00% for Peso denominated long-term debt. Floating interest rates are based on 6-month LIBOR, EURIBOR or BIBOR plus margin, 3 month, 5 and 7-year PHP BVAL, BSP Term deposit, O/N RRP as of December 31, 2021.

The following tables summarize the maturity profile of the Group's long-term debt based on contractual undiscounted principal payments:

| | 2021* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Due in 2022 | Due in 2023 | Due in 2024 | Due in 2025 | Due in 2026 | Due after 2026 | Total in Original Currency (In PHP) | Total in Original Currency (In JPY) | Total in Original Currency (In USD) | Total in Original Currency (In EUR) | Total in Original Currency (In THB) | Total (In PHP) |
| **Liabilities:** | | | | | | | | | | | | |
| **Long-term debt** | | | | | | | | | | | | |
| ***East Zone loans:*** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| ₱5.00 billion PNB Loan | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱500,000,000 | ₱875,000,000 | ₱3,375,000,000 | ¥– | $– | €– | THB– | ₱3,375,000,000 |
| ₱5.00 billion BDO Loan | ₱– | ₱– | ₱1,800,000,000 | ₱– | ₱– | ₱– | ₱1,800,000,000 | ¥– | $– | €– | THB– | ₱1,800,000,000 |
| JP¥40.00 billion Loan | ¥3,397,902,104 | ¥– | ¥– | ¥– | ¥– | ¥– | ₱– | ¥3,397,902,104 | $– | €– | THB– | ₱1,499,494,198 |
| US$500.00 million sustainability bonds | $– | $– | $– | $– | $– | $500,000,000 | ₱– | ¥– | $500,000,000 | €– | THB– | ₱25,499,500,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| MTSP Loan | ¥168,170,255 | ¥– | ¥– | ¥– | ¥– | ¥– | ₱– | ¥168,170,255 | $– | €– | THB– | ₱74,213,534 |
| MWMP Loan | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $7,721,832 | $80,989,168 | ₱– | ¥– | $119,598,328 | €– | THB– | ₱6,099,395,130 |
| ₱5.00 billion BDO Loan | ₱2,000,000,000 | ₱– | ₱– | ₱1,200,000,000 | ₱– | ₱– | ₱3,200,000,000 | ¥– | $– | €– | THB– | ₱3,200,000,000 |
| EUR250.00 million Loan | €– | €62,500,000 | €57,500,000 | €– | €– | €– | ₱– | ¥– | $– | €120,000,000 | THB– | ₱6,901,404,000 |
| ***MWCI Subsidiaries' loans:*** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| ₱1.15 billion Clark Water RCBC Loan | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱95,833,333 | ₱359,375,000 | ₱838,541,665 | ¥– | $– | €– | THB– | ₱838,541,665 |
| ₱0.80 billion Cebu Water DBP Loan | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱44,209,804 | ₱309,468,628 | ₱530,517,648 | ¥– | $– | €– | THB– | ₱530,517,648 |
| ₱0.50 billion Laguna Water DBP Loan | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱29,411,765 | ₱198,529,412 | ₱345,588,237 | ¥– | $– | €– | THB– | ₱345,588,237 |
| ₱0.83 billion Laguna Water DBP Loan | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱50,484,848 | ₱340,772,727 | ₱593,196,967 | ¥– | $– | €– | THB– | ₱593,196,967 |
| ₱2.50 Laguna Water SBC Loan | ₱180,682,047 | ₱192,307,692 | ₱192,307,692 | ₱192,307,692 | ₱186,538,462 | ₱823,076,923 | ₱1,767,220,508 | ¥– | $– | €– | THB– | ₱1,767,220,508 |
| ₱2.50 billion Laguna Water BPI Loan | ₱51,724,138 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱179,310,345 | ₱493,103,448 | ₱1,262,068,966 | ¥– | $– | €– | THB– | ₱1,262,068,966 |
| ₱0.38 billion Boracay Water DBP-SBC Loan | ₱– | ₱1,654,412 | ₱9,414,391 | ₱31,039,916 | ₱31,039,916 | 147,439,601 | ₱220,588,236 | ¥– | $– | €– | THB– | ₱220,588,236 |
| ₱0.50 billion Boracay Water DBP-SBC Loan | ₱– | ₱2,360,491 | ₱13,432,318 | ₱44,287,309 | ₱44,287,309 | ₱210,364,716 | ₱314,732,143 | ¥– | $– | €– | THB– | ₱314,732,143 |
| ₱0.65 billion Boracay Water DBP-SBC Loan | ₱– | ₱4,062,500 | ₱23,117,560 | ₱76,220,238 | ₱76,220,238 | ₱362,046,131 | ₱541,666,667 | ¥– | $– | €– | THB– | ₱541,666,667 |
| ₱2.40 billion Boracay Water BPI Loan | ₱– | ₱10,650,000 | ₱14,200,000 | ₱67,450,000 | ₱127,800,000 | ₱1,199,900,000 | ₱1,420,000,000 | ¥– | $– | €– | THB– | ₱1,420,000,000 |
| ₱0.45 billion Tagum Water PNB Loan | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱33,666,667 | ₱193,583,332 | ₱361,916,667 | ¥– | $– | €– | THB– | ₱361,916,667 |
| ₱0.15 billion Tagum Water PNB Loan | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱13,333,333 | ₱76,666,668 | ₱143,333,333 | ¥– | $– | €– | THB– | ₱143,333,333 |
| ₱7.00 billion MWPVI Loan | ₱305,280,000 | ₱610,560,000 | ₱609,920,000 | ₱609,280,000 | ₱609,280,000 | ₱3,655,680,000 | ₱6,400,000,000 | ¥– | $– | €– | THB– | ₱6,400,000,000 |
| ₱0.39 billion Calbayog Water BPI Loan | ₱– | ₱– | ₱3,325,239 | ₱9,690,858 | ₱8,573,040 | ₱48,410,863 | ₱70,000,000 | ¥– | $– | €– | THB– | ₱70,000,000 |
| ₱0.23 billion Aqua Centro BPI Loan | ₱– | ₱1,800,900 | ₱14,273,800 | ₱14,273,800 | ₱14,273,800 | ₱62,377,700 | ₱107,000,000 | ¥– | $– | €– | THB– | ₱107,000,000 |
| ₱0.47 billion South Luzon Water BPI Loan | ₱– | ₱– | ₱6,670,000 | ₱13,340,000 | ₱13,340,000 | ₱66,650,000 | ₱100,000,000 | ¥– | $– | €– | THB– | ₱100,000,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| ₱0.54 billion Clark Water DBP Loan | ₱– | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱44,583,333 | ₱356,666,668 | ₱535,000,000 | ¥– | $– | €– | THB– | ₱535,000,000 |
| ₱0.12 billion Boracay Water DBP-SBC Loan | ₱– | ₱551,471 | ₱3,138,130 | ₱10,346,639 | ₱10,346,639 | ₱49,146,534 | ₱73,529,413 | ¥– | $– | €– | THB– | ₱73,529,413 |
| THB5.30 billion Loan | THB– | THB– | THB5,300,000,000 | THB– | THB– | THB– | ₱– | ¥– | $– | €– | THB5,300,000,000 | ₱8,096,776,803 |
| **Other loans** | | | | | | | | | | | | |
| ***Fixed Rate (exposed to fair value risk)*** | | | | | | | | | | | | |
| ₱1.5 billion PMHPHC Union Bank loan facility | ₱– | ₱– | ₱– | ₱– | ₱– | ₱1,500,000,000 | ₱1,500,000,000 | ¥– | $– | €– | THB– | ₱1,500,000,000 |
| ***Floating Rate (exposed to cash flow risk)*** | | | | | | | | | | | | |
| ₱20.0 billion Wawa loan facility | ₱– | ₱– | ₱– | ₱14,085,000 | ₱14,085,000 | ₱4,971,830,000 | ₱5,000,000,000 | ¥– | $– | €– | THB– | ₱5,000,000,000 |
| ₱5.5 billion TWCHI BPI loan facility | ₱– | ₱– | ₱5,400,000,000 | ₱– | ₱– | ₱– | ₱5,400,000,000 | ¥– | $– | €– | THB– | ₱5,400,000,000 |
| ₱3.5 billion PII Unionbank loan facility | ₱– | ₱40,000,000 | ₱280,000,000 | ₱240,000,000 | ₱400,000,000 | ₱1,040,000,000 | ₱2,000,000,000 | ¥– | $– | €– | THB– | ₱2,000,000,000 |
| ₱1.0 billion PII HSBC loan facility | ₱– | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱250,000,000 | ₱– | ₱1,000,000,000 | ¥– | $– | €– | THB– | ₱1,000,000,000 |
| ₱178.7 million PMBC commercial loan facility | ₱60,000,000 | 90,000,000 | ₱– | ₱– | ₱– | ₱– | ₱150,000,000 | ¥– | $– | €– | THB– | ₱150,000,000 |
| **Total in Original Currency** | | | | | | | ₱39,049,900,450 | ¥3,566,072,359 | $619,598,328 | €120,000,000 | THB5,300,000,000 | ₱87,220,684,115 |
| **Total in PHP** | ₱5,332,139,378 | ₱6,183,067,854 | ₱21,408,137,821 | ₱4,156,960,590 | ₱3,170,423,542 | ₱46,969,954,930 | ₱38,899,900,450 | ₱1,573,707,732 | ₱31,598,895,130 | ₱6,901,404,000 | ₱8,096,776,803 | ₱87,220,684,115 |

*Interest on financial instruments classified as floating rate is repriced on a semi-annual or quarterly basis, unless otherwise stated. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.*
*The spot exchange rates used were ₱0.4413 to JP¥1, ₱50.9990 to US$1, ₱57.5117 to EUR1, and ₱1.5277 to THB1 in 2021.*
**Excludes the CAD0.87 million Laguna Water loan whose repayment date is related to the completion of the funded project*

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, 2021, 2020 and 2019 with all variables held constant (through the impact on floating rate borrowings).

| | | Effect on Income Before Income Tax | | |
|---|---|---|---|---|
| | **Changes in Basis Points** | **2021** | 2020 | 2019 |
| | | | ***(In Thousands)*** | |
| **Floating rate** | 100 | (₱398,601) | (₱16,317) | (₱1,394) |
| **borrowings** | (100) | 398,601 | 16,317 | 1,394 |

Foreign exchange risk

The Group's foreign exchange risk results primarily from movements of the PHP against the USD, JPY and EUR on the Group's long-term debt and service concession obligations. Substantially all revenues are generated in PHP while majority of capital expenditures are also in PHP. As of December 31, 2021, approximately 55.57% of debt, including bonds payable, are denominated in foreign currency.

On August 1, 2021, MWCI BOD approved the Foreign Exchange Risk Policy to help MWCI and its subsidiaries properly address or mitigate the adverse effects of foreign exchange volatility to its profit and loss through the employment of various risk mitigation strategies which include several derivative structures. As an enhancement on the foreign exchange risk management strategy approved by the BOD on February 24, 2022, MWCI shall maximize the use of available accounting hedges and shall take into account the capitalization of foreign exchange losses pertaining to capitalizable foreign currency-denominated loans as and when possible to minimize the adverse effect of foreign exchange volatility to profit and loss while managing overall cost that includes hedging costs.

The Group manages its foreign currency risk by hedging transactions that are expected to occur upon maturity of the hedged long-term debts. When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. As at December 31, 2021, the Group hedged the €120.00 million loan (principal only swap) and US$100.00 million of the US$500.00 million sustainability bonds (currency option transaction).

The Group hedges its exposure to fluctuations on the translation from USD to PHP of its investment in a foreign subsidiary by holding net borrowings in a foreign currency. As at December 31, 2021, the Group hedged US$100.00 million of the US$500.00 million sustainability bonds.

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

| | 2021 | |
|---|---|---|
| | Original Currency | Peso Equivalent |
| | *(In Thousands)* | |
| **Assets** | | |
| Cash and cash equivalents: | | |
| USD | USD120,378 | ₱6,139,174 |
| THB | THB87,532 | 133,722 |
| VND | VND4,182,432 | 9,345 |
| IDR | IDR2,389,115 | 8,534 |
| SGD | SGD3 | 104 |
| MMK | MMK11 | – |
| JP¥ | JP¥– | – |
| Short-term investments: | | |
| THB | THB140,000 | 213,877 |
| Accounts receivable: | | |
| SAR | SAR6,160 | 83,321 |
| VND | VND1,191,300 | 2,662 |
| IDR | IDR244,558 | 874 |
| USD | USD55 | 2,798 |
| THB | THB– | – |
| Other current assets: | | |
| THB | THB41,332 | 63,142 |
| VND | VND1,031,358 | 2,304 |
| GBP | GBP17 | 1,197 |
| IDR | IDR179,062 | 640 |
| USD | USD3 | 146 |
| Other noncurrent assets: | | |
| USD | USD622 | 31,702 |
| IDR | IDR75,169 | 268 |
| VND | VND– | – |
| THB | THB– | – |
| | | 6,693,810 |
| **Liabilities** | | |
| Accounts payable: | | |
| THB | THB23,153 | 35,371 |
| USD | USD188 | 9,589 |
| VND | VND1,310,757 | 2,929 |
| SGD | SGD67 | 2,521 |
| EUR | EUR1 | 44 |
| IDR | IDR– | – |
| Long-term debt: | | |
| USD | USD608,831 | 31,049,789 |
| THB | THB5,285,119 | 8,074,043 |
| EUR | EUR118,113 | 6,792,855 |
| JP¥ | JP¥3,556,722 | 1,569,581 |
| CAD | CAD873 | 34,793 |
| Service concession obligations: | | |
| USD | USD72,991 | 3,722,452 |
| JP¥ | JP¥276,831 | 122,165 |
| | | 51,416,132 |
| **Net foreign currency-denominated liabilities** | | (₱44,722,322) |

*The spot exchange rates used were ₱50.9990 to US$1, ₱39.8540 to CAD1, ₱57.5117 to EUR1, ₱68.5347 to GBP1, ₱0.0036 to IDR1, ₱ 0.4413 to JP¥1, ₱0.0285 to MMK1, ₱13.5260 to SAR1, ₱37.5547 to SGD1, ₱1.5277 to THB1, and 0.0022 to VND1 in 2021; and ₱48.0230 to US$1, ₱37.3967 to CAD1, ₱58.6904 to EUR1, ₱0.0034 to IDR1, ₱0.4629 to JP¥1, ₱36.1200 to SGD1, ₱1.6000 to THB1, and ₱0.0021 to VND1 in 2020.*

Under their respective concession agreements, the MWCI and Boracay Water have a natural hedge on foreign exchange risks on their loans and concession fee payments through a recovery mechanism in their respective tariffs (see Notes 1 and 15).

The following table demonstrate the sensitivity of the Group's income before income tax to a reasonably possible change in foreign exchange rate on December 31, 2021:

| | Changes in Percentage | Effect on Income Before Income Tax (In Thousands) |
|---|---|---|
| **Foreign exchange rate** | **5.00%** | **(₱1,023,098)** |
| | **(5.00%)** | **1,023,098** |

Beginning November 18, 2021, MWCI's RCA has removed its FCDA recovery mechanism from the water rates of MWC's customers. Boracay Water, on the other hand, still maintains this natural hedge and does not expect any movement of the foreign currencies against the Philippine Peso to have a significant effect on the Group's income before income tax.

- *Cash flow hedges for foreign currency risks*
  During the period, MWCI designated foreign currency forward contracts as hedges of exposure to foreign exchange currency risk on its seven (7)-year term loan from Bank of China Hong Kong and Manila Branches denominated in EUR.

  The terms of the foreign currency forward contracts have been negotiated to match the terms of the EUR leg of the principal only swap. Both parties to the contract have fully cash-collateralized the foreign currency forward contracts, and, therefore, effectively eliminated any credit risk associated with the contracts (both the Hedge Counterparty's and the Group's own credit risk).

  The MWCI designated a USD/PHP non-deliverable deferred premium currency option transaction as hedging instrument for the USD100 Mn denominated bond. The bond will be hedged against unfavourable movements of USD/PHP to minimize potential friction cost from unwinding the hedge in case MWCI wishes to exercise the pretermination right on the first call date.

  As of December 31, 2021, an unrealized loss of ₱1,141.95 million relating to the derivatives are included in other comprehensive income.

- *Hedge of net investments in foreign operations*
  Included in loans as at December 31, 2021 was a borrowing of USD100.00 million, which is designated as a hedge of the net investment in MWAP, MWCI's wholly-owned foreign holding company, with USD as its functional currency. As of December 31, 2021, a gain of ₱121.42 million on the translation of this borrowing was transferred to OCI to offset the gains on translation of the investment in MWAP. There is no ineffectiveness for the year ended December 31, 2021. There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the USD borrowing. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investment in the foreign subsidiary becomes lower than the amount of the fixed rate borrowing.

The hedge effectiveness can be assessed by considering the economic relationship, effect of credit risk and hedge ratio.

The maturity profile of the hedging instruments as of December 31, 2021 follows:

| | Within 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| EUR120 Mn Loan - Principal only swap | – | €120,000,000 | – | €120,000,000 |
| Hedge rate | – | ₱59.34 | – | – |
| USD100 Mn Bonds - Currency Option Transaction | – | $100,000,000 | – | $100,000,000 |
| Hedge rate | – | ₱50.86 - ₱56.50 | – | – |
| USD100 Mn Bonds - Net Investment Hedge | – | – | $100,000,000 | $100,000,000 |
| Hedge rate | – | – | ₱49.76 | – |

The impact of the hedging instruments and hedged items on the consolidated statement of financial position as of December 31, 2021 follows:

| | Notional amount | Carrying amount | Line item in the statement of financial position | Change in fair value* |
|---|---|---|---|---|
| EUR120 Mn Loan - Principal only swap | €120,000,000 | ₱391,325,605 | Other noncurrent assets | ₱457,932,425 |
| USD100 Mn Bonds - Currency Option Transaction | $100,000,000 | (4,613,859) | Other noncurrent assets | (35,691,984) |
| USD100 Mn Bonds - Net Investment Hedge | $100,000,000 | – | – | (121,415,238) |
| | | ₱386,711,746 | | ₱300,825,203 |

*net of income tax effect*

The impact of the hedged items on the consolidated statement of financial position as of December 31, 2021 follows:

| | Notional amount | Change in fair value * | Cash flow hedge reserve* | Cost of hedging reserve* |
|---|---|---|---|---|
| EUR120 Mn Loan - Principal only swap | €120,000,000 | ₱457,932,425 | ₱775,253,964 | (₱317,321,539) |
| USD100 Mn Bonds – Currency Option Transaction | $100,000,000 | (35,691,984) | 366,700,065 | (402,392,049) |
| USD100 Mn Bonds - Net Investment Hedge | $100,000,000 | (121,415,238) | – | – |
| | | ₱300,825,203 | ₱1,141,954,029 | (₱719,713,588) |

*net of income tax effect*

The effect of the cash flow hedge in the consolidated statement of profit and loss and OCI follows:

| | Total hedging gain (loss) recognized in OCI* | Ineffectiveness recognized in profit or loss | Line item in profit or loss | Amount reclassified from OCI to profit or loss | Line item in profit or loss |
|---|---|---|---|---|---|
| EUR120 Mn Loan - Principal only swap | ₱457,932,425 | ₱3,525,757 | Interest expense | ₱215,725,207 | Foreign exchange gains (losses) |
| USD100 Mn Bonds – Currency Option Transaction | (35,691,984) | 48,310 | Interest expense | (43,023,765) | Foreign exchange gains (losses) |
| USD100 Mn Bonds - Net Investment Hedge | (121,415,238) | – | – | 121,415,238 | Foreign exchange gains (losses) |
| | ₱300,825,203 | ₱3,574,067 | | ₱294,116,680 | |

**net of income tax effect*

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

With respect to credit risk from financial assets of the Group, which are mainly composed of cash and cash equivalents, receivables, and contract assets the exposure of the Group to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There is no significant concentration of credit risk in the Group.

*Credit Risk Exposures.* The carrying values of the Group's financial assets represent the maximum exposure to credit risk since the financial assets have no collateral or credit enhancements as of December 31, 2021, 2020, 2019 and 2018.

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Cash and cash equivalents | **₱15,902,296,865** | ₱1,343,265,670 | ₱686,212,390 | ₱322,985,594 |
| Short term investment | **458,516,237** | – | – | – |
| Trade and other receivables | **3,863,227,901** | 975,046,817 | 523,519,004 | 157,981,862 |
| Contract assets - current | **1,410,597,516** | 176,305,175 | 20,135,214 | 38,857,132 |
| Restricted cash (see Note 9 and 15) | **225,403,315** | 78,206,535 | 23,000,000 | – |
| Deposits | **2,450,297,664** | 7,097,373 | 11,613,337 | 5,218,156 |
| Financial asset of FVOCI | **1,617,040,000** | 1,885,168,729 | – | – |
| | **₱25,927,379,498** | ₱4,465,090,299 | ₱1,264,479,945 | ₱525,042,744 |

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written off when deemed unrecoverable and are not subject to enforcement activity. The information about the credit risk exposure on the Group's receivables and contract assets using a provision matrix follow:

| | **December 31, 2021** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Current** | **Days Past Due** | | | | | |
| | **High Grade** | **Less than 30 Days** | **30 to 60 Days** | **61 to 90 Days** | **Over 90 Days** | **Expected Credit Loss** | **Total** |
| | | | | **(In Thousands)** | | | |
| **Receivables** | | | | | | | |
| **Trade and concession receivables** | **₱1,747,788** | **₱579,374** | **₱369,520** | **₱255,697** | **₱655,044** | **₱428,408** | **₱4,035,832** |
| **Employees** | **23,400** | **–** | **–** | **–** | **–** | **518** | **23,918** |
| **Interest from banks** | **8,149** | **–** | **–** | **–** | **–** | **–** | **8,149** |
| **Others** | **93,075** | **–** | **–** | **–** | **–** | **191,610** | **248,456** |
| | **1,872,413** | **579,374** | **369,520** | **255,697** | **655,044** | **620,536** | **4,352,584** |
| **Contract assets** | **1,396,886** | **–** | **–** | **–** | **–** | **13,712** | **1,410,598** |
| | **₱3,269,299** | **₱579,374** | **₱369,520** | **₱255,697** | **₱655,044** | **₱634,248** | **₱5,763,182** |

| | December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | Days Past Due | | | | | |
| | Standard Grade | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | Expected Credit Loss | Total |
| | | | | *(In Thousands)* | | | |
| Receivables | | | | | | | |
| Trade and concession receivables | ₱788,084 | ₱– | ₱– | ₱– | ₱– | ₱160,405 | ₱948,489 |
| Others | 6,469 | – | – | – | – | – | 6,469 |
| | 794,553 | – | – | – | – | 160,405 | 954,958 |
| Contract assets | 176,305 | – | – | – | – | – | 176,305 |
| | ₱970,858 | ₱– | ₱– | ₱– | ₱– | ₱160,405 | ₱1,131,263 |

| | December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | Days Past Due | | | | | |
| | High Grade | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | Expected Credit Loss | Total |
| | | | | *(In Thousands)* | | | |
| Receivables | | | | | | | |
| Trade receivables | ₱328,038 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱328,038 |
| Others | 6,094 | – | – | – | – | – | 6,094 |
| | 334,132 | – | – | – | – | – | 334,132 |
| Contract assets | 20,135 | – | – | – | – | – | 20,135 |
| | ₱354,267 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱354,267 |

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | Days Past Due | | | | | |
| | High Grade | Less than 30 Days | 30 to 60 Days | 61 to 90 Days | Over 90 Days | Expected Credit Loss | Total |
| | | | | *(In Thousands)* | | | |
| Receivables | | | | | | | |
| Trade receivables | ₱149,071 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱149,071 |
| Others | 2,086 | – | – | – | – | – | 2,086 |
| | 151,157 | – | – | – | – | – | 151,157 |
| Contract assets | 38,857 | – | – | – | – | – | 38,857 |
| | ₱190,014 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱190,014 |

The tables below show the credit quality of the Group's financial assets based on their historical experience with the corresponding third parties:

| | 2021 | | | |
|---|---|---|---|---|
| | **Stage 1 12-month ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Credit Impaired** | **Total** |
| | | *(in thousands)* | | |
| **High** | **₱5,128,934** | **₱–** | **₱–** | **₱5,128,934** |
| **Moderate** | **–** | **20,784,734** | **–** | **20,784,734** |
| **Low** | **–** | **–** | **620,536** | **634,248** |
| **Gross carrying amount** | **5,128,934** | **20,784,734** | **620,536** | **26,547,916** |
| **ECL** | **–** | **–** | **(620,536)** | **(620,537)** |
| **Carrying amount** | **₱5,128,934** | **₱20,784,734** | **₱–** | **₱25,927,379** |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Credit Impaired | Total |
| | | *(in thousands)* | | |
| High | ₱970,858 | ₱– | ₱– | ₱970,858 |
| Moderate | – | 3,494,233 | – | 3,494,233 |
| Low | – | – | 160,405 | 160,405 |
| Gross carrying amount | 970,858 | 3,494,233 | 160,405 | 4,625,496 |
| ECL | – | – | (160,405) | (160,405) |
| Carrying amount | ₱970,858 | ₱3,494,233 | ₱– | ₱4,465,091 |

| | 2019 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Credit Impaired | Total |
| | | *(in thousands)* | | |
| High | ₱354,267 | ₱– | ₱– | ₱354,267 |
| Moderate | – | 910,213 | – | 910,213 |
| Low | – | – | – | – |
| Gross carrying amount | 354,267 | 910,213 | – | 1,264,480 |
| ECL | – | – | – | – |
| Carrying amount | ₱354,267 | ₱910,213 | ₱– | ₱1,264,480 |

| | 2018 | | | |
|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Credit Impaired | Total |
| | | *(in thousands)* | | |
| High | ₱190,014 | ₱– | ₱– | ₱190,014 |
| Moderate | – | 335,028 | – | 335,028 |
| Low | – | – | – | – |
| Gross carrying amount | 190,014 | 335,028 | – | 525,042 |
| ECL | – | – | – | – |
| Carrying amount | ₱190,014 | ₱335,028 | ₱– | ₱525,042 |

As of December 31, 2021, 2020, 2019 and 2018, all financial assets are viewed by management as either 'high grade' or 'moderate', except for impaired financial assets, considering the collectability of the receivables and contract assets and the credit history of the counterparties.

Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding or is the risk that the Group will not be able to meet its obligations associated with financial difficulties.

The objective of the Group is to maintain a balance between continuity of funding and flexibility through the use of credit lines available from local banks. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical data and forecasts from its collection and disbursement. The Group places funds in the money market only when exceeding the Group's cash requirements.

Placements are strictly made based on cash planning assumptions and covers only a short period of time. The Group's financial assets used for liquidity management based on their maturities are as follows: cash and cash equivalents, short-term investments, receivables, contract assets, restricted cash, deposits, and financial asset at FVOCI.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2021, 2020, 2019 and 2018 based on undiscounted contractual payments.

| | **December 31, 2021** | | | | |
|---|---|---|---|---|---|
| | **Due and Demandable** | **Less than 3 Months** | **3 to 12 Months** | **More than 12 months** | **Total** |
| **Financial liabilities** | | | | | |
| Accounts payable and other current liabilities*** | **₱613,999,155** | **₱811,577,407** | **₱13,301,500,343** | **₱–** | **₱14,727,076,905** |
| Lease liabilities | **–** | **–** | **168,612,103** | **450,214,166** | **618,826,269** |
| Long-term loan**** | **–** | **–** | **8,461,817,959** | **100,063,971,046** | **108,525,789,005** |
| Service concession obligation | **–** | **–** | **990,122,682** | **14,159,854,621** | **15,149,977,303** |
| Other noncurrent liabilities | **–** | **–** | **–** | **5,715,263,634** | **5,715,263,634** |
| | **₱613,999,155** | **₱811,577,407** | **₱22,922,053,087** | **₱120,389,303,467** | **₱144,736,933,116** |

**** Excluding advances from customers, provision for defects liability, deferred output VAT payable, and statutory payables*
***** Including interest*

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Due and Demandable | Less than 3 Months | 3 to 12 Months | More than 12 months | Total |
| Financial liabilities | | | | | |
| Accounts payable and other current liabilities*** | ₱343,554,987 | ₱454,107,246 | ₱180,945,912 | ₱– | ₱978,608,145 |
| Lease liabilities | – | 8,230,364 | 25,513,861 | 27,832,362 | 61,576,587 |
| Long-term loan**** | – | 15,633,024 | 46,899,073 | 1,596,266,049 | 1,658,798,146 |
| Service concession obligation | – | – | – | 730,800,000 | 61,576,587 |
| | ₱343,554,987 | ₱477,970,634 | ₱253,358,846 | ₱2,354,898,411 | ₱3,429,782,878 |

**** Excluding advances from customers, provision for defects liability, deferred output VAT payable, and statutory payables*
***** Including interest*

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Due and Demandable | Less than 3 Months | 3 to 12 Months | More than 12 months | Total |
| Financial liabilities | | | | | |
| Accounts payable and other current liabilities*** | ₱261,005,056 | ₱196,891,412 | ₱162,964,294 | ₱– | ₱620,860,762 |
| Lease liabilities | 1,649,884 | 8,067,463 | 24,590,403 | 53,302,672 | 87,610,422 |
| Due to related parties (current) | 55,628,115 | – | – | – | 55,628,115 |
| Long-term loan**** | – | 13,068,088 | 40,499,328 | 87,152,169 | 140,719,585 |
| Service concession obligation | – | – | – | 730,800,000 | 730,800,000 |
| | ₱318,283,055 | ₱218,026,963 | ₱228,054,025 | ₱871,254,841 | ₱1,635,618,884 |

**** Excluding advances from customers, provision for defects liability, deferred output VAT payable, and statutory payables*
***** Including interest*

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Due and Demandable | Less than 3 Months | 3 to 12 Months | More than 12 months | Total |
| **Financial liabilities** | | | | | |
| Accounts payable and other current liabilities*** | ₱374,777,641 | ₱– | ₱188,819,036 | ₱– | ₱563,596,677 |
| Lease liabilities | – | 15,284,251 | 45,852,753 | 152,842,508 | 213,979,512 |
| Due to related parties (current) | – | – | 637,125,862 | – | 637,125,862 |
| | ₱374,777,641 | ₱15,284,251 | ₱871,797,648 | ₱152,842,508 | ₱1,414,702,051 |

**** Excluding advances from customers, deferred output VAT payable, and statutory payables*

Capital Risk Management
The primary objective of the Group's capital management is to ensure an adequate return to its shareholder and to maximize shareholder value. The Group considers the total equity as its capital.

The Group manages its capital structure and adjusts it considering changes in economic conditions. Since the Group is not subject to externally imposed capital requirements, it manages and maintains its capital structure by paying existing debts, reducing interest-bearing debt, adjusting dividend payment to shareholders, returning capital to shareholders or issuing new shares.

The following table pertains to the balances of the accounts which the Group consider as its capital:

| | **2021** | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Capital stock | **₱50,000,000** | ₱50,000,000 | ₱– | ₱– |
| Additional paid-in capital | **6,318,588,499** | 6,318,588,499 | – | – |
| Subscription receivable | **–** | (596,123,815) | – | – |
| Deposit for future stock subscription | **634,754,198** | – | 391,364,188 | – |
| Other equity reserve | **3,125,000** | 3,125,000 | 3,125,000 | 3,125,000 |
| Retained earnings (deficit) | **9,476,263,544** | 112,632,632 | (243,387,977) | (164,815,296) |
| | **₱16,482,731,241** | ₱5,888,222,316 | ₱151,101,211 | (₱161,690,296) |

No changes were made in the objectives, policies or processes for the years ended December 31, 2021 2020, 2019, and 2018.

34. **Note to Consolidated Statement of Cash Flows**

The Group's significant noncash investing and financing activities follows:

a. In 2021, the Group acquired various equipment, parcel of land, and building, amounting to ₱976.9 million, of which ₱751.3 million was paid in 2021 (see Notes 13 and 16). There were also noncash additions to right-of-use assets amounting to ₱130.5 million for the current year.

b. In 2021, the Group made noncash acquisitions of SCA and contract assets representing SCA amounting to ₱362.7 million and ₱325.0 million, respectively.

c. In 2021, the Group had a noncash acquisition of a subsidiary amounting to ₱4,053.3 million.

d. In 2020, the Group acquired various equipment, parcel of land, and building, amounting to ₱255.7 million, of which ₱247.5 million was paid in 2019 (see Notes 13 and 16).

e. In 2019, the Group recognized right-of-use assets at initial adoption of PFRS 16 and commencement of lease amounting to ₱89.5 million (see Notes 13 and 16).

f. In 2019, the Group made a noncash acquisition of a contract asset with a corresponding concession obligation amounting to ₱356.6 million

The changes in the Group’s liabilities arising from financing activities follow:

| | **January 1, 2021** | **Effect of business combination** (see Note 4) | **Cash Flows** | **Interest Expense** | **Additions** | **Lease modification** | **Translation Adjustment** | **December 31, 2021** |
|---|---|---|---|---|---|---|---|---|
| Lease liabilities | **₱61,180,947** | **₱397,925,758** | **(₱95,075,827)** | **₱15,328,459** | **₱125,850,765** | **(₱7,662,917)** | **₱–** | **₱497,547,185** |
| Long-term loans | **1,631,652,492** | **71,677,816,164** | **11,084,888,696** | **262,396,973** | **–** | **–** | **1,951,678,432** | **86,608,432,757** |
| Service concession obligation | **386,434,850** | **9,173,790,549** | **(513,217,579)** | **382,301,434** | **–** | **–** | **38,194,883** | **9,467,504,137** |
| Interest payable* | **9,690,393** | **662,023,978** | **(1,627,637,813)** | **1,294,647,476** | **755,479,625** | **–** | **(58,659,176)** | **1,035,544,483** |
| Short-term loans | **–** | **–** | **52,500,000** | **–** | **–** | **–** | **–** | **52,500,000** |
| Dividends payable | **24,000,000** | **–** | **(1,431,590,046)** | **–** | **1,407,590,046** | **–** | **–** | **–** |
| Total liabilities from financing activities | **₱2,112,958,682** | **₱81,911,556,449** | **₱7,469,867,431** | **₱1,954,674,342** | **₱2,288,920,436** | **(₱7,662,917)** | **₱1,931,214,139** | **₱97,661,528,562** |

**Additions to interest payable comprise of capitalized interest expense*

| | January 1, 2020 | Cash Flows | Interest Expense | Dividends declared to non-controlling interest holder | Reclassification to equity | Translation Adjustment | December 31, 2020 |
|---|---|---|---|---|---|---|---|
| Lease liabilities | ₱77,527,386 | (₱22,127,062) | ₱5,780,623 | ₱– | ₱– | ₱– | ₱61,180,947 |
| Long-term loans | 139,405,155 | 1,489,582,187 | 2,665,150 | – | – | – | 1,631,652,492 |
| Deposit for future stock subscription | 2,973,516,630 | 2,291,538,494 | – | – | (5,265,055,124) | – | – |
| Interest payable | 240,792 | (10,413,079) | 19,829,143 | – | – | 33,537 | 9,690,393 |
| Service concession obligation | 366,343,972 | – | 20,090,878 | – | – | – | 386,434,850 |
| Dividends payable | – | – | – | 24,000,000 | – | – | 24,000,000 |
| Total liabilities from financing activities | ₱3,557,033,935 | ₱3,748,580,540 | ₱48,365,794 | ₱24,000,000 | (₱5,265,055,124) | ₱33,537 | ₱2,112,958,682 |

| | January 1, 2019 | Adoption of PFRS 16 | Cash Flows | Interest Expense | Reclassification from Lease Liability to Long-term Loan | Reclassification to equity | Additions | Translation Adjustment | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Lease liabilities | ₱190,924,672 | ₱25,036,789 | (₱34,466,575) | ₱10,250,595 | (₱178,676,844) | ₱– | ₱64,458,749 | ₱– | ₱77,527,386 |
| Long-term loans | – | – | (40,153,493) | 881,804 | 178,676,844 | – | – | – | 139,405,155 |
| Deposits for future stock subscription | – | – | 2,971,016,630 | – | – | 2,500,000 | – | – | 2,973,516,630 |
| Service concession obligation | – | – | – | 9,720,358 | – | – | 356,623,614 | – | 366,343,972 |
| Interest payable | 2,918,506 | – | (13,124,707) | 10,419,931 | – | – | – | 27,062 | 240,792 |
| Total liabilities from financing activities | ₱550,466,792 | ₱25,036,789 | ₱2,883,271,855 | ₱31,272,688 | ₱– | ₱2,500,000 | ₱64,458,749 | ₱27,062 | ₱3,557,033,935 |

| | January 1, 2018 | Cash Flows | Interest Expense | Additions | Translation Adjustment | December 31, 2018 |
|---|---|---|---|---|---|---|
| Lease liabilities | ₱– | (₱77,972,533) | ₱– | ₱268,897,205 | ₱– | ₱190,924,672 |
| Interest payable | 479,564 | (3,665,696) | 6,305,478 | – | (200,839) | 2,918,507 |
| Subscription payable | 1,875,000 | (1,875,000) | – | – | – | – |
| Total liabilities from financing activities | ₱2,354,564 | (₱83,513,229) | ₱6,305,478 | 268,897,205 | (200,839) | ₱193,843,179 |

## 35. Segment Information

Operating segments are components of the Group (a) that engage in business activities from which they may earn revenues and incur expenses; (b) with operating results which are regularly reviewed by the Group's chief operating decision-maker (the BOD) to make decisions about how resources are to be allocated to the segment and assess their performances; and (c) for which discrete financial information is available. An operating segment may engage in business activities for which it has yet to earn revenues.

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

The Group is organized into four operating divisions: parent company and other holding subsidiaries, construction, water and power.

Revenues and net income for the years ended December 31, 2021, 2020, 2019 and 2018 are the same as reported elsewhere in the accompanying consolidated financial statements.

Management monitors the operating results of its segments separately for making decisions about resource allocation and performance assessment. The Group evaluates segment performance based on contributions to revenues, net income/loss and EBITDA, which is not a measure of operating performance or liquidity defined by PFRSs and may not be comparable to similarly titled measures presented by other entities. The Group's EBITDA is computed as the Group's consolidated net income/loss before interest expense, provision for/benefit from income tax, net foreign exchange gains/losses, interest income from cash and cash equivalents, depreciation and amortization and non-recurring income/expenses.

The financial information of the Group's reportable operating segments as at and for the years ended December 31, 2021, 2020, 2019 and 2018 are as follows:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | **Parent Company and Others** | **Construction** | **Water** | **Power** | **Consolidated Balances** |
| Revenues | **₱–** | **₱2,673,849,268** | **₱11,982,732,675** | **₱493,778,098** | **₱15,150,360,041** |
| Cost of services | **–** | **(2,047,503,054)** | **(3,249,427,836)** | **(132,296,359)** | **(5,429,227,249)** |
| Gross profit | **–** | **626,346,214** | **8,733,304,839** | **361,481,739** | **9,721,132,792** |
| Revenue from development and rehabilitation works | **–** | **–** | **14,355,749,448** | **–** | **14,355,749,448** |
| Cost of development and rehabilitation works | **–** | **–** | **(14,334,949,476)** | **–** | **(14,334,949,476)** |
| Equity in net earnings of associates | **–** | **–** | **270,439,726** | **–** | **270,439,726** |
| Interest income on contract assets | **–** | **–** | **25,570,184** | **191,699,410** | **217,269,594** |
| Operating expenses | **(445,142,514)** | **(255,109,043)** | **(2,315,189,670)** | **(244,036,354)** | **(3,259,477,581)** |
| EBITDA | **(445,142,514)** | **371,237,171** | **6,734,925,051** | **309,144,795** | **6,970,164,503** |
| Depreciation and amortization (see Notes 13, 18, 23 and 24) | **(22,634,053)** | **(139,855,921)** | **(2,229,409,669)** | **(4,156,969)** | **(2,396,056,611)** |
| Interest expense (see Notes 10, 17, 18 and 28) | **(72,093,710)** | **(14,394,056)** | **(1,868,124,098)** | **(62,479)** | **(1,954,674,342)** |
| Foreign exchange losses – net | **16,815,829** | **–** | **(265,606,035)** | **(550,942)** | **(249,341,148)** |
| Interest income | **1,021,491** | **1,574,976** | **173,546,215** | **106,646** | **176,249,328** |
| Other income – net | **120,730** | **–** | **9,050,526,727** | **(632,113)** | **9,050,015,344** |
| Provision for income tax (see Note 26) | **(39,069,547)** | **(72,513,168)** | **(611,511,231)** | **(29,376,377)** | **(752,470,323)** |
| Net income (loss) from continuing operations | **(560,981,774)** | **146,049,002** | **10,984,346,960** | **274,472,561** | **10,843,886,749** |
| Net loss from discontinued operations | **–** | **–** | **(12,279,898)** | **–** | **(12,279,898)** |
| Net income (loss) | **(₱560,981,774)** | **₱146,049,002** | **₱10,972,067,062** | **₱274,472,561** | **₱10,831,606,851** |
| Attributable to the Parent Company | **(₱560,341,342)** | **₱87,629,402** | **₱9,549,115,234** | **₱287,227,618** | **₱9,363,630,912** |
| | | | | | |
| **Other information** | | | | | |
| Segment assets, exclusive of investments in associates and deferred tax assets | **₱2,956,740,484** | **₱2,156,762,977** | **₱160,461,758,539** | **₱7,314,830,531** | **₱172,890,092,531** |
| Investments in associates | **–** | **–** | **11,452,445,937** | **–** | **11,452,445,937** |
| Derivative assets | **–** | **–** | **386,711,746** | **–** | **386,711,746** |
| Deferred tax assets | **183,868** | **88,773,235** | **1,497,942,162** | **3,823,199** | **1,590,722,464** |
| Total assets | **₱2,956,924,352** | **₱2,245,536,212** | **₱173,798,858,384** | **₱7,318,653,730** | **₱186,319,972,678** |
| Segment liabilities, exclusive of deferred tax liabilities | **₱4,582,686,351** | **₱1,671,864,925** | **₱112,657,680,383** | **₱223,391,611** | **₱119,135,623,270** |
| Deferred tax liabilities | **3,163,226** | **–** | **263,639,019** | **277,638,500** | **544,440,745** |
| Total liabilities | **₱4,585,849,577** | **₱1,671,864,925** | **₱112,921,319,402** | **₱501,030,111** | **₱119,680,064,015** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Parent Company and Others | Construction | Water | Power | Consolidated Balances |
| Revenues | ₱– | ₱2,857,245,658 | ₱– | ₱377,181,619 | ₱3,234,427,277 |
| Cost of services | – | (2,262,037,478) | – | – | (2,262,037,478) |
| Gross profit | – | 595,208,180 | – | 377,181,619 | 972,389,799 |
| Revenue from development and rehabilitation works | – | – | 1,004,975,055 | 133,289,435 | 1,138,264,490 |
| Cost of development and rehabilitation works | – | – | (850,111,932) | (124,523,322) | (974,635,254) |
| Interest income on contract assets | – | – | 12,573,284 | 257,881,788 | 270,455,072 |
| Operating expenses | (182,415,117) | (226,830,869) | (3,299,511) | (293,593,138) | (706,138,635) |
| EBITDA | (182,415,117) | 368,377,311 | 164,136,896 | 350,236,382 | 700,335,472 |
| Depreciation and amortization (see Notes 13, 18, 23 and 24) | (9,222,724) | (111,749,516) | (689,285) | (23,798) | (121,685,323) |
| Interest expense (see Notes 10, 17, 18 and 28) | (1,858,523) | (14,896,665) | (31,610,606) | – | (48,365,794) |
| Foreign exchange losses – net | (652,615) | (2,736,133) | (74,809) | (3,561,740) | (7,025,297) |
| Interest income | 154,559 | 2,514,872 | 189,362 | 26,959 | 2,885,752 |
| Other income – net | – | 647,020 | – | – | 647,020 |
| Provision for income tax (see Note 26) | 183,868 | (84,178,055) | – | – | (83,994,187) |
| Net income (loss) | (₱193,810,552) | ₱157,978,834 | ₱131,951,558 | ₱346,677,803 | ₱442,797,643 |
| Attributable to the Parent Company | (₱162,887,722) | ₱168,415,246 | ₱3,649,501 | ₱346,843,572 | ₱356,020,597 |
| | | | | | |
| **Other information** | | | | | |
| Segment assets, exclusive of deferred tax assets | ₱2,304,418,331 | ₱2,071,018,001 | ₱2,491,744,690 | ₱2,497,899,397 | ₱9,365,080,419 |
| Deferred tax assets | – | 146,861,130 | 1,197,327 | – | 148,058,457 |
| Total assets | ₱2,304,418,331 | ₱2,217,879,131 | ₱2,492,942,017 | ₱2,497,899,397 | ₱9,513,138,876 |
| Segment liabilities, exclusive of deferred tax liabilities | ₱75,817,769 | ₱1,675,052,981 | ₱1,961,630,053 | ₱74,163,932 | ₱3,786,664,735 |
| Deferred tax liabilities | – | – | – | 12,769,667 | 12,769,667 |
| Total liabilities | ₱75,817,769 | ₱1,675,052,981 | ₱1,961,630,053 | ₱86,933,599 | ₱3,799,434,402 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Parent Company and Others | Construction | Water | Power | Consolidated Balances |
| Revenues | ₱– | ₱2,294,564,148 | ₱– | ₱– | ₱2,294,564,148 |
| Cost of services | – | (1,768,608,114) | – | – | (1,768,608,114) |
| Gross profit | – | 525,956,034 | – | – | 525,956,034 |
| Revenue from development and rehabilitation works | – | – | 274,588,938 | 2,432,176,954 | 2,706,765,892 |
| Cost of development and rehabilitation works | – | – | (271,870,235) | (2,432,176,955) | (2,704,047,190) |
| Interest income on contract assets | – | – | 3,010,568 | – | 3,010,568 |
| Operating expenses | (76,469,769) | (233,868,235) | (2,942,318) | (70,497,116) | (383,777,438) |
| EBITDA | (76,469,769) | 292,087,799 | 2,786,953 | (70,497,117) | 147,907,866 |
| Depreciation and amortization (see Notes 13, 18, 23 and 24) | (7,458,945) | (79,768,054) | (105,208) | – | (87,332,207) |
| Interest expense (see Notes 10, 17, 18 and 28) | (2,054,038) | (7,684,573) | (9,720,358) | – | (19,458,969) |
| Foreign exchange losses – net | (4,086,223) | 395,439 | – | (522,871) | (4,213,655) |
| Interest income | 827,251 | 6,723,366 | 42,542 | 39,851 | 7,633,010 |
| Other income – net | – | 56,950 | – | – | 56,950 |
| Provision for income tax (see Note 26) | (28,226) | (62,235,513) | 1,197,327 | (4,748,433) | (65,814,845) |
| Net income (loss) | (₱89,269,950) | ₱149,575,414 | (₱5,798,744) | (₱75,728,570) | (₱21,221,850) |
| Attributable to the Parent Company | (₱89,269,950) | ₱89,745,251 | (₱4,754,973) | (₱74,293,012) | (₱78,572,684) |
| | | | | | |
| **Other information** | | | | | |
| Segment assets, exclusive of deferred tax assets | ₱446,612,986 | ₱1,255,658,355 | ₱699,743,903 | ₱2,575,683,536 | ₱4,977,698,780 |
| Deferred tax assets | – | 105,592,955 | 1,197,327 | – | 106,790,282 |
| Total assets | ₱446,612,986 | ₱1,361,251,310 | ₱700,941,230 | ₱2,575,683,536 | ₱5,084,489,062 |
| Segment liabilities, exclusive of deferred tax liabilities | ₱3,042,717,910 | ₱1,149,093,474 | ₱538,245,017 | ₱138,241,552 | ₱4,868,297,953 |
| Deferred tax liabilities | – | – | – | 28,226 | 28,226 |
| Total liabilities | ₱3,042,717,910 | ₱1,149,093,474 | ₱538,245,017 | ₱138,269,778 | ₱4,868,326,179 |

| | 2018 | | | |
|---|---|---|---|---|
| | Parent Company and Others | Construction | Power | Consolidated Balances |
| Revenues | – | ₱1,179,523,952 | – | ₱1,179,523,952 |
| Cost of services | – | (1,026,939,842) | – | (1,026,939,842) |
| Gross profit | – | 152,584,110 | – | 152,584,110 |
| Operating expenses | (67,226,125) | (217,216,143) | (16,414,720) | (300,856,988) |
| EBITDA | (67,226,125) | (64,632,033) | (16,414,720) | (148,272,878) |
| Depreciation and amortization (see Notes 10, 15, 19 and 20) | (43,738) | (24,045,296) | – | (24,089,034) |
| Interest expense (see Notes 8, 14, 15 and 22) | – | (6,305,478) | – | (6,305,478) |
| Foreign exchange losses – net | (1,666,937) | 4,919,190 | (32,682) | 3,219,571 |
| Interest income | 12,777 | 640,986 | 51,997 | 705,760 |
| Other income – net | – | 74,714 | – | 74,714 |
| Provision for income tax (see Note 21) | – | 24,769,316 | 4,748,432 | 29,517,748 |
| Net income (loss) | (₱68,924,023) | (₱64,578,601) | (₱11,646,973) | (₱145,149,597) |
| Attributable to the Parent Company | (₱68,924,023) | (₱38,803,996) | (₱9,539,576) | (₱117,267,595) |
| **Other information** | | | | |
| Segment assets, exclusive of deferred tax assets | ₱482,862,780 | ₱1,028,301,472 | ₱76,128,418 | ₱1,587,292,670 |
| Deferred tax assets | – | 46,078,008 | 4,748,432 | 50,826,440 |
| Total assets | ₱482,862,780 | ₱1,074,379,480 | ₱80,876,850 | ₱1,638,119,110 |
| Segment liabilities/Total liabilities | ₱826,440,035 | ₱827,063,831 | ₱81,409,079 | ₱1,734,912,945 |

The Group does not have a single customer contributing more than 10.00% of its total revenue.

## 36. **Provisions and Contingencies**

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed the MWCI and Maynilad (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-owned properties within its territorial jurisdiction. The assessment from the municipality of Norzagaray has been questioned by the Concessionaires and MWSS, and is pending resolution before the Central Board of Assessment Appeals. On November 7, 2018, the Supreme Court issued its decision declaring that the real properties of MWSS located in Quezon City are exempt from the real estate tax imposed by the local government of Quezon City. On June 17, 2019, the Supreme Court decision on the case became final and executory and was thereby recorded in the Book of Entries of Judgments.

As of December 31, 2021, the provision for estimated probable losses pertains to various legal proceedings and exposures arising 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 (Note 1).

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Prime Infrastructure Holdings, Inc.
16th Floor Three E-Com Center
Bayshore Corner Ocean Drive
Block 21 Mall of Asia Complex
Pasay City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Infrastructure Holdings, Inc. (the Company), a wholly owned subsidiary of Prime Strategic Holdings Inc., as at and for the years ended December 31, 2021, 2020, 2019 and 2018, and have issued our report thereon dated April 6, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, 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, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Christine G. Vallejo
Partner
CPA Certificate No. 99857
Tax Identification No. 206-384-906
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 1402-AR-2 (Group A)
November 11, 2019, valid until November 10, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-105-2019, November 7, 2019, valid until November 6, 2022
PTR No. 8854379, January 3, 2022, Makati City

April 6, 2022

PRIME INFRA

## INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**Prime Infrastructure Holdings, Inc.**
Schedule A. Financial Assets
December 31, 2021

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet | Value Based on Market Quotations at Balance Sheet Date | Income received and accrued |
|---|---|---|---|---|
| Cash on hand and in banks | N/A | ₱6,481,291,650 | ₱6,481,291,650 | |
| Cash equivalents | N/A | 9,421,005,215 | 9,421,005,215 | ₱48,192,421 |
| Short-term investments | N/A | 458,516,237 | 458,516,237 | |
| Trade and other receivables | N/A | 3,863,227,901 | 3,863,227,901 | – |
| Contract assets | N/A | 8,349,475,948 | 8,349,475,948 | 345,158,539 |
| Deposits | N/A | 2,450,297,664 | 2,450,297,664 | – |
| ***Financial assets at FVOCI*** | | | | |
| Solar Philippines Tarlac Corporation | 1,500,000,000 | 1,520,900,000 | 1,520,900,000 | – |
| Wastefuel Global LLC | 2,589,544 | 96,140,000 | 96,140,000 | – |
| | | | | |
| **Total** | | **₱32,640,854,615** | **32,640,854,615** | **₱393,350,960** |

PRIME INFRA

**Prime Infrastructure Holdings, Inc.**
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
For the Year Ended December 31, 2021

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions | | | Current | Non-current | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | Others | | | |
| | | | | | | | | |
| **OFFICERS AND EMPLOYEES** | | | | | | | | |
| Various officers and employees | ₱3,412,500 | ₱213,089 | ₱3,412,500 | ₱– | ₱– | ₱– | ₱– | ₱213,089 |
| | | | | | | | | |
| **RELATED PARTIES - Affiliates** | | | | | | | | |
| Sureste Properties, Inc. (SPI) | 480,631 | – | 480,631 | – | – | – | – | – |
| International Container Terminal Services, Inc. (ICTSI)-RHQ | 470,482,832 | 805,980,226 | 1,171,228,244 | – | – | 38,857,490 | 66,377,324 | 105,234,814 |
| **Total** | **₱474,375,963** | **₱806,193,315** | **₱1,175,121,375** | **₱–** | **₱–** | **₱38,857,490** | **₱66,377,324** | **₱105,447,903** |

**Prime Infrastructure Holdings, Inc.**
Schedule C. Amounts of Receivable from Related Parties, which are Eliminated During the Consolidation of Financial Statements

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions | | | Current | Non-current | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | Others | | | |
| Manila Water Company, Inc. (MWCI) | ₱– | ₱228,061,118 | ₱156,196,975 | ₱– | ₱– | ₱71,864,143 | ₱– | ₱71,864,143 |
| Manila Water Philippine Ventures (MWPV) | – | 49,309,843 | – | – | – | 49,309,843 | – | 49,309,843 |
| Manila Water Asia Pacific (MWAP) | – | 11,859,817 | – | – | – | 11,859,817 | – | 11,859,817 |
| Prime Metro BMD Corporation | 275,351,043 | 695,910,281 | 841,521,937 | – | – | 129,739,387 | – | 129,739,387 |
| **Total** | **₱275,351,043** | **₱985,141,059** | **₱997,718,912** | **₱–** | **₱–** | **₱262,773,190** | **₱–** | **₱262,773,190** |

PRIME INFRA

**Entity Name**
Schedule D. Long-term Debt

| Title of Issue and Type of Obligation | Interest Rates | Amount | Maturity | Interest Periodic Payments | Principal Periodic Payments | Amount Shown as Current | Amount Shown as Long-term | Total Long-term Debt |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| **FOREIGN CURRENCY DENOMINATED LOANS** | | | | | | | | |
| **USD Loans** | | | | | | | | |
| MWMP Loan | 6M LIBOR plus margin | 119,598,328 | 15-May-37 | Semi-annual | Semi-annual | 389,628,949 | 5,672,041,511 | 6,061,670,460 |
| USD 500.00 million sustainability bonds | 4.38% | 500,000,000 | 30-Jul-30 | Semi-annual | Bullet | – | 24,988,118,390 | 24,988,118,390 |
| **Total USD Loans** | | **619,598,328** | | | | **389,628,949** | **30,660,159,901** | **31,049,788,850** |
| | | | | | | | | |
| **JYP Loans** | | | | | | | | |
| JYP 40.00 billion loan | 1.3883% to 1.475% | 3,397,902,104 | 30-Sep-22 | Semi-annual | Semi-annual | 1,495,423,436 | – | 1,495,423,436 |
| MTSP Loan | 6M LIBOR plus margin | 168,170,255 | 15-Apr-22 | Semi-annual | Semi-annual | 74,158,057 | – | 74,158,057 |
| **Total JYP Loans** | | **3,566,072,359** | | | | **1,569,581,493** | **–** | **1,569,581,493** |
| | | | | | | | | |
| **EUR Loan** | | | | | | | | |
| EUR 250.00 million Loan | 6M EURIBOR plus margin | 120,000,000 | 21-Oct-26 | Semi-annual | Semi-annual | – | 6,792,854,823 | 6,792,854,823 |
| | | | | | | | | |
| **THB Loan** | | | | | | | | |
| THB 5.30 billion MWTC Loan | 6M BIBOR plus margin | 5,300,000,000 | 12-Mar-24 | Semi-annual | Semi-annual | – | 8,074,043,037 | 8,074,043,037 |
| | | | | | | | | |
| **CAD Loan** | | | | | | | | |
| CAD 0.87 million Laguna Water Loan | Non-interest bearing | 873,000 | Not defined | N/A | N/A | – | 34,792,542 | 34,792,542 |
| | | | | | | | | |
| **Peso-denominated loans:** | | | | | | | | |
| **PHP Loans** | | | | | | | | |
| 5.00 billion MWCI PNB Loan | 7.30% | 3,375,000,000 | 31-Jul-28 | Quarterly | Quarterly | 495,393,456 | 3,166,573,907 | 3,661,967,363 |
| 5.00 billion MWCI BDO Loan | 5.16% (6M LIBOR plus margin on PhP 3.20 billion) | 5,000,000,000 | 20-Nov-24 | Quarterly | at maturity period of each drawdown | 1,994,701,323 | 3,058,018,006 | 5,052,719,329 |
| 0.50 billion Laguna Water DBP Loan | 7.25% | 345,588,237 | 31-Jul-33 | Quarterly | Quarterly | 29,326,136 | 315,673,454 | 344,999,590 |
| 0.83 billion Laguna Water DBP Loan | 7.25% | 593,196,967 | 31-Jul-33 | Quarterly | Quarterly | 50,336,053 | 541,838,041 | 592,174,094 |
| 2.50 billion Laguna Water SBC Loan | 5.4042% to 6.4014% | 1,767,220,508 | 9-Dec-30 | Quarterly | Quarterly | 190,675,258 | 1,531,643,700 | 1,722,318,958 |
| 2.50 billion Laguna Water BPI Loan | 6.00% | 1,262,068,966 | 31-Jul-29 | Quarterly | Quarterly | 87,644,450 | 1,203,729,586 | 1,291,374,036 |
| 0.50 billion Boracay Water DBP-SBC Loan | 9.00% | 314,732,143 | 25-Aug-31 | Quarterly | Quarterly | – | 312,447,740 | 312,447,740 |
| 0.50 billion Boracay Water DBP-SBC Loan | 2.89% to 9.00% (6M LIBOR plus margin on PhP0.12 billion) | 294,117,649 | 25-Aug-31 | Quarterly | Quarterly | – | 292,041,983 | 292,041,983 |
| 0.65 billion Boracay Water DBP-SBC Loan | 6.25% to 6.33% | 541,666,667 | 25-Aug-31 | Quarterly | Quarterly | – | 537,048,270 | 537,048,270 |
| 2.40 billion Boracay Water BPI Loan | 4.70% to 7.66% | 1,420,000,000 | 30-Apr-33 | Quarterly | Quarterly | – | 1,409,578,349 | 1,409,578,349 |
| 1.15 billion Clark Water RCBC Loan | 6.19% to 6.63% | 838,541,665 | 30-Sep-30 | Quarterly | Quarterly | 140,416,667 | 693,753,785 | 834,170,452 |
| 0.54 billion Clark Water DBP Loan | 6M LIBOR plus margin | 535,000,000 | 31-Dec-33 | Quarterly | Quarterly | – | 531,361,311 | 531,361,311 |
| 0.80 billion Cebu Water DBP Loan | 7.32% | 530,517,648 | 20-Dec-33 | Quarterly | Quarterly | 42,589,832 | 482,530,918 | 525,120,750 |
| 7.00 billion MWPVI Loan | 5.1128% to 8.8132% | 6,400,000,000 | 9-Nov-32 | Semi-annual | Semi-annual | 304,965,000 | 6,056,477,784 | 6,361,442,784 |
| 0.45 billion Tagum Water PNB Loan | 5.303% to 7.83% | 361,916,667 | 25-Sep-12 | Quarterly | Quarterly | 12,924,168 | 347,155,108 | 360,079,276 |
| 0.15 billion Tagum Water PNB Loan | 5.25% | 143,333,333 | 25-Sep-32 | Quarterly | Quarterly | 3,173,520 | 136,485,931 | 139,659,451 |
| 0.23 billio Aqua Centro BPI Loan | 4.7653% to 5.3487% | 107,000,000 | 19-Mar-31 | Quarterly | Quarterly | – | 106,264,735 | 106,264,735 |
| 0.47 billion South Luzon Water BPI Loan | 4.625% to 5.7898% | 100,000,000 | 25-Aug-31 | Quarterly | Quarterly | – | 100,000,000 | 100,000,000 |
| 0.39 billion Calbayog Water BPI Loan | 5.42% | 70,000,000 | 22-Oct-31 | Quarterly | Quarterly | – | 70,000,000 | 70,000,000 |
| 20.0 billion Wawa loan facility | 0.9% to 4.25% | 5,000,000,000 | 30-Jul-25 | Quarterly | Quarterly | 60,311,014 | 4,828,473,903 | 4,888,784,917 |

| Title of Issue and Type of Obligation | Interest Rates | Amount | Maturity | Interest Periodic Payments | Principal Periodic Payments | Amount Shown as Current | Amount Shown as Long-term | Total Long-term Debt |
|---|---|---|---|---|---|---|---|---|
| 178.7 million PMBC commercial loan facility | 6.50% | 178,700,000 | | | | – | 149,180,386 | 149,180,386 |
| 1.0 billion PICI HSBC loan facility | 5-year PHP BVAL rate plus a spread of 2.35% | 1,000,000,000 | 19-Oct-26 | Quarterly | Quarterly | – | 987,426,086 | 987,426,086 |
| 2.0 billion PICI Unionbank loan facility | fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum | 2,000,000,000 | 6-Dec-28 | Quarterly | Quarterly | – | 1,985,313,777 | 1,985,313,777 |
| 1.5 billion PMHPHC Unionbank loan facility | fixed interest rate computed based on the 7-year BVAL rate plus 200 basis points, subject to a floor rate of 5% per annum | 1,500,000,000 | 21-Apr-28 | Quarterly | Quarterly | – | 1,490,026,524 | 1,490,026,524 |
| 5.5 billion TWCHI BPI loan facility | higher of PHP BVAL reference rates plus a spread of 2.5% and O/N RRP ("Overnight Reverse Restriction Repurchase") rate of BSP plus a spread of 0.95% | 5,500,000,000 | 3-Jun-24 | Quarterly | 3-Jun-24 | – | 5,341,871,852 | 5,341,871,852 |
| **Total PHP Loans** | | | | | | **–** | **35,297,827,913** | **38,710,284,790** |
| | | | | | | | | |
| **TOTAL** | | | | | | **5,371,667,319** | **81,236,765,438** | **86,608,432,757** |

**Prime Infrastructure Holdings, Inc.**
Schedule E. Indebtedness to Related Parties (Long-term Loans from Related Companies)
December 31, 2021

| Name of Related Party | Beginning Balance | Ending Balance |
|---|---|---|
| N/A | N/A | N/A |
| | | |

**Prime Infrastructure Holdings, Inc.**
Schedule F. Guarantees of Securities of Other Issuers
December 31, 2021

| Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by the Company for which Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A |

PRIME INFRA

**Prime Infrastructure Holdings, Inc.**
Schedule G. Capital Stock
December 31, 2021

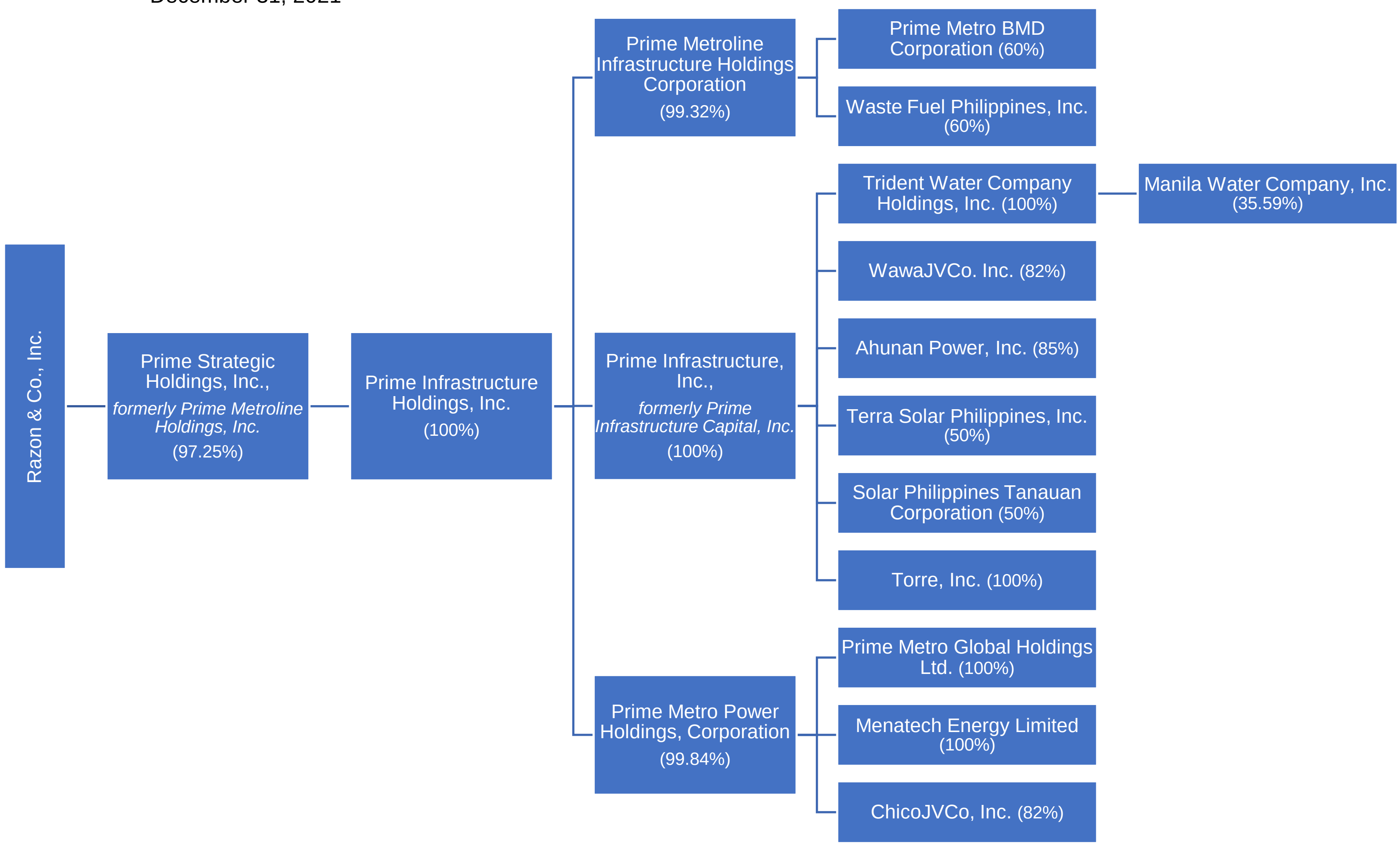
| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Share Reserved for Options, Warrants, Conversions and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Parent and Affiliates | Directors, Officers and Employees | Others |
| Shares | Common | 50,000,000 | – | 49,999,997 | 3 | – |
| | | | | | | |

PRIME INFRA

**Prime Infrastructure Holdings, Inc.**
Schedule H. Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2021

| | | **Amount** |
|---|---|---|
| Unappropriated retained earnings, beginning<br>Adjustments: (see adjustments in previous years' reconciliation)<br>Recognized deferred tax assets in prior year | –<br> | (₱646,658)<br>– |
| Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning | | (646,658) |
| **Add: Net income (loss) actually earned/realized during the period**<br>Net income during the year closed to retained earnings<br>Unrealized foreign exchange loss – net (excluding those attributable to cash and cash equivalents)<br>**Less:**<br>Equity in net income of associates<br>Recognized deferred tax assets during the year | 114,395,466<br>–<br>–<br>– | 114,395,466 |
| Net income (loss) actually earned/realized during the period | | 113,749,808 |
| **Unappropriated retained earnings available for dividend, as adjusted, ending** | | **₱113,749,808** |

**Prime Infrastructure Holdings, Inc.**
Schedule I. Map of Relationships
December 31, 2021



PRIME INFRA

**Prime Infrastructure Holdings, Inc.**
Schedule J. Financial Soundness Indicators
December 31, 2021

| Ratio | Formula | Current Year | Prior Year |
|---|---|---|---|
| Current ratio | Current Assets/Current Liabilities | 1.11 | 1.60 |
| Quick ratio | Quick Assets*/Current Liabilities | 0.97 | 1.41 |
| Solvency ratios | Total Assets/Total Liabilities | 1.56 | 2.50 |
| Debt ratio | Total Debt/Total Assets | 0.64 | 0.40 |
| Debt-to-equity ratio | Total Liabilities/Total Equity | 1.80 | 0.66 |
| Interest Coverage | Earnings Before Interest and Taxes (EBIT) / Interest Charges | 2.34 | 11.96 |
| Asset-to-equity ratio | Total Assets/Total Equity | 2.80 | 1.66 |
| Net Profit Margin | Net Profit / Sales | 71.49% | 13.69% |
| Return on assets | Net Income/Total Assets | 5.81% | 4.65% |
| Return on Equity | Net Income / Total Stockholders' Equity | 16.25% | 7.75% |
| Price/Earnings Ratio | Price Per Share / Earnings Per Common Share | N/A | N/A |

**Current assets less inventories and prepaid expenses and other current assets*

# ANNEX 1


# Market Assessment of the Water Infrastructure, Treatment and Renewable sectors for IPO Prospectus

## September 2022

Final Report Document for Prime Infrastructure Holdings

# | About GlobalData

**GlobalData is a leading provider of data, analytics, and insights on the world's largest industries.**

In an increasingly fast-moving, complex, and uncertain world, it has never been harder for organizations and decision-makers to predict and navigate the future. This is why GlobalData's mission is to help our clients to decode the future and profit from faster, more informed decisions. As a leading information services company, thousands of clients rely on GlobalData for trusted, timely, and actionable intelligence. Our solutions are designed to provide a daily edge to professionals within corporations, financial institutions, professional services, and government agencies.

**Unique Data**

We continuously update and enrich 50+ terabytes of unique data to provide an unbiased, authoritative view of the sectors, markets, and companies offering growth opportunities across the world's largest industries.

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We leverage the collective expertise of over 2,000 in-house industry analysts, data scientists, and journalists, as well as a global community of industry professionals, to provide decision-makers with timely, actionable insight.

**Innovative Solutions**

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**One Platform**

We have a single taxonomy across all of our data assets and integrate our capabilities into a single platform – giving you easy access to a complete, dynamic, and comparable view of the world's largest industries.

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# 1. The Philippines

## 1.1 Macroeconomic And Demographic Overview

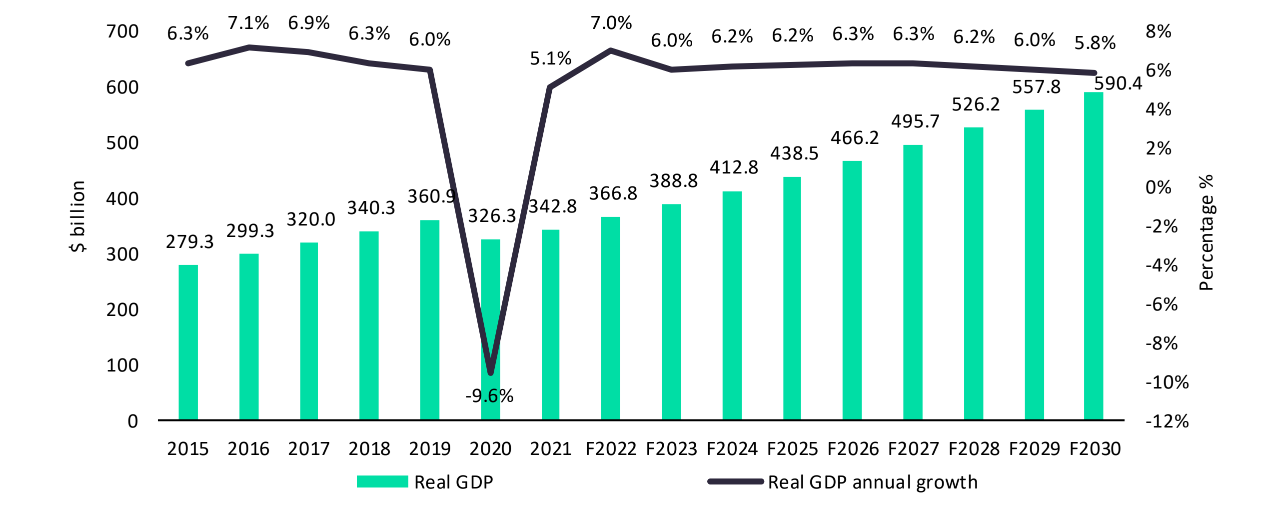
The Philippines is an archipelagic country in South Asia and is considered one of the most dynamic economies in East Asia. The population of the Philippines was around 111.5 million as of 2021, which makes it the world's 13th most populous country.

Due to the huge consumption of domestic products and fixed investments, the GDP grew an estimated 5.1% in 2021. The government focuses on major economic factors such as a competitive workforce, a stable job market, steady remittances, and investment in the construction sector (World Bank). In the World Bank's Doing Business 2020 report, the Philippines scored 62.8 out of 100 in terms of ease of doing business. The Philippines was ranked 32nd in terms of getting electricity and 65th in terms of resolving insolvency. However, it was ranked 171st in terms of starting a business and 152nd in terms of enforcing contracts.

In 2020, the Philippines had the second-highest rate of corporate income tax (CIT) (30%) and the seventh-highest personal income tax (PIT) rate (35%) in Asia. The country has been struggling with a fiscal deficit and the government sought to impose hefty taxes to reduce it. According to Paying Taxes 2020, the Philippines was ranked 95th out of 189 countries with a paying tax score of 72.6 out of 100. The county's Total Tax and Contribution Rate (TTCR) stood at 43.1%. In 2018, it took 171 hours to comply with tax procedures, and labour tax compliance alone took 30 hours. However, the government lowered the CIT to 25% in July 2020 and intends to reduce the rate to 20% by 2027 to improve the country's ability to attract investments.

The COVID-19 pandemic had a major impact on the country's system and institutions. During the pandemic, the Philippines government introduced a large-scale social protection program amid strict community quarantine. The authorities provided emergency cash subsidies under the Social Amelioration Program (SAP), which covered around 18 million poor households, comprising 70% of the country's population. SAP beneficiaries included the 4.4 million households enrolled in the country's flagship safety net program, the Pantawid Pamilyang Pilipino Program (4Ps), together with other vulnerable groups such as informal workers.

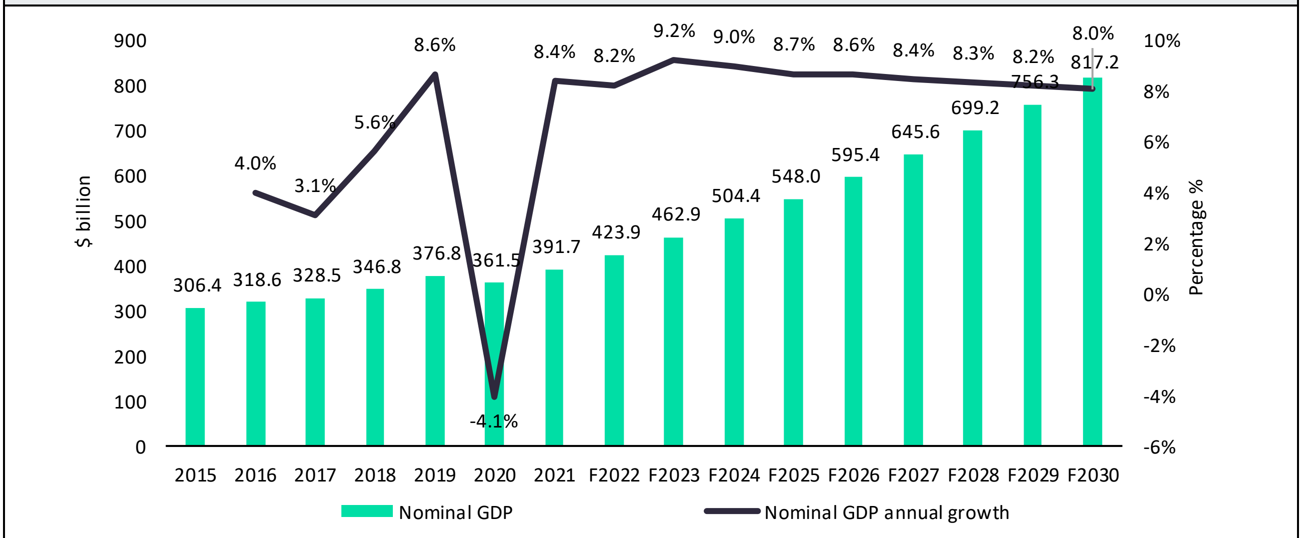
Figure 1: Real GDP (2015–30)




Source: GlobalData analysis using National Statistics Office Philippines, International Monetary Fund and The World Bank data © GlobalData

In 2020, the outbreak of the COVID-19 pandemic severely affected the economy of the Philippines. A high unemployment rate and strict social distancing measures led to a fall in household consumption. According to official statistics, GDP contracted to -9.6% in 2020, while real household consumption expenditure shrunk 8%. In 2022, the GDP is forecast to increase 7%, as fiscal and monetary measures steer the economy to recovery.

Figure 2: Nominal GDP (2015–30)




Source: GlobalData analysis using Philippine Statistics Authority, The World Bank and International Monetary Fund data © GlobalData

During 2000–10, the population of the Philippines increased at an average annual rate of 1.9%, from 76.5 million in 2000 to 92.3 million in 2010. Growth slowed down during 2011–20 to an average of 1.7% and the population stood at 110 million at the end of 2020. According to official statistics, the country's population increased at a slower pace of 1.6% to 112 million in 2021 over 2020 and expected to increase at an average annual rate of 1.6% during 2021–25 to 119 million in 2025.

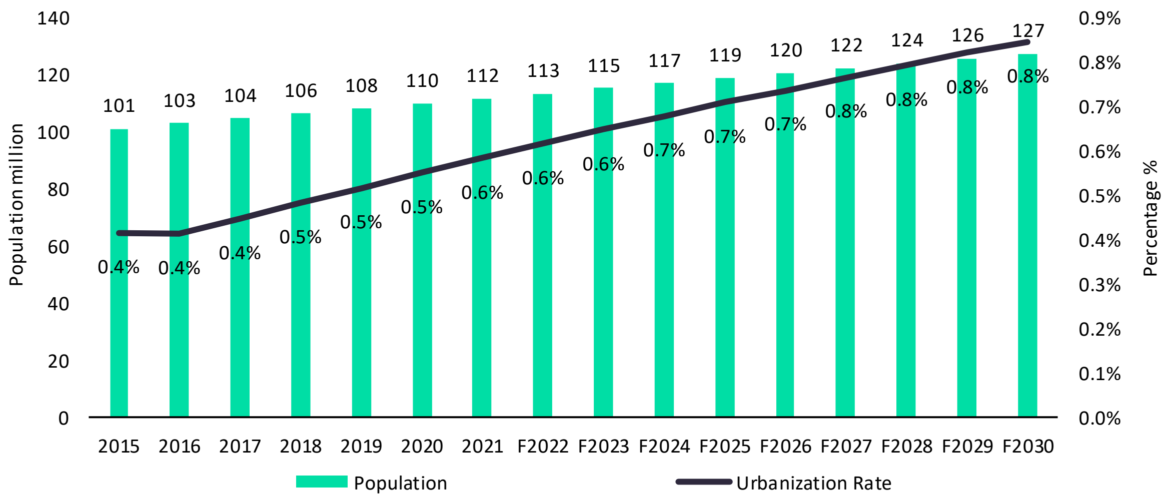
The Philippines is among Asia's premier labour markets. According to official statistics, the country houses a large and growing young population, with a median age of 24.1 in 2020, an important demographic dividend that could be made use of with proper investments in education and by developing policies. The share of the working-age population (15–64 years) in the total population increased to 62.7% in 2020, from 59.9% in 2005, and is projected to increase to 63.7% in 2025. The large and young population of the Philippines will keep the economy growing faster than that of its neighboring countries in Asia over the next few decades.

Table 1: Demographic Overview (2021)

| Country | Population (million) | Population aged 10-24 Years (million) |
|---|---|---|
| Philippines | 111.5 | 21.5 |
| Thailand | 70.8 | 8.6 |
| Vietnam | 98.3 | 14.7 |
| Indonesia | 272.2 | 45.5 |

Source: General Statistics Office of Vietnam, Central Bureau of Statistics Indonesia, Philippine Statistics Authority, National Statistical Office Thailand, United Nations Statistics Division, International Monetary Fund and The World Bank © GlobalData

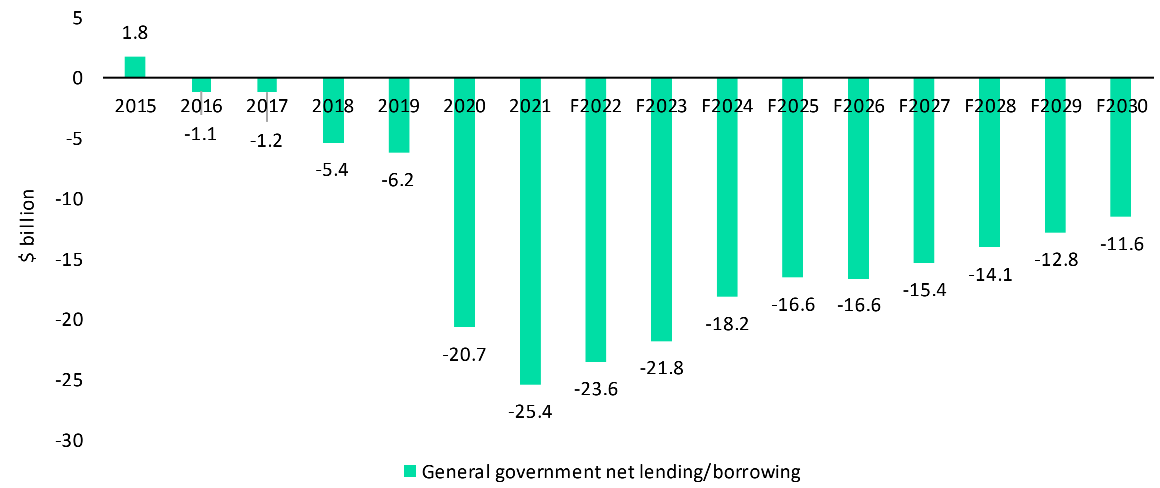
Figure 3: Population and Urbanization Rate (2015–30)




Source: GlobalData analysis using Philippine Statistics Authority and The World Bank data © GlobalData

**Note:** The urbanization rate is measured as the average annual percentage change of the urban share of the population (proportion of urban to total population). The indicator has been derived using data on the urban population as a percent of the total Mid-year population.

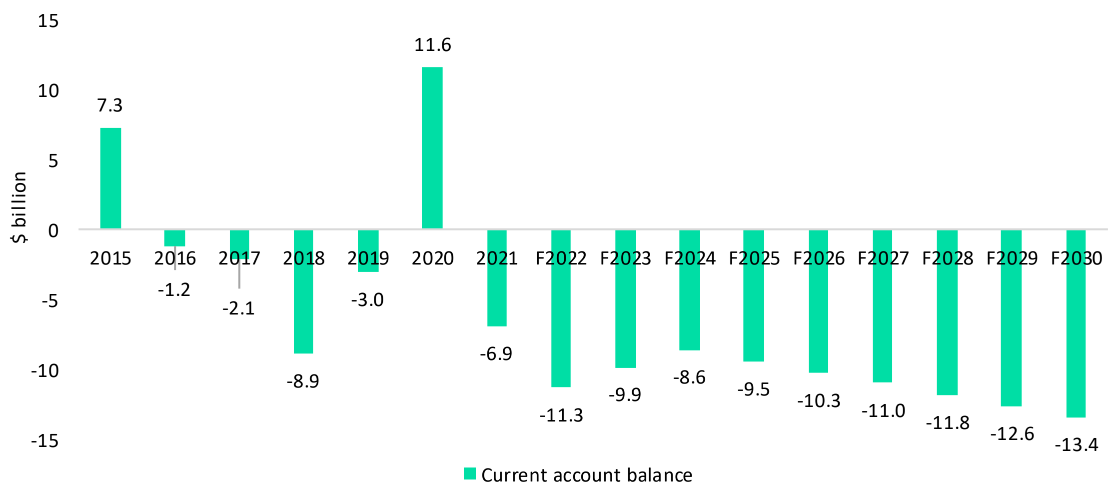
Figure 4: General government net lending/borrowing (2015–30)




Source: GlobalData analysis using Bureau of The Treasury Philippines and GlobalData data © GlobalData

The current account balance of the Philippines was in surplus at the end of 2020 after posting a deficit in 2019, against the backdrop of the pandemic-induced economic slump. According to the official statistics, the country reported a surplus of 3.2% of GDP ($11.6 billion) in 2020, in comparison to a deficit of 0.9% of GDP ($3 billion) in 2019. According to Bangko Sentral ng Pilipinas (BSP), the Central Bank of the Philippines, higher net foreign borrowings by the government and a lower merchandise trade deficit, along with sustained net inflows from personal remittances, foreign direct investment, and trade in services, accounted for the current account surplus in 2020.

Figure 5: Current Account Balance (2015–30)




Source: GlobalData analysis using The World Bank data © GlobalData

# 1.2 Industry Overview

## 1.2.1 Power Generation

In 2021, the total power generated was 106,114GWh, primarily composed of thermal energy, with a 77.6% share. The total installed capacity in 2021 was 26,883MW primarily composed of fossil fuels. Renewables had a total installed capacity of over 7,914MW accounting for 29.4%.

The Department of Energy (DoE) is responsible for preparing, integrating, coordinating, supervising, and controlling all projects, programs and plans of the government related to energy exploration, development, utilization, distribution, and conservation. DoE is working on projects to encourage the use of smart-grid technology across the country's islands.

In November 2021, the DoE announced the National Renewable Energy Program (NREP) 2020-2040, setting a target of 35% share of renewable energy (RE) in the power generation mix by 2030 and 50% share by 2040. It estimates the peak power demand will quadruple by 2040 from the 2020 level with a growth of 7% CAGR through to 2040. To meet peak demand and 50% of the share of renewables in the generation mix, the country needs a total installed capacity of 114,601 MW by 2040.

In August 2020, the government announced a 10-year collaboration among energy and agriculture departments to develop and implement Renewable Energy Program for the Agriculture and Fishery Sector (REP-AFS). For fuel and power generation, the initiative aimed at promoting the use of cost-effective renewable sources such as solar, wind, hydro, small-scale geothermal, and biomass.

In March 2022, the Government of the Philippines signed the Clean Energy Demand Initiative (CEDI) letter of intent with companies including Akamai, Amazon, Apple, Ikea, Iron Mountain, Lady Lawyer Foundation, Lululemon, Meta, Ralph Lauren, REI, RIFE International, and WeWork with an idea to stimulate private-sector investment by leveraging corporate clean energy commitments and government policies that enable corporate procurement of renewable energy.

Table 2: Comparison of Key Statistics for Power Sector (2021)

| Country | Population (million) | Peak Demand in MW | Electricity Consumption in GWh | Installed Capacity in MW | Installed Capacity per capita in kW | Electricity Consumption per capita in kWh |
|---|---|---|---|---|---|---|
| Philippines | 111.5 | 16,036 | 106,114 | 26,883 | 0.24 | 951.7 |
| Thailand | 70.8 | 30,135 | 190,467 | 52,235 | 0.74 | 2,691.5 |
| Vietnam | 98.3 | 41,709 | 225,454 | 75,494 | 0.77 | 2,294 |
| Indonesia | 272.2 | 42,785 | 256,620 | 73,895 | 0.27 | 942.6 |

Source: GlobalData analysis using Philippines Department of Energy, Ministry of Energy Thailand, Ministry of Energy and Mineral Resources Indonesia and Vietnam Electricity Corporation data
© GlobalData

The Philippines has the second highest population among the four countries. It has the lowest peak demand, consumption and installed capacity and the second lowest per capita electricity consumption. This provides a significant opportunity for the existing players and new entrants in the market.

## 1.2.2 Water and Wastewater Treatment

In 2020, the total water permits issued was 23,216 and the water allocated for these permits was 220,388 mcm/yr. (million $m^3$/ Year) in the Philippines. Among these, the power sector was allocated 131,676 mcm/yr in 2020 which is 60% of the total allocation.

The Department of Environment and Natural Resources is the executive department of the government of Philippine responsible for governing and supervising the exploration, development, utilization, and conservation of the country's natural resources such as forests, mines, and water among others.

In January 2019, the department launched the "Clean Water Program" aimed at improving the water quality of priority rivers and other vital water bodies such as lakes and bays by conducting large clean-ups, monitoring industry, and rehabilitating rivers through partnerships such as the Adopt-an-Estero program.

Table 3: Legislation, Policies, and Issuances for Water Supply and Sanitation

| Legislation, Policy, and Issuance | Title |
|---|---|
| EO 123 of 2002 | Reconstituting the National Water Resources Board (NWRB), transferring the tariff setting function of Local Water Utilities Administration (LWUA) to National Water Resources Board (NWRB), and transferring it from Department of Public Works and Highways (DPWH) to Department of Environment and Natural Resources (DENR) |
| RA 9286 | An Act Further Amending PD 198 (2003) |
| RA 9275 | Philippine Clean Water Act of 2004 |
| EO 279 of 2004 | Instituting Reforms in the Financing Policies for the Water Supply and Sewerage Sector and Water Service Provider (WSPs), and Providing for the Rationalization of LWUA's (Local Water Utilities Administration) Organizational Structure and Operations in Support Thereof |
| EO 387 of 2004 | Transferring the Local Water Utilities Administration (LWUA) from the OP (Office of the President) to the DPWH (Department of Public Works and Highways) and Strengthening the Supervision by the DPWH Secretary over the MWSS (Metropolitan Waterworks and Sewerage System) |
| EO 738 of 2005 | Transferring the LWUA from DPWH to DOH (Department of Health) |
| EO 816 of 2009 | Declaring the River Basin Control Office under the DENR (Department of Environment and Natural Resources) as the Lead Government Agency for the Integrated Planning, Management, Rehabilitation, and Development of the Country's River Basins |
| EO 860 of 2010 | Redefining the Composition of the NWRB (National Water Resources Board) and returning the tariff setting function from NWRB back to LWUA |
| EO 62 of 2011 | Transferring LWUA from DOH to DPWH |
| 2013 NEDA JV Guidelines | Revised Guidelines and Procedures for Entering into JV Agreements Between Government and Private Entities |
| DOH Administrative Order 2014-0027 | National Water Policy on Water Safety Plans for all Drinking WSPs |

Source: National Economic and Development Authority, Philippines

## 1.2.3 Road Infrastructure

The construction industry is an integral part of the Philippine economy. According to GlobalData, the overall construction output was $46.8 billion in 2021 and it is expected to reach $76 billion in 2026. To address the country's increasing infrastructure issues, the Duterte administration started the $180 billion "Build!, Build!, Build!" (BBB) program in 2017. Initially, 75 projects worth $48 billion were identified as flagship projects under the initiative. These included big-ticket rail, airport, road, and bridge projects. The BBB program was negatively impacted by the pandemic-induced lockdowns and according to government data, only a few projects were completed in 2021, and 31 more are expected to be get completed in 2022.

The Metro Manila Subway Project would be handled by the Department of Transportation (DOTr) and cost nearly PHP357 billion. The project's completion date was set for 2025. The North-South Commuter Railway Extensions (PNR North 2, PNR South commuter), PNR South Long Haul, Bataan-Cavite Interlink Bridge, Panay-Guimaras Negros Bridge, Taguig Integrated Terminal exchange, and the New Manila International Airport were among the high-value tickets in the pipeline.

In February 2022, the government of the Philippines and the UAE strengthened their partnership in the construction and infrastructure sector. In June 2022, the National Economic and Development Authority (NEDA) announced 13 infrastructure projects in the Philippines, with an estimated value of $10.8 billion. Included highway and bridge construction projects will help the Philippines to strengthen its transportation infrastructure.

### 1.2.4 Government Incentives to Attract Foreign Investment

Republic Act No. 7042, was to promote foreign investments, prescribing the procedures for registering enterprises doing business in the Philippines. As per the law, there were no restrictions on the extent of foreign ownership of export enterprises. 100% foreign investment is allowed in domestic market enterprises, except in areas included in the negative list.

The negative list was broken down into 2 Lists - List A and List B which include the operation of public utilities. The foreign ownership for the negative list was restricted to a maximum of 40% of the equity capital of the enterprises engaged therein.

List A includes areas of investment and extent of foreign ownership, where limitations were by the mandate of the Philippine Constitution or law like exploration, development and utilization of natural resources, operation of public utilities, contracts for the construction and repair of locally funded public works and other activities

List B includes areas where limitations are for reasons such as national security and defense, the risk to health and morals, and safeguarding local Small and Medium Enterprises (SMEs)

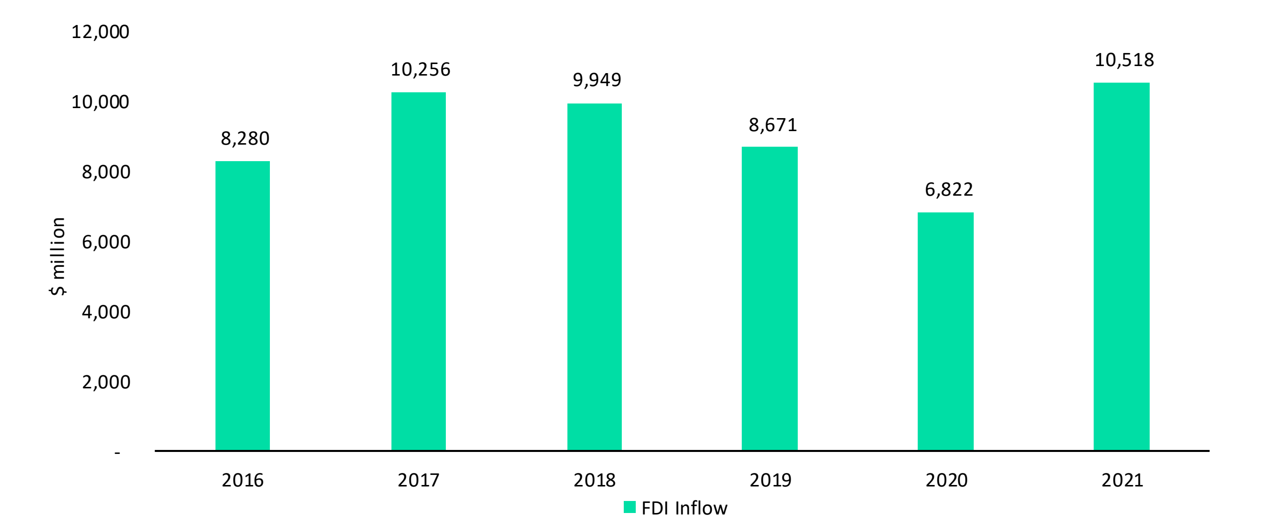
To encourage FDI in the country, the Management Association of the Philippines (MAP) has partnered with the Department of Trade and Industry (DTI) to improve the country’s competitiveness. As part of it, MAP would take part in the DTI’s Cities and Municipalities Competitiveness Index which ranks the cities and municipalities based on an overall score using government efficiency, economic dynamism, infrastructure, and resilience.

The country is also providing fiscal incentives for FDI investment. In March 2021, the President has signed the Corporate Recovery and Tax Incentives Reform Act (CREATE) bill into law. The law has reduced the corporate income tax rate to 25%, from 30%. The tax rate will also decrease annually by 1% until 2027.

The government agencies that administer incentives to qualified enterprises include Philippine Economic Zone Authority (PEZA), Board of Investments (BOI), Cagayan Economic Zone Authority (CEZA) and Tourism Infrastructure and Enterprise Zone Authority (TIEZA). PEZA has the authority to approve or disapprove the grant of incentives to registered proj ects with investment capital of $18.5 million and below. The incentives include:

- Tax-and-duty-free import of capital equipment, raw materials, spare parts or accessories
- VAT exemption on import and VAT zero-rating on local purchases for goods and services directly or exclusively used in the registered project or activity of export enterprise for the period of registration of the said project or activity
- Domestic sales allowance of up to 30% of total sales
- Exemption from payment of local government taxes and fees for the duration of the period of availment of the 5% Special Corporate Income Tax (SCIT) incentive

Figure 6: FDI Inflow (2016–21)




Source: United Nations Conference on Trade and Development © GlobalData

The FDI inflow has shown a declining trend since 2017 in the country and reached $6,822 million in 2020. In 2021, the country policy opened up to allow 100 per cent foreign ownership of select public services due to which the inflow was raised by 54.2% YoY. Key FDI inflow sectors include information and communication, manufacturing, administrative and support service activities and real estate.

The country has faced challenges with foreign investments. As per, the 2019 Organization for Economic Cooperation and Development index the country had Asia's most restrictive foreign investment laws. The COVID-19 pandemic has forced the government to enact reforms to encourage foreign investments in the country.

In December 2021, Senate Bill (SB) 2094 was approved by the government, which amends the Public Service Act by enabling 100% foreign ownership of public services. The new bill limits 100% foreign ownership in public utilities such as electricity distribution, electricity transmission, airports, seaports, water pipeline distribution and sewerage, tollways and expressways, and public utility vehicles.

On March 2nd, 2022, the country approved Republic Act No. 11647, which amends Republic Act No. 7042, the old Foreign Investment Act (FIA). The new act aims to promote and attract foreign investments by allowing, for international investors to set up and fully own domestic enterprises (including micro and small enterprises) in the Philippines.

The new law also enacts the establishment of an Inter-Agency Investment Promotion Coordination Committee (IIPCC) which would be responsible for integrating the promotion activities to encourage foreign investment.

## 1.3 Market Overview

Energy and utilities construction was the third-largest market in the Philippines construction industry, accounting for 16.2% of the total construction output in 2021. GlobalData estimates that the construction output for the energy and utilities sector will reach $12 billion in 2026 from $8 billion in 2021, growing at a CAGR of 11.9%. The sector’s output over the forecast period will be aided by investments as part of the National Renewable Energy Program (2020–2040), under which the government aims at increasing the share of renewable energy in the total power mix to 35% by 2030 and 50% by 2040.

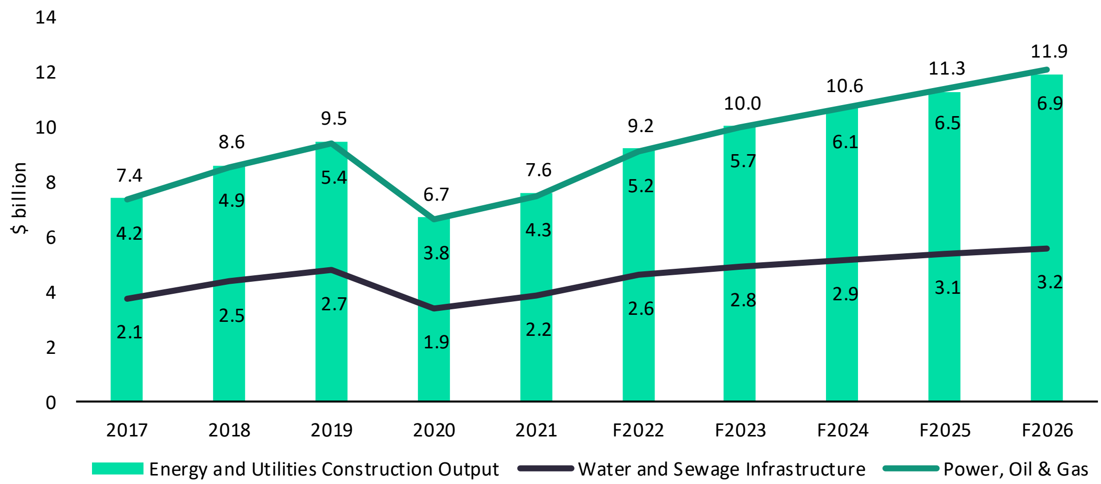
In 2020, the construction market for energy and utilities declined by 29% (YoY). The growth is expected to revive at a pre-COVID level in 2022 with the government's focus on infrastructure spending.

The total power generation capacity in the Philippines stands at 26,883MW, with around 14% of it being hydropower and nearly 5% being solar power. Market output over the forecast period will be supported by the government’s focus on reducing the country’s dependence on coal for electricity generation. In July 2019, the government announced plans to accelerate the pace of implementation of two major renewable energy policies in the country. The first policy mandates power distribution utilities to source a portion of energy from renewable sources, while the second policy empowers consumers to demand energy sourced from renewable sources. This is expected to diversify renewable electricity generation and attract investments in the country’s power infrastructure.

In 2021, water and sewage infrastructure accounted for 4.7% of the total construction output in the country. The construction market for water and sewage infrastructure is expected to reach $3.2 billion in 2026 from $2.2 billion in 2021, growing at a CAGR of nearly 7.7%.

According to the Philippine Statistics Authority (PSA), the value-add of water supply services rose 3.9% YoY in Q4 from a YoY decline of 0.7% in Q3 and a growth of 2.2% in Q2 2021. The value-add of waste management services rose 10.7% YoY in Q4 2021, up from YoY growth of 7.4% in Q3 and 9.1% in Q2 2021. In annual terms, the value-add of water supply services rose 1.7% in 2021, from $1.87 billion in 2020 to $1.9 billion, while the value-add of waste management services rose 8.7%, from $144 million to $157.6 million during this period.

Figure 7: Energy and Utilities Real Construction Output Forecast (2017–26)



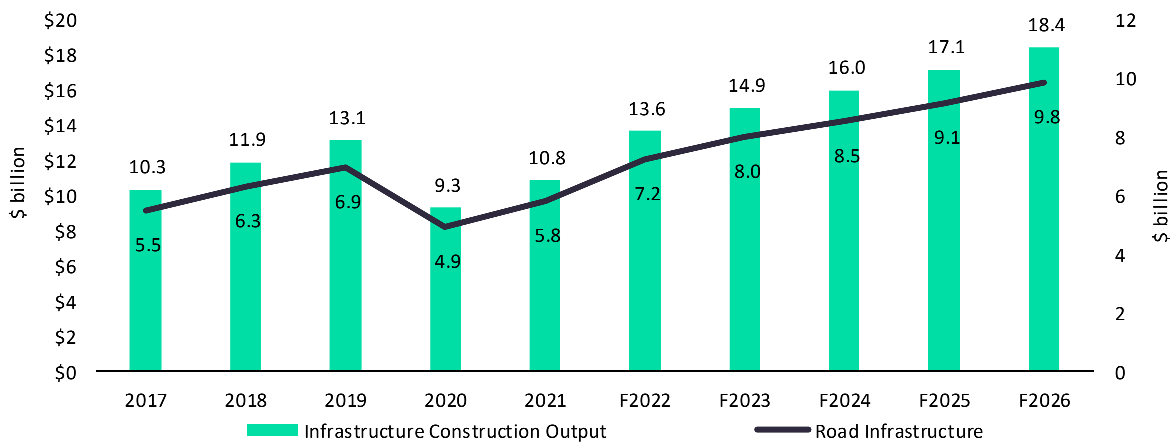

Source: GlobalData 

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

The infrastructure construction was the second largest market for the Philippines construction industry, accounting for 23.2% of the total construction output in 2021. The infrastructure construction output grew by 13.4% in 2021 over the previous year, complemented by the government's investments in infrastructure projects to revive the pandemic-hit economy. In January 2022, the Department of Public Works and Highways (DPWH) reported that it had completed the construction, rehabilitation, and improvement of over 4,000km of roads and 510 bridges in 2021.

The road infrastructure construction market is expected to grow at a CAGR of 11.1% and reach $9.8 billion in 2026 from $5.8 billion in 2021. The growth during the forecast period will be complemented by investments in transport infrastructure projects as part of the Philippine government's flagship infrastructure initiative, the "Build! Build! Build!" (BBB) program. In the 2022 Budget, the government allocated $16 billion to DPWH and $1.5 billion to the Department of Transportation (DOTr).

Figure 8: Infrastructure Real Construction Output Forecast (2017–26)




Source: GlobalData 

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

## 1.4 Water and Sewage Treatment Projects Overview

According to the National Economic and Development Authority (NEDA), the gap between the supply of available water and demand continues to widen in the country. Some areas are already experiencing water stress and water scarcity. The water crisis is projected to worsen by 2040 if the sector continues to pursue the business-as-usual approach.

The Department of Natural Resources states that only 10% of wastewater is treated in the country. Most of the population uses flush toilets connected to septic tanks and only 5% of the population is connected to a sewer network.

Table 4: Wastewater Statistics

| Country | Wastewater Treatment (%) |
|---|---|
| Philippines | 10% |
| Thailand | 33% |
| Vietnam | 10% |
| Indonesia | 5% |

Source: The Department of Natural Resources Philippines, Ministry of Natural Resources and Environment Thailand and The World Bank © GlobalData

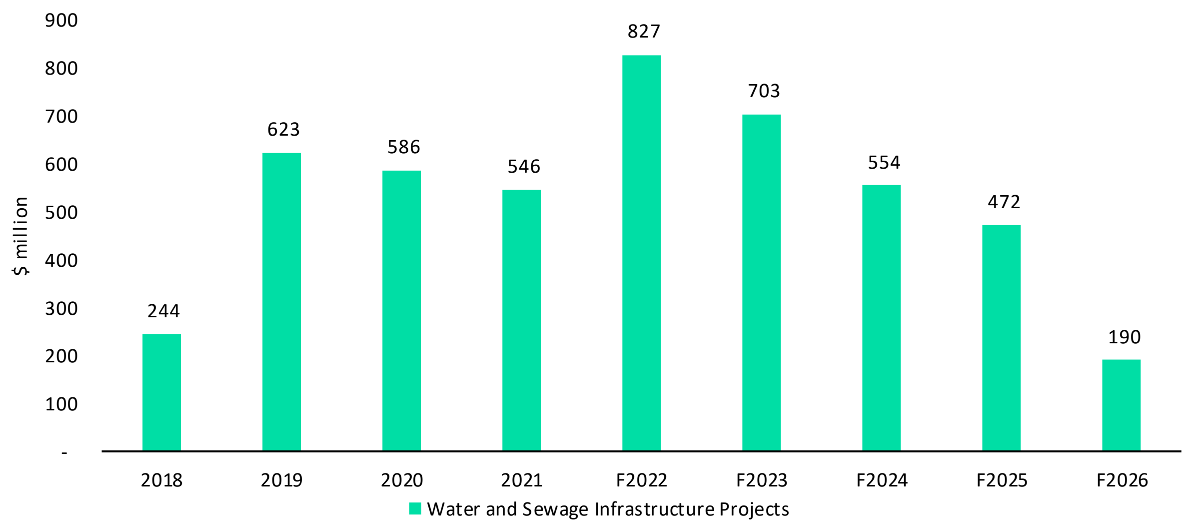
Currently, 43 sewage treatment plants (STPs) and septage treatment plants (SpTPs) service more than a million residents in Metro Manila. Local Government Units are the major bodies in the Water Quality Management Areas designated by the Department of Environment and Natural Resources (DENR).

The Philippines Water Supply and Sanitation Master Plan (PWSSMP) is a national action plan to achieve access to safe, sufficient, affordable, and sustainable water supply, hygiene, and sanitation by 2030. The plan is expected to create opportunities for water and sewage infrastructure projects during the forecast period.

In 2022, the construction of nine water and sewage infrastructure projects worth $1.6 billion is expected to commence. These projects are mainly owned by Metropolitan Waterworks and Sewerage System (MWSS) and Manila Water Company.

As per GlobalData, the value of projects awarded in the water and sewage infrastructure space is expected to revive in 2022. The key in-progress and planned water infrastructure projects include Battle Zone Rehabilitation, Wawa Bulk Water Supply Project, Laguna Lake East Bay Water Treatment Plant, Pampanga Bulk Water Supply, Davao City Bulk Water Supply, and New Centennial Water Source-Kaliwa Dam.

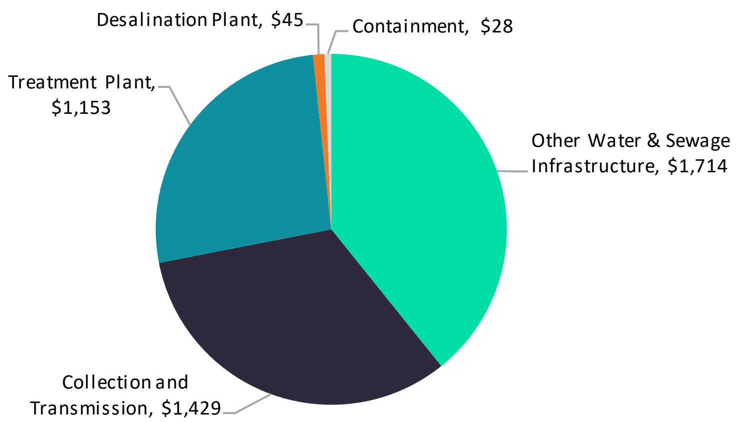
Figure 9: Estimated Project Value Spent for Water and Sewage Infrastructure ($ million)




Source: GlobalData © GlobalData

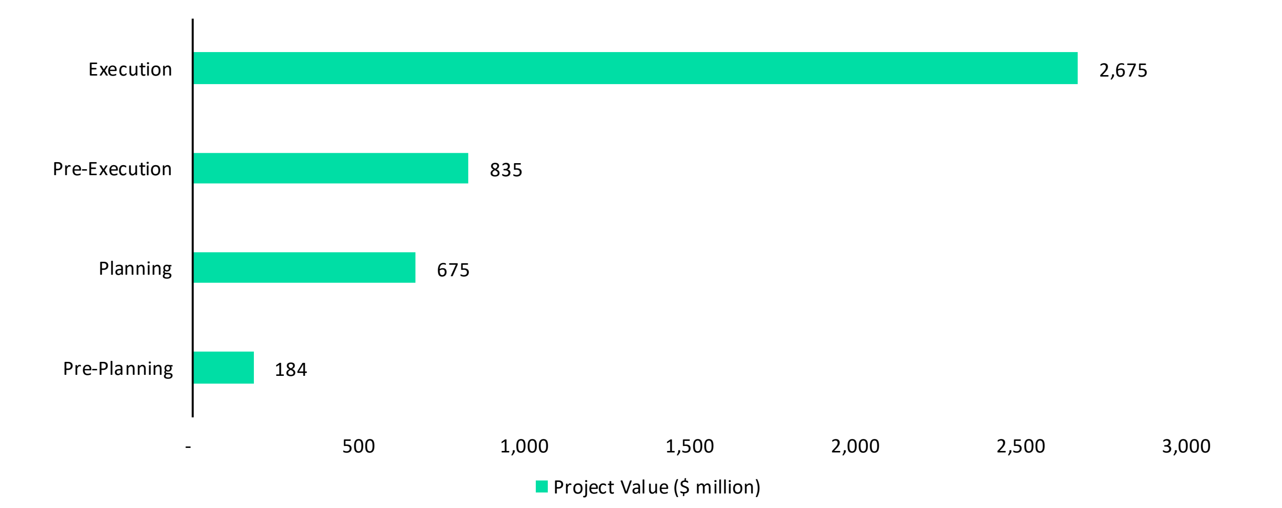
Of the total number of water and sewage sector projects pipeline, treatment plants, collection and transmission projects account for 60% of the water and sewage infrastructure projects. During the forecast period, treatment plants and collection and transmission projects worth $1.5 billion are expected to be get awarded in the country.

Figure 10: Water and Sewage Infrastructure Projects Pipeline By Type and Construction Start; 2018–24 ($ million)




Source: GlobalData © GlobalData

Figure 11: Value of Water and Sewage Infrastructure Projects Pipeline-By Stage ($ million)




Source: GlobalData © GlobalData

Manila Water is one of the largest owners of water and sewage infrastructure projects in the Philippines. Currently, there are six water and sewage infrastructure projects in progress owned by Manila Water. The projects being executed include the Novaliches-Balara Aqueduct 4 Water Supply Project for which the construction contract was awarded to Novabala JV Corp (a joint venture of CMC di Ravenna, First Balfour, Inc., and Chun Wo Engineering), Aglipay Sewage Treatment Plant for which the construction contract was awarded to Megawide Construction Corporation and SUEZ Water Technologies and Solutions, Hinulugang Taktak Sewage Treatment Plant for which construction contracts was awarded to Toshiba Water Solutions (TWS) and Frey-Fil Corporation (FFC).

Table 5: Top Water and Sewage Infrastructure Contractors by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| JV Angeles Construction Corp | Philippines | 4 | 380 |
| Megawide Construction Corporation | Philippines | 3 | 170 |
| Sta. Clara International Corporation (SCIC) | Philippines | 3 | 190 |
| VA Tech Wabag Ltd | India | 3 | 250 |
| JFE Engineering Corp | Japan | 4 | 280 |
| F.F Cruz Co Inc | Philippines | 2 | 90 |
| China Energy Engineering Corp Ltd | China | 1 | 231 |

Source: GlobalData

| Table 6: Top Water and Sewage Infrastructure Owners by Projects Count and CAPEX ($ million) | | | |
|---|---|---|---|
| **Company Name** | **Headquarters** | **Projects Count** | **CAPEX ($ million)** |
| Maynilad Water Services Inc | Philippines | 11 | 1,570 |
| Manila Water Co Inc | Philippines | 10 | 1,270 |
| Metropolitan Waterworks and Sewerage System | Philippines | 6 | 4,040 |
| Aboitiz & Co Inc | Philippines | 5 | 300 |
| National Irrigation Administration | Philippines | 4 | 280 |
| Department of Public Works and Highways | Philippines | 2 | 680 |
| Hedcor Sibulan Inc | Philippines | 2 | 50 |
| SN Aboitiz Power-Benguet Inc | Philippines | 1 | 160 |
| Philippines Department of Energy | Philippines | 1 | 30 |
| Davao City Council | Philippines | 1 | 3,000 |
| Source: GlobalData | | | |

## 1.4.1 Water Treatment

Owing to rapid urbanization, the Philippines is facing significant challenges in terms of water and sanitation. In the Philippines, 10% of wastewater is treated, while 58% of the groundwater is contaminated. Metro Manila generates around 2 million $m^3$ of wastewater per day.

The pandemic also led to an increase in the production of wastewater as there is an exponential increase in medical waste. According to the National Water Quality Status Report, 33% of water is polluted through domestic sources, 29% through agricultural livestock, 27% through industrial, and 11% through other sources. The government is expected to continue focusing on providing sewerage and sanitation services, which will also help achieve the global commitment to Sustainable Development Goal (SDG) 6.2, and access to adequate and equitable sanitation and hygiene by 2030.

As of March 2022, the country had 62 wastewater facilities that support the government in helping it achieve the sewerage and sanitation targets. In the west zone, there are 19 sewage treatment plants (STPs), two sewage and septage treatment plants, and one septage treatment plant, with a total wastewater treatment capacity of 664.19 minimal liquid discharge.

<table>
<tr><th colspan="11">Table 7: Sewage Coverage by Service Area and Region (%)</th></tr>
<tr><th rowspan="2">Indicator</th><th rowspan="2">Region</th><th colspan="3">MWSS Service Area</th><th colspan="3">MWC-East Zone</th><th colspan="3">MWSI-West Zone</th></tr>
<tr><th>Target</th><th>Actual Q4 2021</th><th>Accomplishment</th><th>Target</th><th>Actual Q4 2021</th><th>Accomplishment</th><th>Target</th><th>Actual Q4 2021</th><th>Accomplishment</th></tr>
<tr><td rowspan="3">% Sewerage Coverage</td><td>NCR</td><td rowspan="3">28.6%</td><td>30.3%</td><td rowspan="3">90.3%</td><td rowspan="3">32%</td><td>42.5%</td><td rowspan="3">98.3%</td><td rowspan="3">26%</td><td>24%</td><td rowspan="3">82.9%</td></tr>
<tr><td>Region IV-A</td><td>9.9%</td><td>13.5%</td><td>0.1%</td></tr>
<tr><td>Total</td><td>25.5%</td><td>31.5%</td><td>21.6%</td></tr>
<tr><td colspan="11">Source: Metropolitan Waterworks and Sewerage System (MWSS)</td></tr>
</table>

In the east zone, there are 41 wastewater treatment plants with a total capacity of 410 minimal liquid discharge. In the Philippines, wastewater treatment facilities comply with the Department of Environment and Natural Resources (DENR) administrative order (DAO) 2016-08 standards.

Metropolitan Waterworks and Sewerage System (MWSS) has a strategic plan to achieve PWSSMP goals such as 100% sewer connection by the end of the concession period, use of advanced treatment technology and design capacity for STPs, setting up of wastewater treatment facilities in defined catchment areas and conducting awareness campaign on water reuse.

Some of the upcoming treatment plants that would increase the capacity for wastewater treatment are:

Table 8: Water and Wastewater Treatment Plants ($ million)

| Project Name | Stage | CAPEX ($ million) | Processing Capacity (MLD) | Start | Completion |
|---|---|---|---|---|---|
| MWSI – Sewage Treatment Plants Development Program – Philippines | Execution | 605 | 1,600 | 2019 Q1 | 2030 Q4 |
| MWC/WawaJVCO – Wawa Water Supply Project: Phase II – Calabarzon | Execution | 322 | 518 | 2021 Q4 | 2025 Q4 |
| PGP – Pampanga Bulk Water Supply – Central Luzon | Planning | 426 | - | 2024 Q1 | 2027 Q1 |
| MWC – Laguna Lake East Bay Water Treatment Plant – Metro Manila | Planning | 300 | 250 | 2024 Q2 | 2027 Q3 |
| Maynilad – Caloocan-Malabon-Navotas Water Reclamation Facility – Metro Manila | Execution | 208 | 205 | 2021 Q1 | 2024 Q4 |
| MWC – Aglipay Sewerage Treatment Plant – Metro Manila | Execution | 87 | 60 | 2021 Q1 | 2025 Q2 |
| MSW – La Mesa Water Treatment Plant II Upgrade – Metro Manila | Execution | 70 | - | 2018 Q2 | 2022 Q4 |
| MWC/WawaJVCO – Wawa Bulk Water Supply Project: Phase I – Calabarzon | Execution | 61 | 80 | 2020 Q2 | 2022 Q4 |
| MWSI – Valenzuela Sewage Treatment Plant – Metro Manila | Execution | 35 | 60 | 2015 Q4 | 2023 Q1 |
| MWC – Hinulugang Taktak Sewage Treatment Plant – Metro Manila | Execution | 25 | 16 | 2021 Q3 | 2023 Q3 |

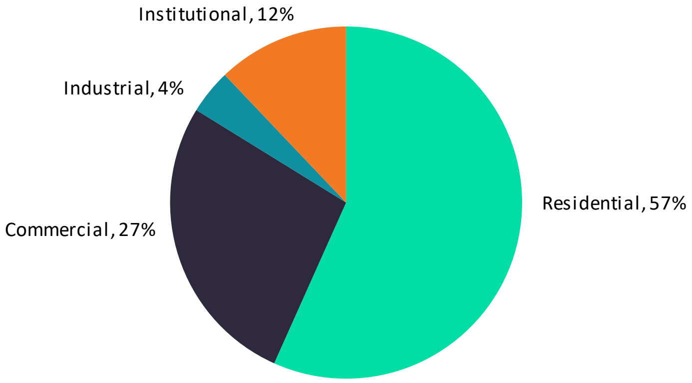
Source: GlobalData

### 1.4.2 Solid Waste Management

The Philippines government is committed to reducing the country's GHG emissions as per the Paris Agreement. Solid waste is one of the sources of GHG emissions in the country. The Environmental Management Bureau estimates that the average per capita waste generation in the Philippines is 0.4kg/day. In the metro regions such as Manila, the per capita generation average was approximately 0.7kg/day in 2020. The increasing population and rapid urbanization play a major role in the increase in solid waste generation and remains a major concern in the country. In 2020, 70% of the population in the Philippines has no access to disposable facilities and sanitary landfills (SLFs)

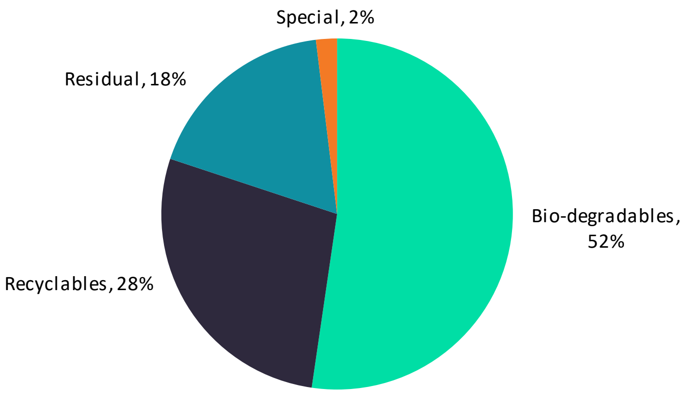
  

Figure 12: Municipal Solid Waste Generation By Source Based on 2008–13 Average




Source: Department of Environment and Natural Resources © GlobalData

Figure 13: Municipal Solid Waste Composition Based on 2008–13 Average

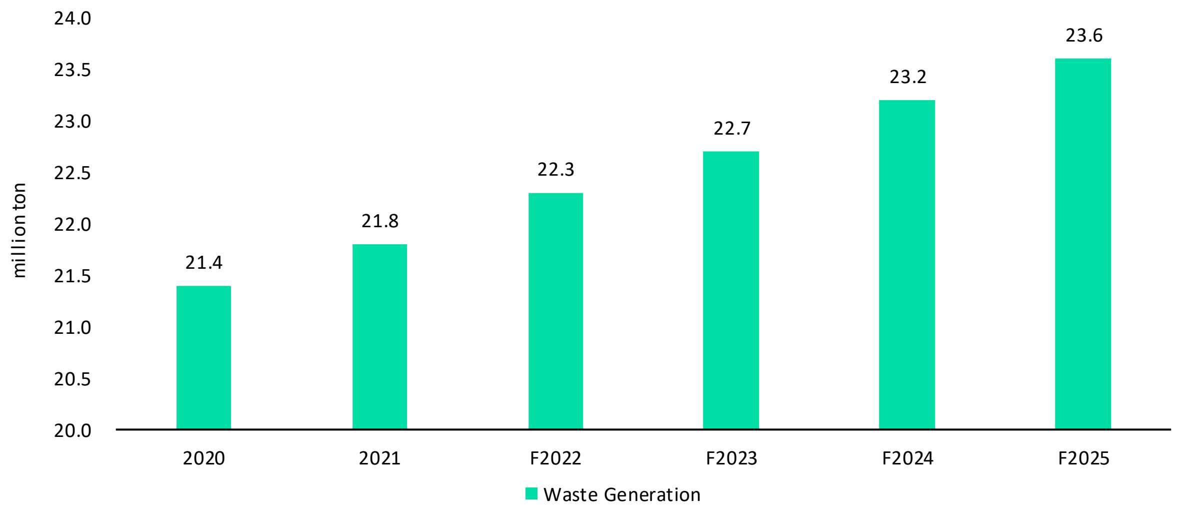



Source: Department of Environment and Natural Resources © GlobalData

Bio-degradable waste typically consists of food waste and garden waste. Of the 28% recyclable waste, plastic waste is the main composition with 10.6%, followed by paper and cardboard, and metals with 8.7% and 4.2%, respectively.

The National Solid Waste Management Commission had estimated that solid waste generation to 21.4 million tonnes in 2020 and is projected to grow at a CAGR of nearly 2% by 2025.

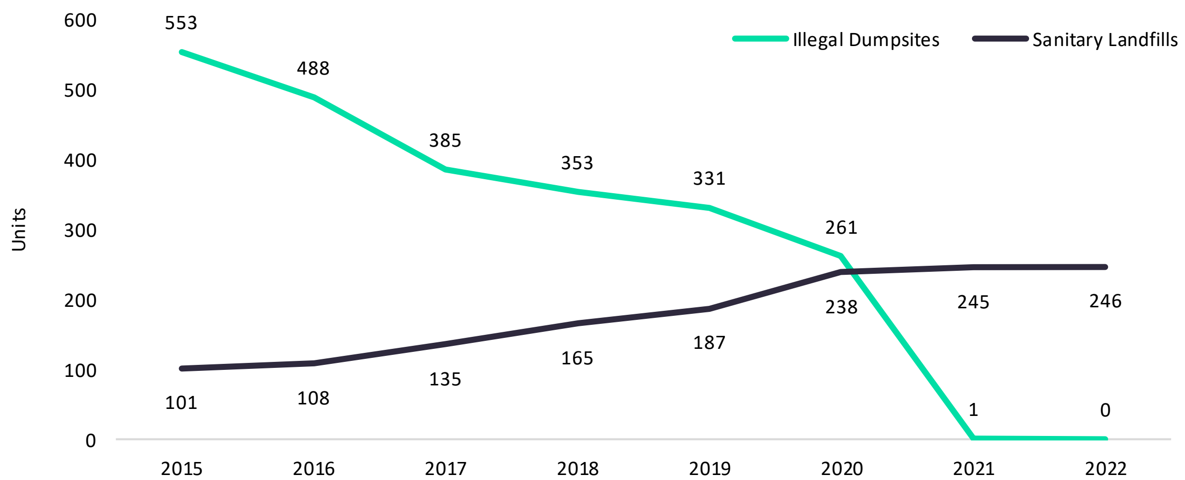
Figure 14: Solid Waste Generation Forecast (2020–25)




Source: National Solid Waste Management Commission © GlobalData

The government has initiated stringent action against illegal dumpsites and increased the number of sanitary landfills in the country, which will help regulate solid waste management issues.

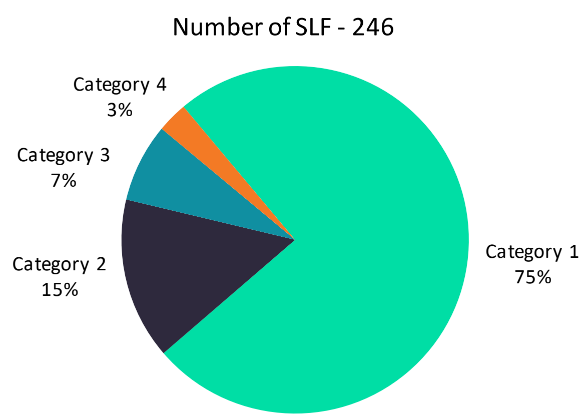
Figure 15: Illegal Dumpsites and Sanitary Landfills (2015–22)




Source: National Solid Waste Management Commission © GlobalData

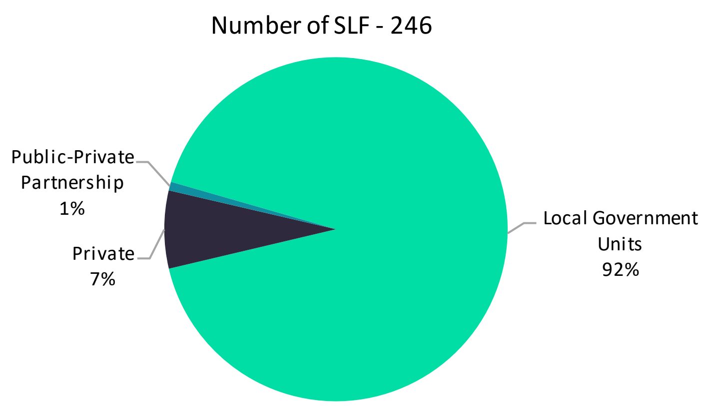
There are four categories of SLFs in the country. Category 1 (net residual waste generation of $\leq$15 tonnes per day (tpd)), Category 2 (net residual waste generation of >15 tpd and $\leq$75 tpd), Category 3 (net residual waste generation of >75 tpd and $\leq$200 tpd) and Category 4 (net residual waste generation of >200 tpd). The country has 246 SLF sites with a cumulative capacity of 59.11 million m$^3$. Operational SLFs receive an average of 12,910 tpd of waste.

Figure 16: Operational Sanitary Landfill By Category (2022)



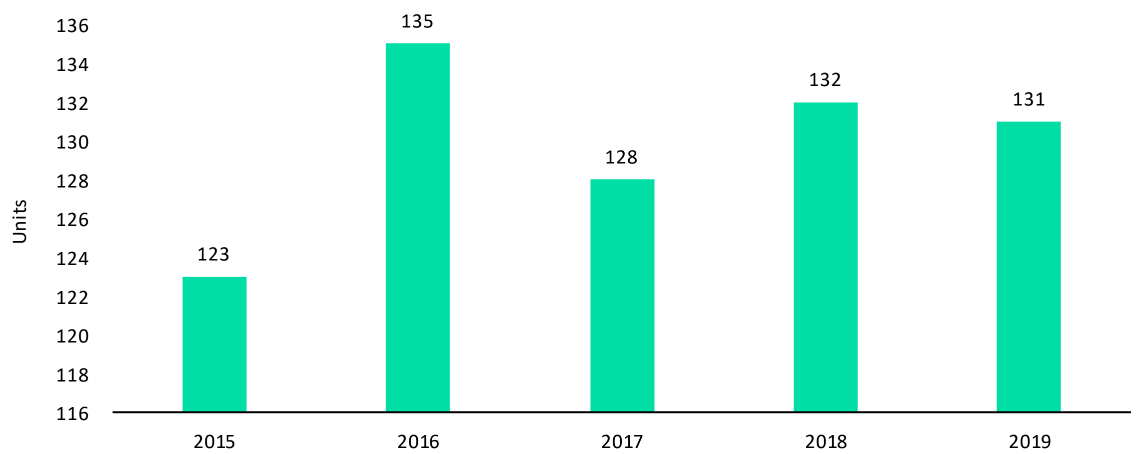

Source: National Solid Waste Management Commission © GlobalData

Figure 17: Operational Sanitary Landfill By Ownership (2022)




Source: National Solid Waste Management Commission © GlobalData

Figure 18: Registered Treatment, Storage and Disposable Facilities (2015–19)




Source: Philippines Statistics Authority © GlobalData

The government enacted Republic Act No. 9003, also known as the "Ecological Solid Waste Management Act of 2000," on January 26, 2001. The objective of the law is to address the growing problem of solid waste in the country. The law also provides the legal framework for a systematic, comprehensive, and ecological solid waste management program, which will ensure the protection of public health and the environment. The law also paved way for the creation of the National Solid Waste Management Commission (NSWMC) to oversee the implementation of solid waste management plans. The major principle of the Act is to achieve efficient solid waste management through the principles of reduction and minimization of waste at source, reuse, recycling and recovery, efficient collection, and proper transfer of waste by the city/municipal.

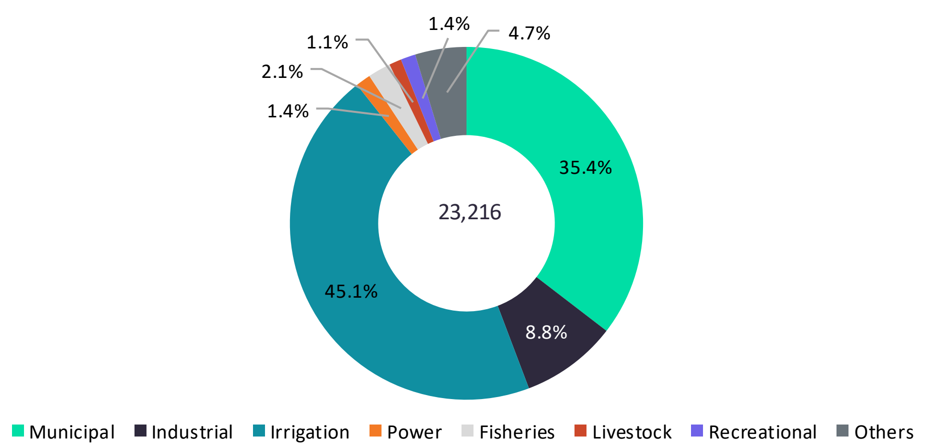
Despite the Ecological Solid Waste Management Act of 2000, there is no standard waste disposal mechanism in the country. Some of the major concerns in solid waste management are inefficient waste collection routes and a lack of disposal facilities. The Department of Environment and Natural Resources estimates that the country requires a total of 1,700 sanitary landfill across all the municipalities and cities for effective solid waste management.

## 1.5 Water Demand by Application

Since water infrastructure projects under the BBB program got impacted by pandemic induce lockdown in 2021, government data indicates that about $362million worth of water infrastructure projects is expected to be completed in 2022. These projects are intended to meet the increased demand for water in Metro Manila and its surroundings. Angat Water Transmission Improvement Project (AWTIP), New Centennial Water Source-Kaliwa Dam Project, Bigte-Novaliches Aqueduct, and Wawa Bulk Water Supply Project (WBWSP) are among these projects.

The Bigte-Novaliches Aqueduct and WBWSP were approved by the Metropolitan Waterworks and Sewerage System in 2019. The goal of the project was to provide 80 mld (million liters per day) of water in two years (by 2021). The Wawa Bulk Water project involves the development of Phase 1 or the Tayabasan Weir component, which is expected to benefit 80,000 households by 2022, and Phase 2 or the Upper Wawa Dam component is expected to deliver at least 518 MLD by the end of 2025 which could serve three million people, and increase the supply in the East Zone by 30%.

Figure 19: Water Permits Issued in 2020

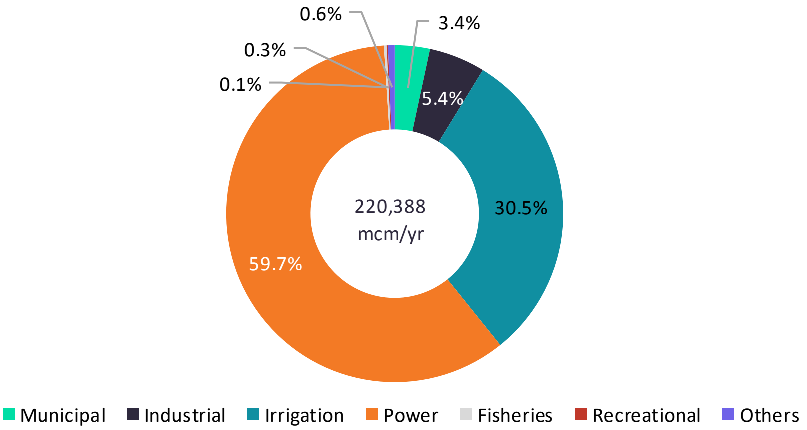



Source: Department of Environment and Natural Resources

Water permits for municipal use accounted for 35.4% of the total number of water permits issued in 2020. Water permits for irrigation accounted for 45% of the total number of permits issued during 2020, which indicates the effort of the government to promote the agriculture sector.

The government-led projects in the energy and power sectors, including the National Renewable Energy Program (NREP) 2020-2040 and the Renewable Energy Program for the Agriculture and Fishery Sector (REP-AFS), would require a substantial amount of water. Consequently, the water allocated to the power sector in 2020 was 1,31,676 mcm/yr., and this is expected to increase in the future.

Figure 20: Volume of Water Allocated in 2020




Source: Department of Environment and Natural Resources

Table 9: Number of Water Permits Issued

| Application | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| Municipal | 7,040 | 7,191 | 7,393 | 7,516 | 7,619 | 7,735 | 7,842 | 8,005 | 8,226 |
| Industrial | 1,556 | 1,611 | 1,688 | 1,736 | 1,812 | 1,869 | 1,908 | 1,973 | 2,047 |
| Irrigation | 10,376 | 10,382 | 10,388 | 10,391 | 10,396 | 10,400 | 10,409 | 10,458 | 10,472 |
| Power | 273 | 285 | 291 | 291 | 291 | 297 | 305 | 315 | 319 |
| Fisheries | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 484 | 486 |
| Livestock | 191 | 195 | 198 | 203 | 214 | 215 | 215 | 227 | 261 |
| Recreational | 234 | 251 | 259 | 265 | 274 | 278 | 290 | 304 | 315 |
| Others | 639 | 709 | 758 | 816 | 873 | 925 | 964 | 1,015 | 1,090 |
| **Total** | **20,793** | **21,108** | **21,459** | **21,702** | **21,963** | **22,203** | **22,417** | **22,781** | **23,216** |

Source: Department of Environment and Natural Resources

In 2020, the water allocated to the power sector accounted for nearly 60% followed by irrigation sector with a 30.5% share of the total water allocated. The major allocation of water is for the power sector, but it accounts for only 1.4% of the water permits given in 2020.

| Table 10: Volume of Water Allocated, 2012–20 (Unit: mcm/yr.) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Application** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| Municipal | 6,467 | 6,597 | 6,662 | 6,747 | 6,795 | 7,097 | 7,181 | 7,293 | 7,425 |
| Industrial | 9,037 | 9,054 | 9,088 | 9,931 | 10,565 | 15,851 | 16,124 | 9,805 | 11,877 |
| Irrigation | 66,979 | 66,981 | 67,005 | 67,006 | 67,011 | 67,041 | 67,047 | 67,078 | 67,130 |
| Power | 111,899 | 114,800 | 115,275 | 115,275 | 115,275 | 120,327 | 122,457 | 131,060 | 131,676 |
| Fisheries | 753 | 753 | 753 | 753 | 753 | 753 | 753 | 584 | 584 |
| Livestock | 18 | 19 | 19 | 19 | 19 | 19 | 19 | 20 | 21 |
| Recreational | 255 | 258 | 260 | 261 | 265 | 266 | 267 | 268 | 269 |
| Others | 579 | 618 | 643 | 684 | 692 | 699 | 702 | 743 | 1,405 |
| Total | **195,989** | **199,081** | **199,706** | **200,676** | **201,377** | **212,053** | **214,550** | **216,851** | **220,388** |

Source: Department of Environment and Natural Resources

## 1.6 Infrastructure Projects Overview

In the Philippines, the construction of road infrastructure projects worth $5.7 billion was started during 2018–21. The prospects for the Philippines government to accelerate the pipeline of public infrastructure development projects are moderate. Despite a relatively high proportion of projects already in the execution and planning stage, there is comparatively little in tender and award or design.

In 2020 and 2021, the pandemic affected the projects due to supply chain disruptions, restrictions on economic activities, and unavailability of construction labor, resulting in project delays. In 2022, the projects are expected to be revived owing to the government's focus on infrastructure spending.

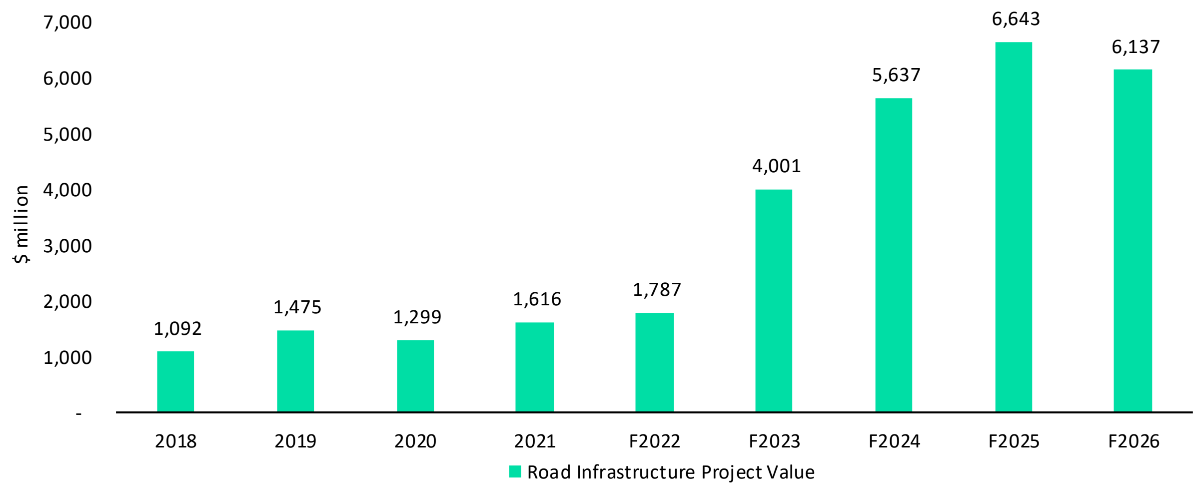
During the forecast period from 2023-26, projects worth $15 billion which are in the planning, pre-design and study stage are expected to be awarded.

In 2021, the Department of Public Works and Highways (DPWH) completed a number of projects such as bike lanes along Roxas Boulevard, Osmeña Highway, Radial Road 8, Fort Bonifacio-Nichols Field Road (Lawton Avenue), and others in the National Capital Region and Calabarzon.

The capital expenditure on the "Build! Build! Build!" (BBB) program was increased in the 2021 Budget to $23 billion. Most of the budgeted expenditure was allocated to road networks. Consequently, it is expected that the value of construction projects awarded in the period 2022-24, will be to the tune of $15.1 billion.

The major road infrastructure programs which are in the execution and planning stage include Three-Year Rolling Infrastructure Program: National Roads ($90,267 million), Manila Bay Integrated Flood Control Coastal Defense and Expressway Program ($7,885 million), Subic Freeport Infrastructure Program ($2,950 million), Mindanao Logistics Infrastructure Network Program ($1,960 million), and Bangon Marawi Comprehensive Rehabilitation and Recovery Program ($1,157 million).

Figure 21: Estimated Project Value Spend for Road Infrastructure ($ million)




Source: GlobalData © GlobalData

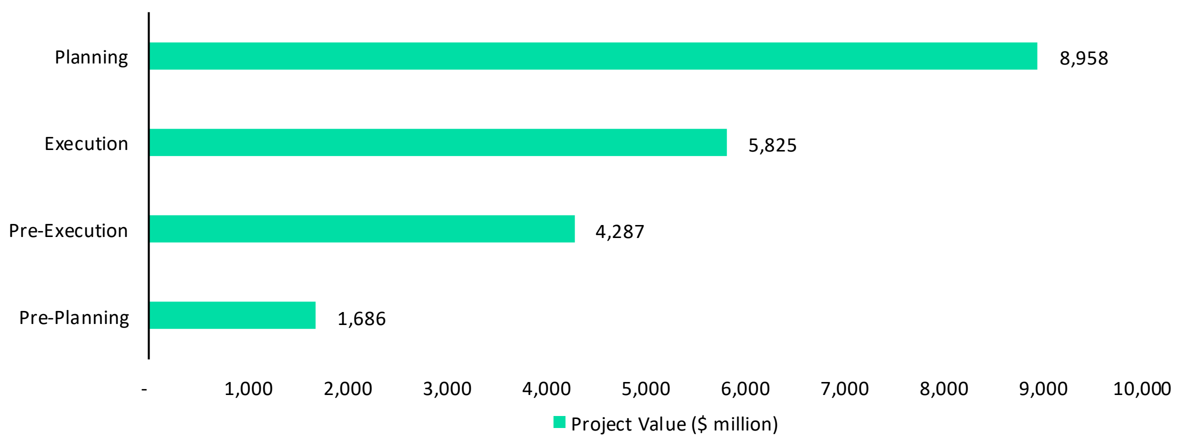
Road infrastructure projects worth $20.8 billion are in the pipeline in the Philippines. The pipeline, which includes projects from pre-planning to execution, is moderately skewed towards early-stage projects, with nearly 64% of the pipeline value being in projects in the planning and pre-execution stage, followed by 28% in projects in the execution stage, as of September 2022.

Some of the large projects in the planning stage the construction of which is expected to be completed post-2025 are SLEX Toll Road 5, Laguna Lakeshore Expressway Dike, Pasig River Expressway, NLEX-Cavitex Port Expressway Link, and Opol-Naawan Expressway.

The pipeline includes Elevated Epifanio Delos Santos Avenue and Gutalac to Baliguian Alternative Road Development project for which the tender for construction is expected to be awarded in 2022.

The projects in pre-planning stages include the Metro Manila Bus Rapid Transit: EDSA Route, Davao to Digos Expressway, North Luzon Expressway: Phase III, and Circumferential Road 3 Missing Link Road, which are in the study stage of the project lifecycle.

Figure 22: Road Infrastructure Projects By Stage ($ million)




Source: GlobalData © GlobalData

| Table 11: Top Road Construction Projects by CAPEX ($ million) | | | | |
|---|---|---|---|---|
| **Project Name** | **Stage** | **CAPEX ($ million)** | **Start** | **Completion** |
| DPWH – Quezon-Bicol Expressway – Philippines | Pre-Design | 13,057 | 2023 Q2 | 2026 Q4 |
| DOTr – SLEX Toll Road 5 – Philippines | Planning | 3,800 | 2023 Q3 | 2028 Q4 |
| DPWH – Laguna Lakeshore Expressway Dike – Philippines | Design | 2,700 | 2023 Q2 | 2027 Q2 |
| DOTr – Pasig River Expressway – Philippines | Planning | 1,942 | 2023 Q4 | 2027 Q4 |
| DPWH – NLEX-Cavitex Port Expressway Link – Philippines | Planning | 1,801 | 2023 Q4 | 2026 Q4 |
| DPWH – North Luzon Expressway East Phase I and II – Philippines | Execution | 1,093 | 2018 Q4 | 2022 Q4 |
| DPWH – Opol-Naawan Expressway – Philippines | Planning | 1,000 | 2024 Q4 | 2028 Q4 |
| DOTr/BCDA – Metro Manila Bus Rapid Transit: BGC-NAIA Segment – Philippines | Planning | 898 | 2023 Q2 | 2025 Q4 |
| CITI/DOTr/TRB/DPWH/BCDA – Southeast Metro Manila Expressway C6 – Philippines | Execution | 882 | 2018 Q3 | 2025 Q4 |
| DoTC – Metro Manila Bus Rapid Transit: EDSA Route – Philippines | Study | 731 | 2025 Q3 | 2029 Q4 |
| DPWH – Villanueva-Opol Expressway – Philippines | Planning | 700 | 2024 Q4 | 2028 Q4 |
| MPIC/DPWH – Cavite-Laguna Expressway – Calabarzon | Execution | 670 | 2017 Q2 | 2023 Q1 |
| DPWH – Central Luzon Link Expressway – Philippines | Execution | 618 | 2016 Q2 | 2029 Q1 |
| CIC/PRA – Manila-Cavite Expressway Extension – Calabarzon | Planning | 575 | 2023 Q1 | 2024 Q4 |
| Source: GlobalData | | | | |

| Table 12: Top Railway Infrastructure Projects by CAPEX ($ million) | | | | |
|---|---|---|---|---|
| **Project Name** | **Stage** | **CAPEX ($ million)** | **Start** | **Completion** |
| DOTr/PNR – North-South Railway Line – Philippines | Execution | 14,993 | 2019 Q1 | 2028 Q4 |
| DOTr – Metro Manila Subway Line 9 – Philippines | Execution | 7,100 | 2019 Q1 | 2028 Q4 |
| DoTr – Mindanao Railway System – Philippines | Tender | 4,000 | 2022 Q4 | 2025 Q4 |
| DOTr – Makati Subway Rail – Metro Manila | EPC Award | 3,700 | 2023 Q1 | 2025 Q4 |
| PNR/SMHC – MRT 7 Airport Access- North Line – Metro Manila | Planning | 2,563 | 2023 Q2 | 2025 Q4 |
| Source: GlobalData | | | | |

| Table 13: Top Airport Infrastructure Projects by CAPEX ($ million) | | | | |
|---|---|---|---|---|
| **Project Name** | **Stage** | **CAPEX ($ million)** | **Start** | **Completion** |
| DOTr – Bulacan International Airport – Central Luzon | Execution | 14,510 | 2022 Q3 | 2025 Q4 |
| DOTr/GoC – Sangley Point International Airport – Calabarzon | Tender | 10,312 | 2023 Q1 | 2028 Q4 |
| MIAA – Ninoy Aquino International Airport Rehabilitation – Metro Manila | Planning | 3,000 | 2024 Q3 | 2028 Q4 |
| CIAC/BCDA – Clark International Airport Expansion – Pampanga | Execution | 1,200 | 2017 Q4 | 2024 Q4 |
| DOTr/CAAP – Laguindingan Airport Expansion – Northern Mindanao | Planning | 1,001 | 2023 Q2 | 2025 Q2 |
| Source: GlobalData | | | | |

Table 14: Top Marine & Inland Water Infrastructure Projects by CAPEX ($ million)

| Project Name | Stage | CAPEX ($ million) | Start | Completion |
|---|---|---|---|---|
| ARRC – Global Gateway Integrated Multi-Modal Transport and Logistics Hub – Calabarzon | Planning | 26,000 | 2024 Q2 | 2030 Q1 |
| DPWH – Ambal-Simuay River and Rio Grande de Mindanao River Flood Control System – Mindanao | Execution | 756 | 2021 Q4 | 2026 Q1 |
| ZCSEZA – San Ramon Newport – Zamboanga Peninsula | Planning | 610 | 2024 Q3 | 2028 Q4 |
| PPA – Davao Sasa Port Modernization – Philippines | Planning | 356 | 2023 Q4 | 2025 Q4 |
| SPI – Solaire Cruise Center – Metro Manila | Execution | 308 | 2021 Q1 | 2024 Q4 |

Source: GlobalData

## 1.6.1 Reclamation Projects

The Philippines government created The Philippine Reclamation Authority (PRA) (formerly known as Public Estates Authority) in 1977 to carry out projects and programs through local and foreign investments in large-scale reclamation projects in the Philippines. Since the formation of the authority, PRA has completed a total of 26 reclamation projects in the country.

PRA is focused on creating economical and income-generating real estate assets by converting the reclaimed lands. PRA is authorized to develop and dispose public lands. PRA can enter into financial agreements such as contracts and loan agreements with private, public or foreign entities for developing the projects. As of 2022, a total of 31 ongoing and proposed projects are being monitored by the authority.

For a new project, PRA recommends (conditional Notice to Proceed (NTP)) the project for President's approval. Once it is approved by the President (through Executive Secretary), PRA issues Notice to Mobilize (NTM) and Notice to Commence Actual Reclamation Works (NTCARW).

Table 15: List of Key Reclamation Projects (>100 ha)

| Project Name | Stage | Reclamation Area (Hectare) |
|---|---|---|
| Pasay Harbor City | Execution | 265 |
| Pasay Reclamation Project | NTM and NTCARW | 390 |
| Manila Solar City | NTM and NTCARW | 148 |
| Manila Horizon | NTM and NTCARW | 419 |
| Manila Waterfront City | NTM and NTCARW | 318 |
| The Mandaue City North Development | NTM and NTCARW | 131 |
| Navotas Costal Bay Development | NTP | 674.2 |
| Minglanilla Industrial Park | NTP | 100 |
| Las Pinas Coastal Bay | NTP | 431.7 |
| Paranaque Coastal Bay | NTP | 203.4 |
| Bacoor Diamond Development | NTP | 100 |
| Bacoor Outer Island | NTP | 230 |
| New Manila (City of Pearl) | MoU | 407.4 |
| PNOC Energy Supply Base Development | MoU | 3.8 |
| Bislig Bay | MoU | 146.6 |
| CEZA | MoU | 200 |

| | | |
|---|---|---|
| Pasay Reclamation | MoU | 260 |
| Leganes | MoU | 960 |
| Seafront City | MoU | 235.8 |
| Lapu-Lapu City | MoU | 203 |
| Source: Philippine Reclamation Authority | | |

# 1.7 Renewable Energy in the Philippines

## 1.7.1 Philippines Energy Plan 2020-2040

The Philippines is a signatory to the Paris Agreement in the United Nations Framework Convention on Climate (UNFCC) during the Conference of the Parties (COP 21) held in December 2015. Under the framework, each country is required to submit the Intended Nationally Determined Contributions (INDC). The Philippines government submitted INDC to reduce the Green House Gas (GHG) emissions in the country by 75% in 2030. The target comprises 72.3% conditional commitment and 2.7% unconditional commitment.

The Philippines Energy Plan (PEP) 2020-2040 is an updated version of the previously formulated PEP 2018-2040 which aims to increase the adoption of clean energy within the energy sector to achieve a sustainable energy system. The new policy has aggressive Renewable Energy (RE) and Energy Efficiency and Conservation (EEC) programs, a moratorium on new coal power projects, a mechanism to allow foreign ownership of large-scale geothermal projects under financial and technical assistance agreement (FTAA), the resumption of indigenous oil and gas exploration, the introduction of liquefied natural gas (LNG) portfolio, the establishment of strategic petroleum reserves and exploration of Hydrogen’s potential.

The key objectives of the Energy Plan 2020-2040 are as below:

- To achieve a renewable energy mix in the overall power generation mix – 35% RE by 2030 and 50% RE by 2040
- Blending of biodiesel at 5% from 2022
- Use of electric vehicles in the road transport sector – 10% electric vehicles in motorcycles, cars, and jeepneys by 2040
- Energy savings – 5% energy savings on oil products and electricity by 2040
- GHG emission reduction – 12% reduction in GHG emission for the Nationally Determined Contribution (NDC)
- Use of natural gas – 1.5% increase in natural gas consumption in the transport and industry sector between 2020 and 2040

The PEP 2020-2040 comprises three focus areas viz. Energy Situationer, Energy Roadmaps, and Strategic Focus Areas.

- Energy Situationer - Assessment of the country’s current energy situation in 2020 which includes the impact of the COVID-19 pandemic, total final energy consumption (TFEC), transformation (refining and power generation), total primary energy supply (TPES), environmental impact, and energy economy and environmental indicators.

- Energy Roadmaps - An assessment of each energy sub-sector such as conventional energy, downstream industry, renewable energy, power development, energy efficiency and conservation, and alternative fuels and emerging technologies. The assessment helps to gauge the sector's performance 2020 – June 2021, develop roadmap plans and programs, and assess the investment and employment opportunities.
- Strategic Focus Areas - Illustration of the future energy sector to achieve a clean and sustainable future. This is underscored through the energy demand-supply outlook for achieving energy security through higher adoption of clean energy and new technologies with stronger investments.

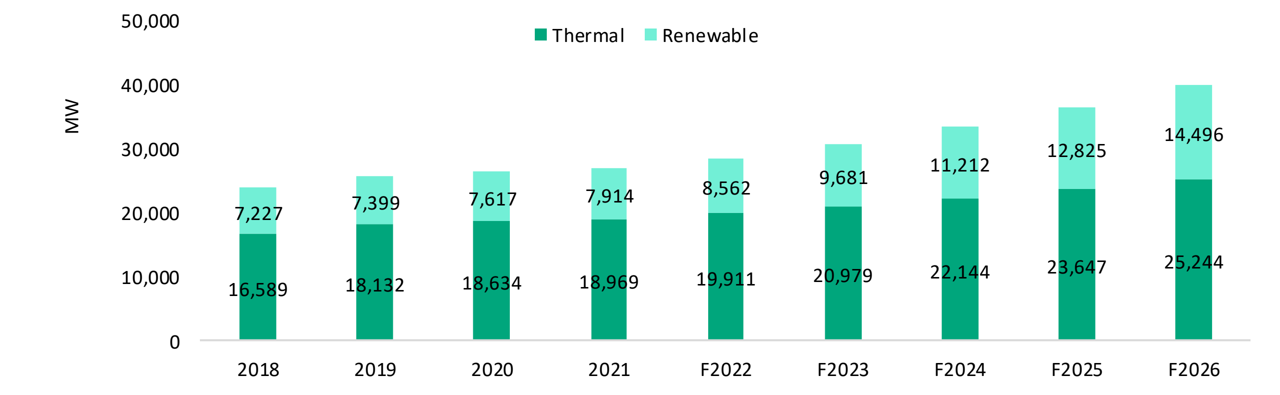
## 1.7.2 Power Installed Capacity

The total installed power capacity in the Philippines is expected to grow at a CAGR of 8.1%, reaching 39,740MW in 2026 from 26,883MW in 2021. The country's grids are divided into three regions—Luzon, Visayas, and Mindanao grids. In 2021, nearly 72% of the energy consumption was from the Luzon grid, followed by the Visayas, and Mindanao. According to the Department of Energy (DoE), peak demand declined 1.9% in 2020 due to the COVID-19 pandemic.

Thermal power accounted for nearly 70.6% of the country's installed capacity in 2021 and is expected to grow at a CAGR of 5.9% during 2021–26. The contribution of thermal energy is expected to touch 64% by 2026 from 2021 level . Within thermal capacity, coal-based constitutes 62% followed by oil-based (20%) and natural gas based (18%). Malampaya's deep-water gas project is the key source of natural gas for power plants. Malampaya gas fields supplies gas to approximately 14% of the total installed capacity in the country. Malampaya gas filed is owned by PNOC Exploration Corp. (PNOC-EC) through Philippine National Oil Company (10%), Shell Plc (45%) and Udenna Corporation (45%). Prime Infrastructure has signed a share purchase agreement (SPA) for the acquisition of Malampaya Energy XP Pte Ltd's (subsidiary of Udenna Corporation) participating interest in service contract (SC)38. The total 1P gas reserve is estimated at 3,700 billion cubic feet (bcf).

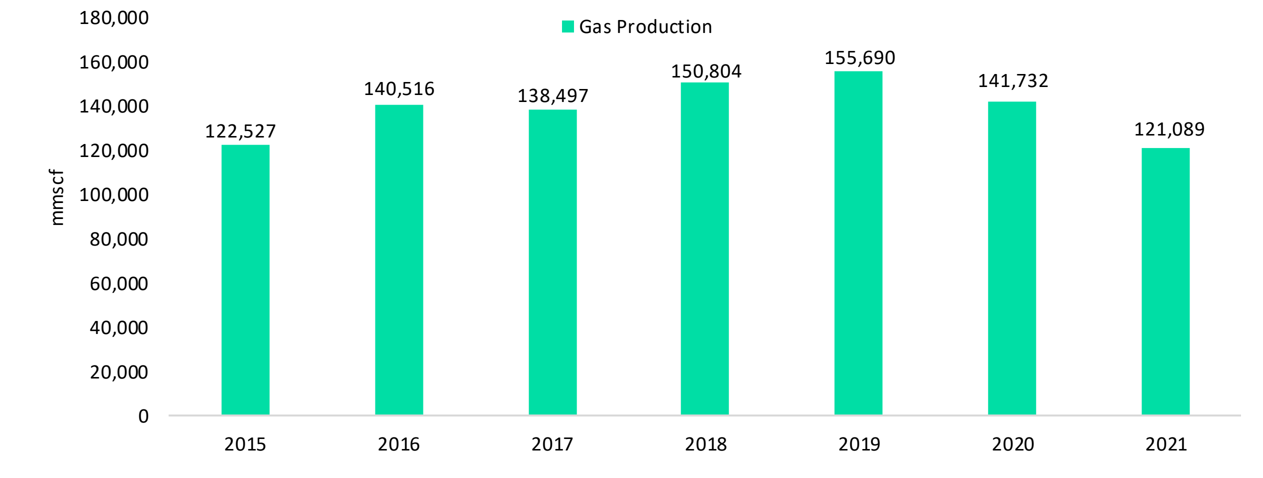
Renewable energy is expected to grow at a higher rate of nearly 13% from 2021 to 2026. This is mainly supported by the country's plan to increase the electricity installed capacity from renewable sources to 15.3GW by 2030 under the New Renewable Energy Program.

Figure 23: Power Installed Capacity By Type 2018–26 (MW)



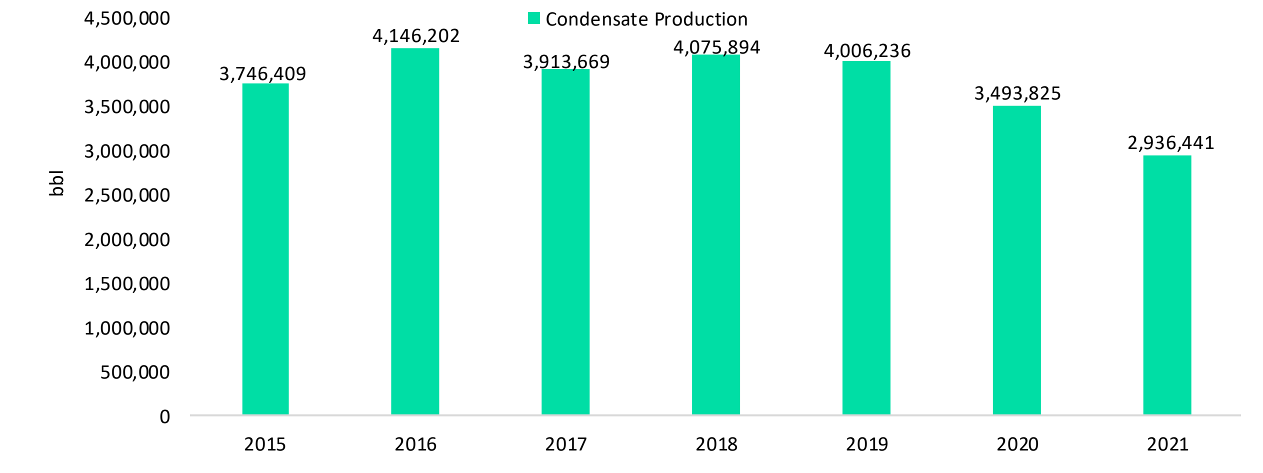

Source: Department of Energy and GlobalData

Figure 24: Malampaya Gas Field Production 2015–21 (mmscf)




Source: Department of Energy © GlobalData

Figure 25: Malampaya Condensate Production 2015–21 (bbl)



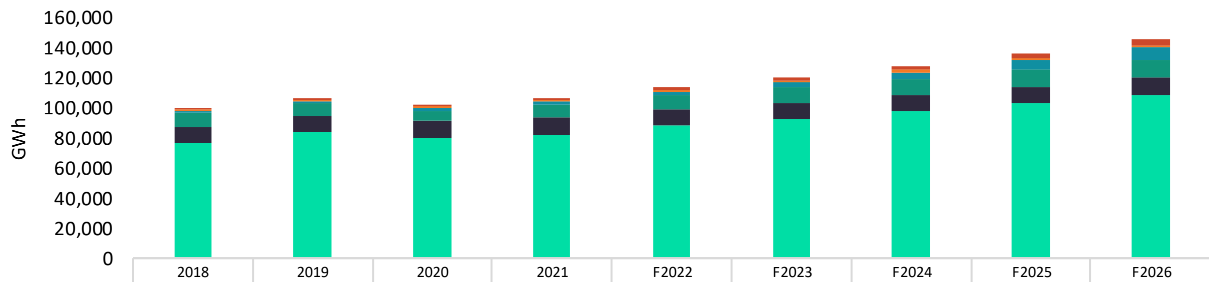

Source: Department of Energy © GlobalData

## 1.7.3 Power Generation By Source

Energy demand is driven by the growth in population as the residential sector is one of the largest consumers of power. Owing to the rapid increase in consumption, demand will exceed supply despite the capacity that will be added by the ongoing and planned power projects.

Figure 26: Electricity Generation By Source 2018–26 (GWh)




| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Wind | 1,153 | 1,042 | 1,026 | 1,270 | 1,657 | 2,102 | 2,576 | 3,111 | 3,688 |
| Biomass | 1,105 | 1,040 | 1,261 | 1,165 | 1,243 | 1,357 | 1,505 | 1,666 | 1,854 |
| Solar | 1,249 | 1,246 | 1,373 | 1,470 | 2,038 | 3,099 | 4,639 | 6,251 | 7,938 |
| Hydro | 9,384 | 8,025 | 7,192 | 9,185 | 9,560 | 9,963 | 10,474 | 11,022 | 11,546 |
| Geothermal | 10,435 | 10,691 | 10,757 | 10,681 | 10,750 | 10,982 | 11,127 | 11,426 | 11,843 |
| Thermal | 76,439 | 83,996 | 80,147 | 82,343 | 87,886 | 92,565 | 97,502 | 102,701 | 108,383 |

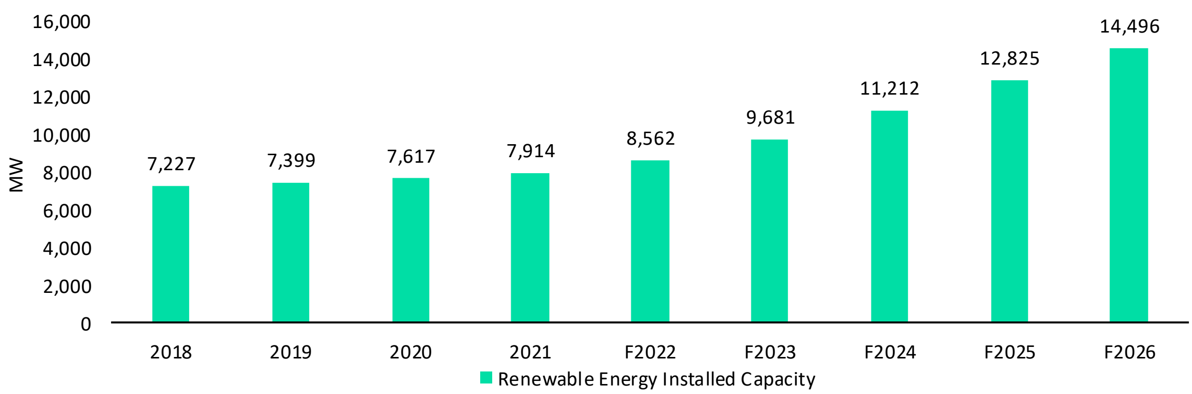
Source: Department of Energy and GlobalData © GlobalData

The total power generation capacity in the Philippines is expected to grow at a CAGR of 6.5% and reach 145,251GWh in 2026 from 106,114GWh in 2021. The major contribution to this growth will be the expected increase in solar and wind power generation during the forecast period. The power sector in the Philippines reported a revival despite delays and restrictions due to the COVID-19 pandemic. The country's installed capacity increased with the entry of Masinloc Unit 3, a large coal power plant in Luzon, and GNPower Kauswagan Unit 4 in Mindanao. However, coal-fired power plants dominated the generation mix with a 77.6% share, followed by geothermal (10.1%), hydro (8.7%), and solar PV (1.4%) in 2021.

## 1.7.4 Renewable Energy Installed Capacity

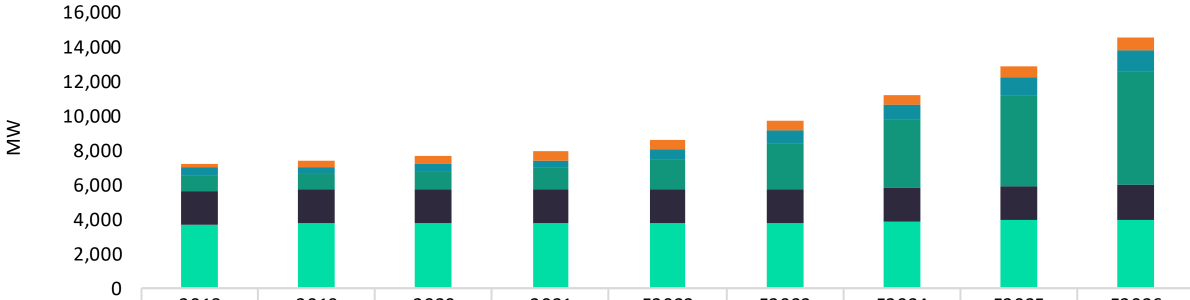
The renewable energy market in the Philippines grew from 7,227MW in 2018 to 7,914MW in 2021. The market for renewable power sources is expected to grow by nearly 13% upto 2026 to reach a cumulative installed capacity of 14,496MW by 2026. The renewable power market is led by the hydro segment followed by the geothermal segment, with a cumulative installed capacity of 3,752MW and 1,928MW in 2021, respectively. The cumulative installed capacity in the solar PV segment is expected to reach 6,591MW, growing at a CAGR of nearly 38% by 2026.

Figure 27: Renewable Energy Installed Capacity 2018–26 (MW)




Source: Department of Energy and GlobalData © GlobalData

Figure 28: Renewable Energy Installed Capacity By Type 2018–26 (MW)




| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Biomass | 258 | 363 | 447 | 489 | 509 | 544 | 589 | 636 | 690 |
| Wind | 427 | 427 | 443 | 427 | 553 | 692 | 845 | 1,015 | 1,198 |
| Solar | 896 | 921 | 1,019 | 1,317 | 1,798 | 2,688 | 3,956 | 5,258 | 6,591 |
| Geothermal | 1,944 | 1,928 | 1,928 | 1,928 | 1,928 | 1,957 | 1,969 | 2,008 | 2,066 |
| Hydro | 3,701 | 3,760 | 3,779 | 3,752 | 3,775 | 3,801 | 3,854 | 3,908 | 3,951 |

Source: Department of Energy and GlobalData © GlobalData

Among other renewable sources that contributed to the installed capacity were hydro and geothermal, with a cumulative installed capacity of 3,752MW and 1,928MW in 2021, respectively. The DoE classified hydropower projects into three categories—micro-hydro (1kW to 100kW), mini-hydro (101kW to 10MW), and large hydro (>10MW). Both micro and mini-hydro projects are classified into small hydro plants. The use of small grids using renewable energy or hybrid solutions is limited in the country. In 2019, the government issued guidelines regarding the development and administration of small grid renewable energy. The key objective is to develop and commercialize RE sources which are not connected to main grid.

## 1.7.5 Renewable Energy Policy Overview

The Energy Regulatory Commission (ERC) is an independent body that regulates the power sector in the Philippines. The ERC was established in 2001 and works to encourage competition and enforce rules and regulations to strengthen the power sector. The DoE is responsible for the formulation and enforcement of the Philippines' energy policy. Power generators sell their power in the Wholesale Electricity Spot Market (WESM), which means that retail power prices are governed by commercial and market forces.

In rural areas, the National Electrification Administration, an agency attached to the DoE, is responsible for the electrification and the implementation of distributed energy generation systems. The National Power Corporation (NPC) extends power generation and transmission services to areas not covered under the national grid.

The Philippines formulated the Renewable Energy Act of 2008 and the Biofuels Act of 2006 for promoting renewable energy in the country. Renewable Energy Management Bureau (REMB) formulates and implements policies to develop and commercialize renewable energy (RE) technologies, including emerging energy technologies. The Republic Act No 9513, or the Renewable Energy Act 2008, was signed on December 16, 2008, and became effective on January 30, 2009. This Act promotes the development of renewable sources through fiscal and non-fiscal incentives for investors.

This law provides the following incentives to the renewable energy sector:

- Seven-year income tax holiday for the developers of renewable energy projects
- Tax exemptions for the carbon credits generated from renewable energy sources
- Corporate income tax at the rate of 10% instead of the regular 30% once the income tax holiday expires
- Cap on realty tax at 1.5% on the original cost of equipment to produce renewable energy
- Electricity generated from renewable sources is exempt from value-added tax
- Duty-free importation of equipment for renewable projects, which are not available domestically

## 1.7.6 National Renewable Energy Program (NREP)

The National Renewable Energy Program (NREP) was launched in 2011 to meet the Philippines' quest to institutionalize a comprehensive approach to renewable power – as outlined in the Republic Act No. 9513 or the Renewable Energy Act, 2008. The development of NREP was technically aided by the US Agency for International Development (USAID). The objective of the NREP is to promote renewable energy sources in the country. It aims at achieving a cumulative installed capacity of 15.3GW of renewable power by 2030.

Renewable Portfolio Standards (RPS) On-Grid Rules mandate the participants to sell a Minimum Annual Incremental RE Percentage. It is initially set at a minimum of 1% and applied to net electricity sales or annual energy demand for the next 10 years.

## 1.7.7 Renewable Energy Portfolio Standards

To encourage the use of renewable energy the government implemented Renewable Portfolio Standards (RPS). DoE Circular No DC2017-12-0015, or the RPS On-Grid Rules, took effect on December 30, 2017. These rules require distribution utilities (DUs), electricity suppliers, generating companies, and other mandated energy sector participants to procure or produce a certain share of electricity from eligible renewable energy (RE) sources.

In September 2018, the DoE signed rules on RPS for off-grid areas and the requirement of uniform billing among power distributors. According to the rules, off-grid power companies are recommended to source a percentage of electricity requirements from renewable energy (RE) sources – similar to the RPS rules for on-grid – except that it will be mandatory for the generation sector.

In September 2021, the DoE conducted a public consultation to increase the RPS from the current level of a 1% annual increment. The new recommendation is to increase the RPS to 2.5% annual increment from 2023 to achieve the target of 35% in the total power generation mix by 2030 and achieve more than 50% by 2040. The new proposal is under consideration.

## 1.7.8 Net Metering

On May 27, 2013, the ERC adopted ERC Resolution 09, Series of 2013, approving the rules enabling the net-metering program for renewable energy. The net-metering rules came into effect on July 24, 2013, in the country. Renewable energy facilities such as solar, wind, biomass energy systems, or other renewable energy systems of capacity not exceeding 100kW, capable of being installed within customers' premises, are eligible to participate in the net-metering program. Customers earn peso credits equivalent to distribution companies' blended generation cost for the electricity that is fed into the grid. These credits will be used to compensate for the electricity bills of customers. Customers who are in good credit standing in the payment of their electricity bills are qualified to participate in the net-metering program.

The Philippines introduced the net-metering scheme for solar systems up to 100kW in 2014. However, in September 2018, just 10MW of rooftop PV systems were connected to the country's grid.

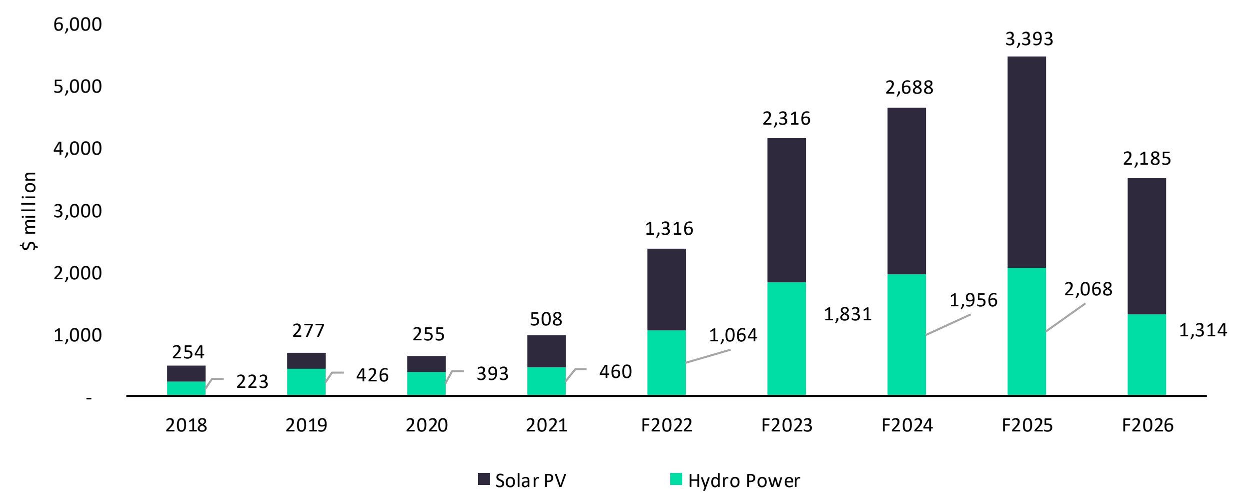
In November 2018, the DoE issued a statement announcing that the country's Energy Regulatory Commission (ERC) does not favor the removal of the 100kW size limit for solar power generators installed under net-metering. According to the regulator, the extension of net-metering to larger arrays could affect transmission lines as the latter may not be able to accommodate injections of power beyond that limit.

## 1.8 Renewable Energy Projects Overview

The Philippines government has set an ambitious target of 15.3GW of renewable energy installed capacity by 2030 under the New Renewable Energy Program. The value of power projects within solar PV and hydro is expected to increase in the future. With the reduction in solar panel prices, the adoption of solar PV is expected to improve.

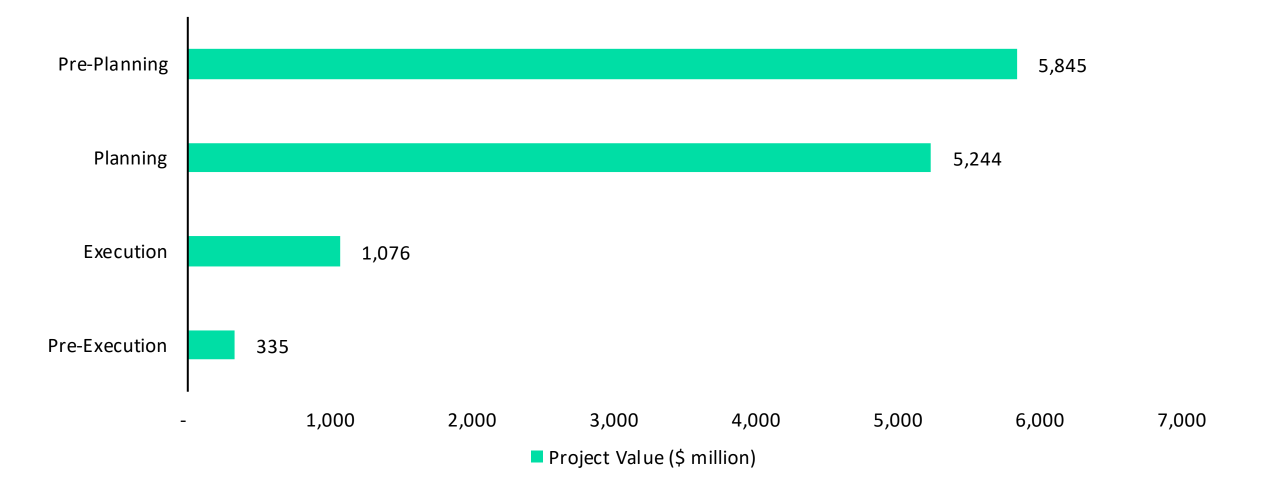
As per DoE, the overall potential for hydropower sources is over 13,000MW. The potential for large hydro projects is estimated at 85% of the overall potential.

Figure 29: Estimated Project Value Spent for Power Projects By Sub-Sector ($ million)




Source: GlobalData © GlobalData

Figure 30: Value of Solar PV Projects Pipeline-By Start Year and Stage ($ million)




Source: GlobalData © GlobalData

Prime Infrastructure plans to build the largest hydropower project in the Philippines, the Ahunan 1200MW net pumped storage hydro plant.

San Miguel Corp intends to build hydropower projects with a cumulative capacity of 3,000MW in the country. San Roque Upper East project involves the construction of a 600MW hydropower plant. It also includes the construction of a powerhouse, control rooms, substations, and related facilities such as generators, transformers, and transmission lines.

Table 16: Top 10 Hydro Power Projects

| Project Name | Stage | CAPEX ($ million) | Capacity (MW) | Start | Completion |
|---|---|---|---|---|---|
| Ahunan 1200MWnet Pumped Storage Hydroelectric Power Plant | Planning | 1600 | 1200 | 2023 Q2 | 2027 Q4 |
| SPDC – San Roque Upper East Pumped Storage Hydropower Plant 600 MW – Philippines | Study | 1,596 | 600 | 2025 Q2 | 2029 Q4 |
| OVPI – Wawa Pumped Storage I Hydroelectric Power Plant 500 MW – Rizal | Execution | 1,000 | 500 | 2019 Q1 | 2022 Q4 |
| SPDC – Dingalan Hydroelectric Power Plant 500 MW – Central Luzon | Pre-Design | 800 | 500 | 2029 Q4 | 2032 Q4 |
| SMGBF – Bulsa Pumped Storage Hydropower Plant 500 MW – Central Luzon | Planning | 400 | 500 | 2023 Q2 | 2025 Q1 |
| MWSS – Kanan Dam – Calabarzon | Design | 1,099 | 400 | 2023 Q1 | 2026 Q4 |
| SPDC – San Roque Upper West Pumped Storage Hydropower Plant 400 MW – Cordillera | Study | 1,064 | 400 | 2023 Q3 | 2026 Q2 |
| SPDC – San Roque Lower East Pumped Storage Hydropower Plant 400 MW – Ilocos | Planning | 400 | 400 | 2023 Q3 | 2032 Q4 |
| SPDC – Aklan Pumped Storage Hydropower Plant 300MW – Western Visayas | Planning | 526 | 300 | 2023 Q2 | 2025 Q3 |
| SLRB – Chico River Hydroelectric Power Plant 150 MW – Cordillera | Planning | 399 | 150 | 2023 Q1 | 2024 Q3 |

Source: GlobalData

Solar Philippines Commercial Rooftop Projects Inc (SPCRP) project involves the construction of a 600MW solar plant in Batangas, Calabarzon. It also includes the construction of a powerhouse, substation, and related facilities such as generators, transformers, and transmission lines.

Table 17: Top 10 Solar PV Projects

| Project Name | Stage | CAPEX ($ million) | Capacity (MW) | Start | Completion |
|---|---|---|---|---|---|
| Terra Solar/Solar Philippines – Solar Power Plant and Battery Energy Storage System 3500 MW – Philippines | Planning | 3,480 | 3,500 | 2027 Q1 | 2030 Q4 |
| SPBC – Nasugbu Solar Power Plant 2000 MW – Calabarzon | Study | 2,500 | 2,000 | 2023 Q2 | 2025 Q2 |
| SPPPH – Iba-Palauig Solar Power Plant II 1200 MW – Central Luzon | Study | 1,686 | 1,200 | 2023 Q2 | 2024 Q4 |
| SPPPH – Iba-Palauig Solar Power Plant I 1200 MW – Central Luzon | Study | 1,686 | 1,200 | 2023 Q2 | 2024 Q4 |
| SPVC – Kananga-Ormoc Solar Power Plant 960 MW – Eastern Visayas | Planning | 1,300 | 960 | 2024 Q1 | 2026 Q4 |
| DoE – Luzon Island Solar PV Park 900 MW – Philippines | Planning | 1,197 | 900 | 2024 Q3 | 2026 Q4 |
| SPCRP – Balayan Solar Power Plant 600 MW – Calabarzon | Study | 843 | 600 | 2023 Q4 | 2024 Q4 |
| SPCRP – Cabatang Tiaong Solar Power Plant 600 MW – Philippines | Study | 843 | 600 | 2024 Q2 | 2026 Q4 |
| ACEN – Lal-Lo Solar Power Plant 133 MW – Philippines | EPC Award | 405 | 133 | 2022 Q4 | 2024 Q1 |
| ELPI – Ilocos Norte Solar and Wind Park 232 MW – Ilocos | Execution | 500 | 100 | 2017 Q1 | 2023 Q2 |

Source: GlobalData

Table 18: Top Hydro and Solar Power Project Contractors by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Sta. Clara International Corporation (SCIC) | Philippines | 7 | 590 |
| Guangxi Hydroelectric Construction Bureau | China | 5 | 340 |
| Power Construction Corporation of China | China | 3 | 1,310 |
| Conergy | Japan | 3 | 220 |
| Solenergy Systems Inc. | Philippines | 3 | 200 |
| China Energy Engineering Group Co Ltd | China | 3 | 460 |
| AC Energy and Infrastructure Corp | Philippines | 3 | 270 |

Source: GlobalData

Table 19: Top Hydro and Solar Power Project Associated Developers by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Bronzeoak Philippines Inc | Philippines | 4 | 160 |
| Ayala Corp | Philippines | 4 | 160 |
| Korea Water Resources Corporation | Republic of Korea (South Korea) | 3 | 180 |
| MiCo Ltd | Republic of Korea (South Korea) | 2 | 80 |
| APG Asset Management NV | The Netherlands | 1 | 50 |

| | | | |
|---|---|---|---|
| Development Bank of the Philippines | Philippines | 1 | 60 |
| Asian Development Bank | Philippines | 1 | 50 |
| Meralco PowerGen Corp | Philippines | 1 | 80 |
| Source: GlobalData | | | |

## 1.9 Nuclear Energy

Nuclear energy development is still in the nascent stage in the Philippines. The country was planning to bring nuclear power since the 1970's and started developing two 600MW projects in Bataan, but the projects were put on hold. To meet the increasing electricity demand and reduce carbon emissions, the government is exploring many options including nuclear energy. To pursue nuclear energy the government created The Philippine Nuclear Energy Program Implementing Organization (NEPIO) in October 2016 through DO2016-10-0013. The main objective of NEPIO is to lead in unified and coordinated efforts and activities and conduct R&D programs on nuclear energy development. In July 2020, the government issued an executive order to develop a formal nuclear policy. It was however kept on hold until December 2021. In March 2022, President Rodrigo Duterte signed another executive order to introduce nuclear energy into the energy mix of the country. According to the Philippine Energy Plan 2022-2040, electricity consumption is expected to grow at 7% CAGR through 2040. DoE has estimated the introduction of nuclear energy into the energy mix between 2030-2040.

In a major boost to the development of nuclear energy in the country, The United States of America and The Philippines government signed an MoU concerning "Strategic Civil Nuclear Cooperation" in March 2022. The deal is seen as a major development. Both countries maintain longstanding cooperation across many areas such as security, energy, commerce, and nonproliferation. The deal will enhance collaboration on energy security and enhance the clean energy goals and economic partnership between both countries.

## 1.10 Competitive Selection Process

Electric Power Industry Reform Act (EPIRA) of 2001 ensures the quality, reliability, security and affordability of electric power. In view of the above, Department of Energy is required to conduct the Competitive Selection Process (CSP) for Distribution Utilities (DUs). All the DUs are required to conduct CSP in the procurement of Power Supply Agreements (PSA) for the captive market. Competitive Selection Process (CSP) mandates power producers to supply electric power requirements of a distribution utilities (DU) through transparent and competitive bidding or alternative mode of procurement.

In October 2021, the DoE amended certain provisions of the previous circular DC2018-12-0003 on the CSP. The amendments are made in the 2018 circular in various sections including the definition of terms (Section 3). Some of the changes include the introduction of New Technology which allows the use of novel technologies or a novel use or arrangement of existing technologies which are not yet commercialized. These technologies can be used in Philippines in whole or in part that adheres to the international test standards followed in the power industry. The new changes allow

Unsolicited Proposal (USP) i.e., a power supplier can submit proposal to DUs which is not in response to a solicitation or request issued by DU.

The updated CSP allows DUs to enter into PSA with power suppliers through competitive public bidding and alternate mode of procurement. The competitive public bidding system typically follows the general open bidding system whereas the alternate mode of procurement is focused on power procurement exclusively through new technologies. DUs are permitted to procure a maximum of 25% of the DUs peak demand for the year of the USP's required commercial operation minus any capacity previously procured through USP for commercial operations in the same year. The new amendments also allow the DUs for direct negotiation with the original proponent after the failure of two competitive biddings and no outstanding disputes under alternate mode of procurement.

## 1.11 COVID-19 Impact

The Philippines registered approximately 3.7 million COVID-19 cases and 60,455 COVID-19-related deaths as of May 29, 2022, as published by the Department of Health. The National Capital Region (NCR, Metro Manila) was the most affected region in the Philippines, accounting for ~30% of the total number of cases registered in the country, followed by Calabarzon (~18%), Central Luzon (~10%), and Western Visayas and Central Visayas (~5% each).

The Philippines administered around 152 million doses of COVID-19 vaccine as of May 29, 2022. This includes nearly 67 million first doses, nearly 71 million second doses, and 14 million booster doses administered as of May 29, 2022.

The economy of the Philippines was hit hard by the COVID-19 lockdowns. The government announced a series of economic and stimulus packages in 2020 for economic recovery. These include an allocation of PHP275 billion ($5.4 billion) to boost domestic demand, PHP202.9 billion ($4 billion) to support healthcare facilities and provide financial aid to those unemployed due to the pandemic, and an additional stimulus package worth PHP200 billion ($3.9 billion). In April 2020, the government raised PHP127.2 billion ($2.4 billion) through the sale of 10-year and 25-year US dollar bonds to part-finance its national budget in 2020. In June 2020, the House of Representatives approved a PHP1.3 trillion ($24.5 billion) stimulus package, the Accelerated Recovery and Investment Stimulus for the Economy of the Philippines (ARISE Philippines), to support economic recovery.

The government also launched COVID-19 Assistance to Restart Enterprises (CARES), a loan assistance program for SMEs (enterprises with assets of less than three million pesos). The scheme is being implemented by Small Business Corporation (SBC) and the Department of Trade and Industry.

Rehabilitation Support Program on Severe Events (RESPONSE) is aimed at supporting public and private institutions affected by the pandemic. Eligible institutions can take loans of up to 95% of the amount of the project requirement or minimum cash requirement. This scheme is being implemented by the Development Bank of the Philippines.

The government also implemented the COVID-19 Unemployment Reduction Economic Stimulus (CURES) Act of 2020. The program, with overall funding of 1.5 trillion pesos, is aimed at creating direct and indirect employment opportunities through the funding of infrastructure projects in priority sectors such as health, construction, and education.

Similar to other countries, the economy of the Philippines was affected by the pandemic. According to the BSP, the country's economy contracted in 2020. BSP took a series of measures to maintain domestic liquidity, and sustain the flow of credit, among others. BSP reduced the reserve requirement ratio (RRR) by 200 points in April 2020. In addition to the liquidity-enhancing measures, the central bank also relaxed prudential and regulatory standards to reduce the impact on the economy. The major measures include an extension of financial relief to borrowers, incentivized lending, and promotion of access to financial services.

In mid-February 2022, BSP left the key interest rate unchanged for the 10th consecutive policy meeting and reaffirmed its support for the revival of the domestic economy. The BSP expects the country's economy to expand in the range of 7%–9% this year and 6%–7% in 2023 and 2024 on the back of additional easing of COVID-19 restrictions amid an acceleration in the vaccination drive.

# 1.12 COVID-19 Impact: Construction

The construction industry employs close to 10% of the overall workforce in the country. The construction industry reported a slowdown in 2020 because of the pandemic. According to the Philippine Statistics Authority, the Gross Fixed Capital Formation contracted 29% in 2020 over that in the previous year. Owing to better procedures and vaccination programs, the construction industry's performance improved in 2021. The Gross Fixed Capital Formation grew 14% in 2021 over that in the previous year. The construction sector was the major contributor in the fourth quarter of 2021 with 18.5%; the construction industry contributed 9.8% to full-year growth in 2021.

To improve the construction sector, the Government of the Philippines, through a Presidential decree, established the Construction Industry Authority of the Philippines (CIAP). The primary objective of the authority is to formulate and implement reasonable rules and requirements, and best practices and procedures for stakeholders willing to participate in public construction projects. The CIAP issued a Memorandum Circular titled “Emergency Response in Light of the Declaration of a State of National Calamity” on March 30, 2020. The authority recommended various initiatives with a focus on providing payment and medical assistance to professionals working in the construction industry. One of the major recommendations with emphasis is to facilitate the release of payments to contractors.

Infrastructure development is one of the major engines of growth in the Philippines. The infrastructure development is centered around the BBB program of the Duterte administration. The program aimed at developing 20,000 infrastructure projects nationwide, including roads, highways, farm-to-market roads, airports, seaports and terminals, among others. Infrastructure spending in the Philippines accounted for 3% of the GDP during 2011–16 and it was increased to 4.6% of the GDP in the BBB program. The Development Budget Coordination Committee estimated that infrastructure spending will reach 5.8% in 2022. Similar to other sectors, the infrastructure industry also took a hit in 2020. Public infrastructure spending fell to 4.8% of GDP in 2020 from 5.4% in 2019. The slowdown in infrastructure projects is attributed to the diversion of the program funds to meet the challenges of the health and socio-economic crisis faced in 2020. The infrastructure industry is expected to improve in the years ahead owing to improved vaccination rates and recovering economic activity.

The COVID-19 pandemic also affected the supply chain within the country in 2020 and 2021. According to the Supply Chain Management Association of the Philippines (SCMAP), the overall supply chain network was affected because of an increase in cases due to infection, travel restrictions, underutilized factory capacity, and other factors. Although the industry was affected, digitalization across the value chain is helping companies overcome the challenges, according to SCMAP.

## 1.13 Competitive Landscape

Some of the top key contractors providing services for water & sewage infrastructure, power infrastructure and road infrastructure include:

Table 20: Water and Sewage Infrastructure Contractor

| | |
|---|---|
| **Company Name** | JV Angeles Construction Corp (JVACC) |
| **Head Office** | 1 E Rodriguez Jr. Avenue, Pasig, Philippines |
| **Number of Employees** | - |
| **Target Markets** | Philippines |
| **Company Overview** | • Established in 1965, the company is a general engineering and construction company, specializing in the construction of water supply and sewerage systems, water treatment plants, wastewater/sewage treatment plants, hydropower plants, dams, tunnels and aqueducts, pipelaying, utilities, and civil infrastructure.<br>• The Philippine Contractors Accreditation Board has licensed the company as an "AAA" contractor. The company is also an ISO 9001:2008, ISO 14001:2004, and OHSAS 18001:2007 certified company.<br>• So far, the company has been awarded construction contracts worth $649 million in the Philippines.<br>• The capabilities of the company were recognized by the Construction Industry Authority of the Philippines (CIAP), the Department of Trade and Industry (DTI), and the International Federation of Asian and Western Pacific Contractors Association (IFAWPCA). |
| **Major Projects** | The major projects in execution include Davao City Bulk Water Supply – Davao, which is expected to be completed in Q4 2022. |

Source: GlobalData and JV Angeles Construction Corp (JVACC)

Table 21: Water and Sewage Infrastructure Contractor

| | |
|---|---|
| **Company Name** | Megawide Construction Corporation |
| **Head Office** | 20 N. Domingo Street, Barangay Valencia, Quezon, Philippines |
| **Number of Employees** | 1,731 |
| **Target Markets** | Philippines |
| **Company Overview** | • Established in 1997, Megawide Construction Corporation (Megawide) carries out the general construction business. The company reported revenue of $318 million in 2021.<br>• The company is involved in engineering, procurement, and construction (EPC), airport infrastructure, progressive property development, and renewable energy. It builds residential, hotels, casinos, offices, water and sewage infrastructure, and commercial and mixed-use properties.<br>• Megawide also offers innovative construction support technologies such as precast, formwork systems, and concrete batching. Its transport-oriented development projects comprise carbon market redevelopment and Paranaque integrated terminal exchange. |
| **Major Projects** | The major water and infrastructure projects in execution include Aglipay sewerage treatment plant – Metro Manila, Las Piñas Water Reclamation Facility – Metro Manila, and Las Piñas Water Reclamation Facility – Metro Manila. |

Source: GlobalData and Megawide Construction Corporation

| Table 22: Water and Sewage Infrastructure Contractor | |
|---|---|
| **Company Name** | Sta. Clara International Corporation (SCIC) |
| **Head Office** | Sta. Clara International Corporation Highway 54 Plaza 986 EDSA Wack-Wack Mandaluyong City, Philippines |
| **Number of Employees** | - |
| **Target Markets** | Philippines, Qatar, Oman, and Guinea |
| **Company Overview** | • Established in 1976, Sta. Clara International Corporation is an engineering, construction, development, and management enterprise in the Philippines, with overseas operations providing services across various sectors, including power and utilities, infrastructure, and civil engineering.<br>• The company has been awarded construction contracts worth $718 million in the infrastructure, energy, and utility sector. |
| **Major Projects** | The major water and infrastructure projects awarded to Sta. Clara International Corporation include Valenzuela Sewage Treatment Plant – Metro Manila, La Mesa Water Treatment Plant I Upgrade – Metro Manila, and Sabangan Hydroelectric Power Plant – Mountain Province. |
| Source: GlobalData and Sta. Clara International Corporation | |

| Table 23: Hydro and Solar Power Contractor | |
|---|---|
| **Company Name** | Aboitiz & Co Inc |
| **Head Office** | 32nd Street, Bonifacio Global City, Metro Manila, Manila, Philippines |
| **Number of Employees** | 229 |
| **Target Markets** | Philippines |
| **Company Overview** | • Incorporated in 1920, the company focuses on power generation distribution, and retail of electricity, banking and financial services, food manufacturing, real estate, infrastructure, and portfolio investment business.<br>• The company generated revenue of $4.5 billion in 2021. The company has been awarded construction contracts worth $2.6 billion in the commercial, energy and utilities sector. |
| **Major Projects** | The major power projects awarded to Aboitiz & Co Inc include Mariveles Thermal Power Plant Expansion 1,336MW – Central Luzon, and San Carlos Sun Power Plant 59MW – Negros Occidental. |
| Source: GlobalData and Aboitiz & Co Inc | |

| Table 24: Hydro and Solar Power Contractor | |
|---|---|
| **Company Name** | Power Construction Corporation of China |
| **Head Office** | No. 22, Chegongzhuang West Road, Haidian District, Beijing, China |
| **Number of Employees** | 133,207 |
| **Target Markets** | Asia-Pacific, the Middle East, Africa, the Americas, and Europe |
| **Company Overview** | • Power Construction Corporation of China (PowerChina) is a state-owned company. It provides contracting, survey, and design services for water conservation, wind power, thermal power, hydropower projects, and power and infrastructure projects.<br>• PowerChina manufactures power station auxiliary equipment and metal component products. It offers engineering, procurement, and construction (EPC) services to hydropower, waterworks, thermal power, energy, and transmission and distribution projects.<br>• PowerChina's brands include Hydrochina, Sepco III, Hypec, and Sinohydro. The company carries out real estate, investment, and finance businesses, and provides operations and maintenance (O&M) services.<br>• The company generated revenue of $69.6 billion in 2021. |
| **Major Projects** | The major power projects in execution, awarded to Power Construction Corporation of China include Subic Renewable Energy Complex 150MW – Central Luzon, San Marcelino Solar Farm 283MW – Central Luzon, and Wawa Pumped Storage I Hydroelectric Power Plant 500MW – Rizal. |
| Source: GlobalData and POWERCHINA | |

| Table 25: Road Contractor | |
|---|---|
| **Company Name** | San Miguel Corp |
| **Head Office** | 40 San Miguel Avenue, Mandaluyong, Metro, Manila, Philippines |
| **Number of Employees** | 45,614 |
| **Target Markets** | Philippines, Southeast Asia, China, Australia, and New Zealand |
| **Company Overview** | • Founded in 1890, San Miguel Corp started as a single-product brewery in the Philippines. The company expanded its services to businesses and investments in various sectors such as beverages, food, packaging, energy, fuel and oil, infrastructure, property development and leasing, cement, car distributorship, and banking services.<br>• SMC Infrastructure is part of San Miguel Corp managing the construction and operation and maintenance infrastructure network. In 2021, SMC Infrastructure generated revenue of $399.7 million. |
| **Major Projects** | The major road projects in the execution stage awarded to San Miguel Corp include EDSA Elevated Expressway – Metro Manila, Southeast Metro Manila Expressway C6, La Union Expressway Expansion, SLEX Toll Road 4 Expansion , and Skyway Connector Road – Metro Manila. |
| Source: GlobalData and San Miguel Corp | |

| Table 26: Road Contractor | |
|---|---|
| **Company Name** | EEI Corp |
| **Head Office** | No. 12 Manggahan Street, Bagumbayan, Quezon, Philippines |
| **Number of Employees** | 2,789 |
| **Target Markets** | Philippines, Singapore, the US, and Saudi Arabia |
| **Company Overview** | • EEI Corp (EEI) is a provider of construction and engineering services. The company provides infrastructure services for the construction of roads and railways, bridges, water distribution systems, and light and heavy manufacturing corporations.<br>• The company also provides manpower services and construction of office buildings, hotel service apartme nts, mixed-use commercial developments, and condominiums.<br>• EEI serves clients across a range of industrial sectors, including semiconductors, pharmaceuticals, confectionaries, oil and gas, mining, petroleum, power generation, cement, automotive, processed foods, and soft drinks and alcoholic beverages industries.<br>• In 2021, the company generated revenue of $328 million. |
| **Major Projects** | The major road projects in the execution stage awarded to EEI Corp include NLEX-Harbor Link Road – Metro Manila, and Southeast Metro Manila Expressway C6. |
| Source: GlobalData and EEI Corp | |

# 1.14 Industry Opportunities

The Philippines signed the Paris Agreement of the United Nations Framework Convention on Climate (UNFCC) during the Conference of the Parties (COP 21) in December 2015. Under the framework, each country is required to submit the Intended Nationally Determined Contributions (INDCs). The Philippine government submitted INDCs to reduce GHG emissions in the country by 75% in 2030. The target comprises 72.3% conditional commitment and 2.7% unconditional commitment. The Paris Agreement aims at changing the fossil-fuel-driven economy and reducing the pace of a global temperature increase to below 2°C.

The Government of the Philippines sought technological and financial support from developed countries during the 26th Conference of the Parties (COP26). In 2021, the government reconstituted the National Panel of Technical Experts (NPTE) of the Climate Change Commission (CCC) to generate a recommendation for the implementation of the local climate change adoption process and risk mitigation measures.

In accordance with international commitments, the government established various legal and institutional frameworks and mechanisms for climate change mitigation and adaptation. The Climate Change Act of 2009 established the Climate Change Commission, which acts as the principal climate policymaking authority. The primary activity of the CCC is to monitor and assess various programs and plans related to climate change. The CCC helped develop the National Framework Strategy on Climate Change and the National Climate Change Action Plan to evaluate climate risk and suggest risk mitigation measures in the country.

The National Climate Change Action Plan (NCCAP) outlines the agenda for various climate change adaptation and risk mitigation measures for 2011–28. The government aims at achieving seven key outcomes across different areas: food security, water sufficiency, ecological and environmental sustainability, eco-friendly industries and services, sustainable energy, human security, and knowledge and capacity development. The NCCAP focuses on public financing, which prioritizes adaptation across the lower spectrum of the communities. It also encourages private sector participation in sustainable development.

In the energy sector, the government emphasizes the development of renewable energy in the country. The critical guiding principle is the Philippine Energy Plan (PEP) 2020–2040, which aims at increasing the adoption of clean energy within the energy sector to achieve a sustainable energy system. The major objectives include achieving a renewable energy mix (RE) in the overall power generation mix – 35% RE by 2030 and 50% RE by 2040, increasing the blending of biodiesel by 5% from 2022, using EVs in the road transport sector – 10% EVs in motorcycles, cars, and jeepneys by 2040, and reducing GHG emissions by 12% for the Nationally Determined Contribution (NDC).

Due to the Russia-Ukraine conflict, international organizations imposed economic sanctions on Russia, which resulted in global fuel price increase. Until now, the Russia-Ukraine conflict has limited direct impact on the Philippines as the country is less dependent on goods, services, and capital.

Given the various measures taken by the government to provide stimuli to the economy in the wake of the pandemic and its plan to meet the commitments as per the Paris agreement, the overall industry is expected to have a number of opportunities in the areas of water and sewage sector, road infrastructure and in the energy sector over the next 5-10 years.

# 2. Thailand

## 2.1 Macroeconomic and Demographic Overview

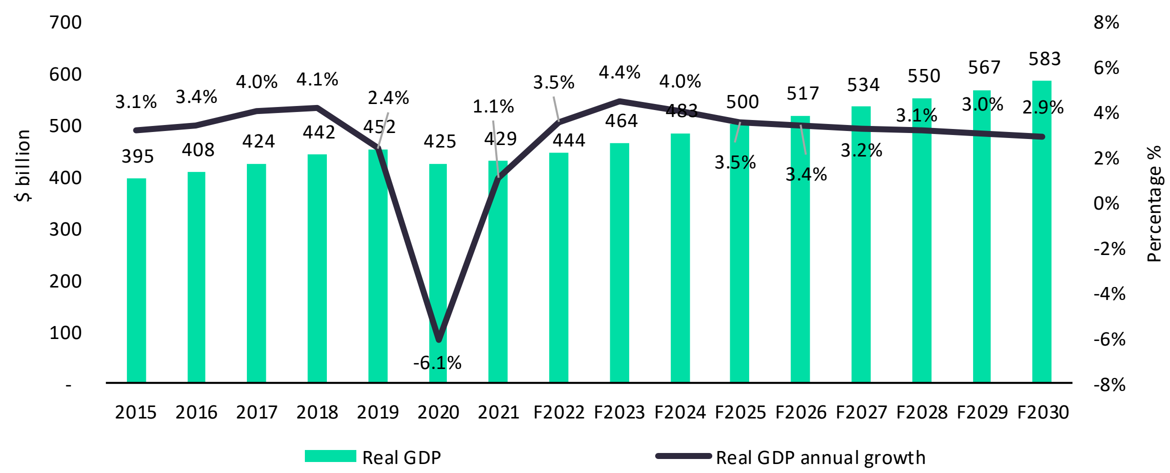
Thailand is the second-largest economy in Southeast Asia, after Indonesia. The pandemic affected the country's GDP growth, Thailand recorded negative GDP growth after 1998, which fell from 2.4% in 2019 to -6.1% in 2020. In 2021, the GDP growth reached 1.1%. According to official statistics, GDP growth is expected to reach 3.5% in 2022.

According to the World Travel and Tourism Council Report 2020, the tourism industry in Thailand contributed 19.7% of GDP and accounted for 21.4% of the total employment. Owing to travel restrictions imposed after the outbreak of the pandemic, the tourism industry in Thailand registered heavy losses, with millions of workers lost their jobs. Moreover, the poverty ratio increased to 8.8% in 2020 from 6.2% in 2019. In July 2021, the Tourism Authority of Thailand implemented the "No Quarantine" Phuket Sandbox program, which allowed travelers from 69 countries to enter Phuket without quarantine. From October 2021, fully vaccinated travelers are allowed to enter Bangkok, Chiang Mai, Chon Buri, Phetchaburi, and Prachuap Khiri Khan without undergoing quarantine, which will aid the growth of the economy in the years ahead.

The government focuses on improving the business environment, and enhancing the country's competitiveness and long-term economic performance through the development of rail, road, airport, and electricity infrastructure as part of the National Strategic Plan (2017-2036).

The pandemic affected the global economy severely since 2020. However, the market is recording a steady recovery from 2021. The pandemic also has a lasting impact on medium-term performance.

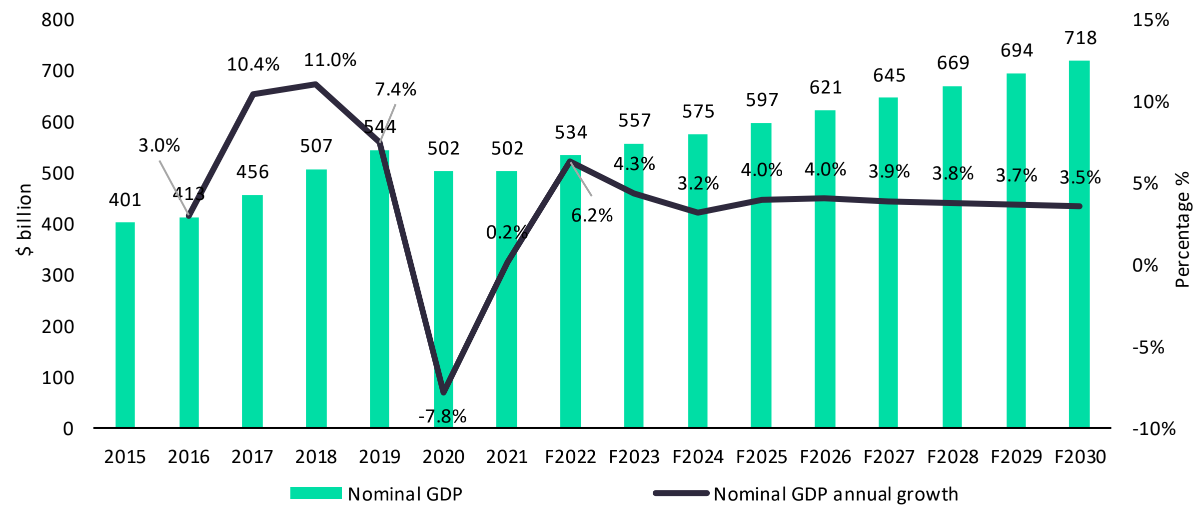
Figure 31: Real GDP (2015–30)




Source: GlobalData analysis using Office Of The National Economic and Social Development Council, International Monetary Fund, Asian Development Bank and The World Bank data

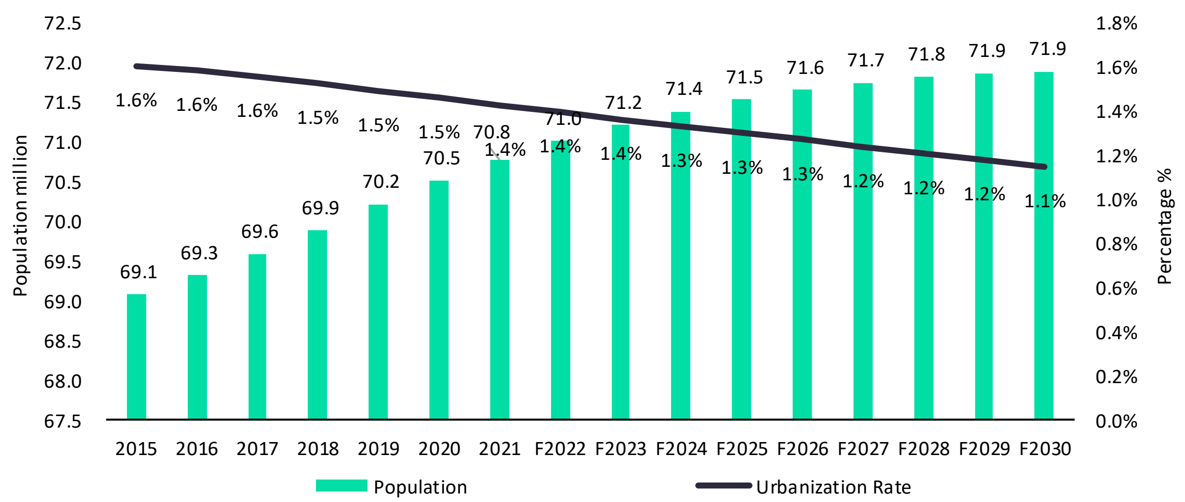
The government announced financial packages to overcome the crisis, which are expected to increase pressure on finances. As the country's vaccination drive gathers pace, along with the gradual improvement in critical economic parameters due to the reopening of the economy, GDP growth is forecast to rebound in the years ahead.

Figure 32: Nominal GDP (2015–30)




Source: GlobalData analysis using Office of the National Economic and Social Development Council, International Monetary Fund, Asian Development Bank and The World Bank data


Figure 33: Population and Urbanization Rate (2015–30)



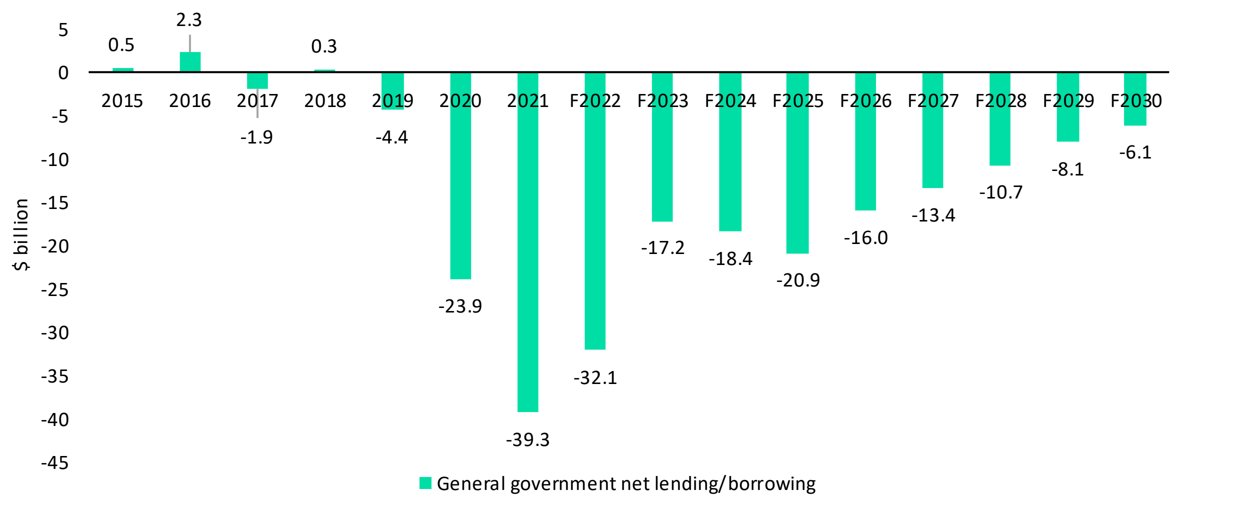

Source: GlobalData analysis using National Statistical Office Thailand, United Nations Statistics Division, The World Bank and International Monetary Fund data


**Note:** The urbanization rate is measured as the average annual percentage change of the urban share of the population (proportion of urban to total population). The indicator has been derived using data on the urban population as a percent of the total Mid-year population

From 2015 to 2021, the population in Thailand increased at an average annual rate of 0.4%, from 69.1 million in 2015 to 70.8 million in 2021. According to official statistics, the population is expected to increase at an average rate of 0.3% during 2021–26.

In Thailand, 70.8% of the population is in the 15-64 years age group, 16.6% in the 0-14 age group, and 12.6% in the 65+ age group in 2020. Thailand has a large working-age population, which is forecast to decline to 68.5% by 2025. Consequently, the old-age population is expected to increase to 15.8% by 2025. An aging society is expected to exert pressure on public finances in the long term. The median age in Thailand was 39 years, as of 2020.

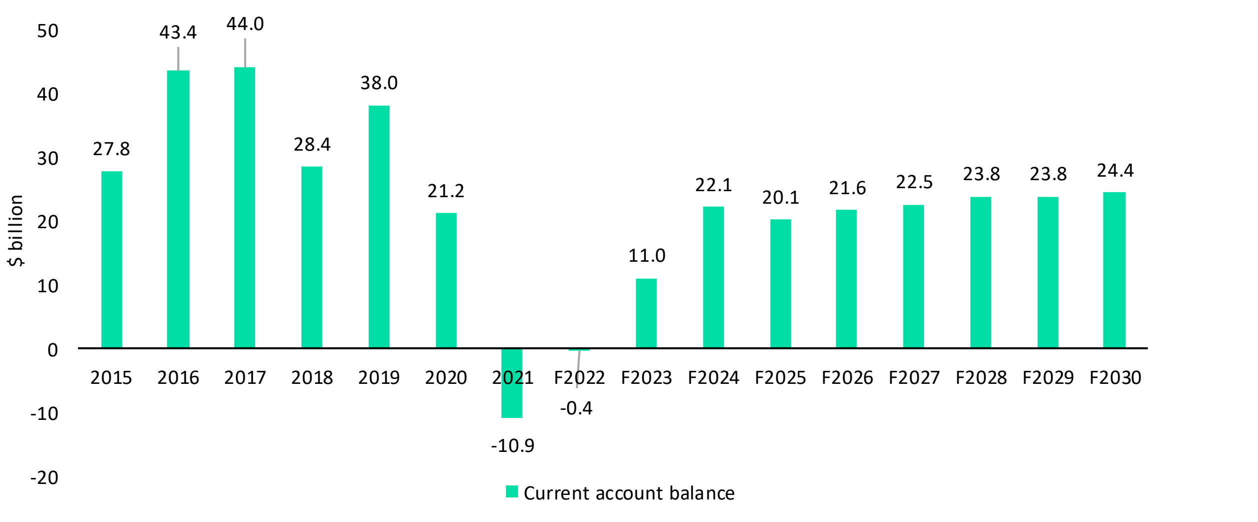
Figure 34: General government net lending/borrowing (2015–30)




Source: GlobalData analysis using Fiscal Policy Office, Ministry of Finance Thailand data © GlobalData

Increased government expenditure to revive the economy resulted in a huge budget deficit. Thailand's expenditure went up 8.8% and revenue fell 7.9% in 2020. However, with the resumption of economic activities, government spending is likely to decrease, and revenue is expected to increase. According to official statistics, the general government's net borrowing stood at $39.3 billion in 2021. The guidelines for economic policy given by the government and the Bank of Thailand require the country's fiscal policy to be geared to a gradual and sustainable use of revenue.

Figure 35: Current Account Balance (2015–30)




Source: GlobalData analysis using Bank of Thailand and The World Bank data © GlobalData

Due to a reduction in exports and inflow of remittances amid the pandemic, the current account balance was $21.2 billion in 2020 and declined further in 2021 due to economic uncertainty and the emergence of the third wave of infections.

A decline in tourism revenue and the ongoing COVID-19 pandemic are expected to increase the current account deficit. However, overall risks to the external position are low, given large reserves and the temporary nature of the decline in surplus; IMF forecasts the current account to rebound to a surplus of 2.6% of GDP growth in 2022.

According to the World Bank's Ease of Doing Business Report 2020, Thailand scored 80.1 out of 100, higher than the East Asia and Pacific (EAP) regional average of 63.3.

# 2.2 Industry Overview

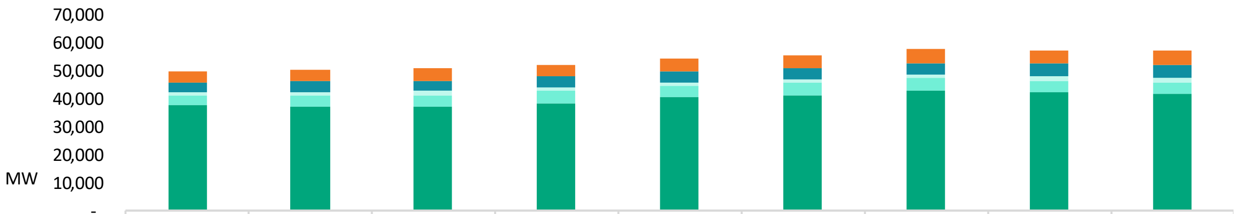
## 2.2.1 Power

Under the new integrated National Energy Plan (NEP) 2022, the Royal Thai Government intends to gradually increase power generation capacity to meet the rising demand by 2040. The plan, titled "Go Green with Energy Security and Competitiveness for a Sustainable Energy Future," was submitted in the fourth quarter of 2021 and has the potential to attract $4.2 billion investment to the country. The draft Gas Plan 2018, the Power Development Plan (PDP) 2018 Revision (Rev.) 1, the draft Alternative Energy Development Plan (AEDP) 2018, the draft Oil Plan 2018, and the draft Energy Efficiency Plan (EEP) 2018 will be combined and synchronized in the NEP 2022.

By 2037, the PDP 2018 Revision 1 (2018-2037) aims to achieve generating capacity of 77,211MW. This will likely be accomplished through the construction of power plants and the purchase of electricity from independent power producers (IPPs), as well as the use of renewable energy.

The PDP 2018 Rev. 1 and the AEDP 2018 initiatives has opened new opportunities for electric power generation equipment that uses conventional fossil fuels, renewable energy, and alternative energy. Apart from that, Thailand is also expected to focus on developing smart grid infrastructure networks in the country. The PDP 2018 Rev. 1 focuses on increasing the use of renewable energy and reducing reliance on fossil fuels such as natural gas, to reduce coal-generated electricity to 11% by 2037 and reduce carbon dioxide emissions ($CO_2$) to 271 $kgCO_2/kWh$ (or 99.7 million tonnes) under the Conference of Parties (COP21) agreement or Paris Agreement. If everything goes according to plan, by 2037, 36% of electrical energy will come from sources other than fossil fuels, including hydropower (9%), renewable energy (21%), and energy conservation (6%).

Figure 36: Power Installed Capacity by Type 2018–26 (MW)

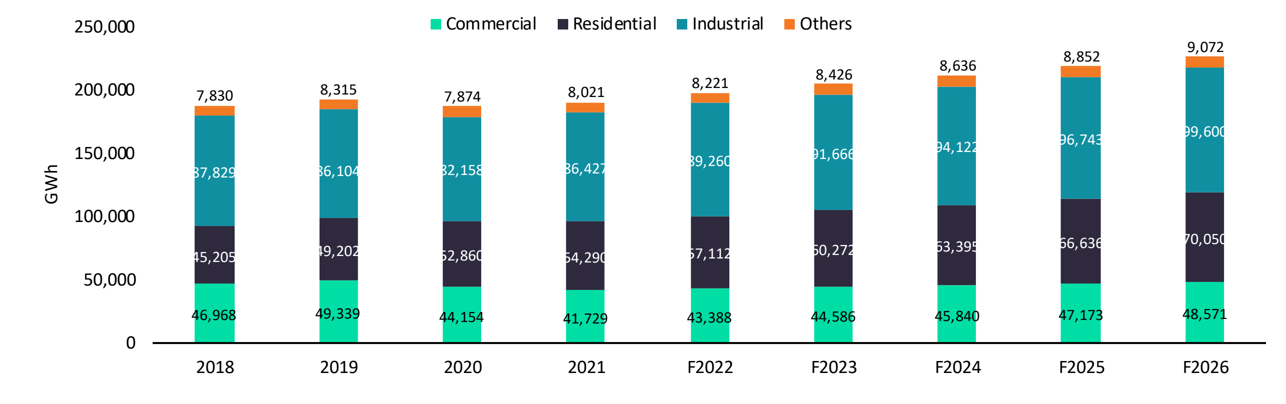



| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Biopower | 4,196 | 4,255 | 4,408 | 4,428 | 4,544 | 4,663 | 4,782 | 4,903 | 5,026 |
| Solar PV | 3,513 | 3,530 | 3,579 | 3,670 | 3,748 | 3,867 | 4,034 | 4,254 | 4,628 |
| Wind | 1,103 | 1,507 | 1,507 | 1,523 | 1,523 | 1,523 | 1,613 | 1,703 | 1,793 |
| Hydro | 3,594 | 4,094 | 4,096 | 4,096 | 4,096 | 4,098 | 4,113 | 4,115 | 4,117 |
| Thermal | 37,500 | 36,913 | 37,193 | 38,518 | 40,306 | 41,338 | 43,053 | 42,224 | 41,704 |

Source: GlobalData © GlobalData

In 2021, thermal power accounted for 73.7% of the total installed power followed by biopower 8.5% and Hydro 7.8%. By 2026, total installed capacity is expected to reach 57,268MW, of which 41,704MW is expected to come from thermal power plants.

Figure 37: Power Consumption, By End User 2018–26 (GWh)




Source: GlobalData © GlobalData

In 2021, a total of 190,467GWh was consumed, with the industrial sector being the largest consumer accounting for 86,427GWh. Thailand's power consumption is expected to reach 227,293GWh by 2026, of which the industrial sector is expected to consume 99,600GWh.

In 2021, the Ministry of Energy formulated an "Energy for All" policy that will benefit the general public while also increasing the country's competitiveness. Through community power plants, the PDP 2018 Rev. 1 increased the percentage of renewable energy such as solar, biogas, and biomass. To boost alternative energy and reach areas that produce it, power lines in Thailand will be upgraded from 115kv to 500kv or 800kv.

The Ministry of Energy has also been promoting Thailand as an LNG free trade hub since 2016. The Industrial Estate Authority of Thailand inked a $1.3 billion agreement with Gulf MPT LNG Terminal Company, which was chosen to develop the country's third LNG import terminal, to strengthen Thailand's role as a regional LNG trading hub. Commercial activities are expected to begin by 2025. Thailand also intends to build one floating storage regasification unit (FSRU), which will have a capacity of two million metric tonnes per year and will be operational in 2028, according to the Department of Mineral Fuels.

### 2.2.2 Water and Wastewater Treatment

In Thailand, the water demand is expected to increase due to growth in population and expansion of the economy. In the country, 85% of water is used by the agriculture sector, 7% by the domestic sector, and the rest is used by other industries.

Industrial and municipal sectors are the primary sources of wastewater. The overall amount of wastewater is estimated at 14 million $m^3$/day in 2021. Of this, 2.5 million $m^3$ is derived from 1,687 municipalities, 9 million $m^3$ from district administration, and 2.5 million $m^3$ from Bangkok Metropolitan Administration (BMA) and Pattaya City.

The Thai government spent $2,335.3 million on sewerage and treatment systems to build 101 local wastewater treatment facilities in the country. The combined daily capacity of these treatment facilities is 3.2 million $m^3$. Stabilization pond (45%) activated sludge (36%), aerated lagoon (16%), built wetland (2%), and rotation biological contactor (1%) are the five types of community wastewater treatment systems that have been employed. The industrial sector produces 6.8 million $m^3$ of wastewater daily. The characteristics of each industry's wastewater influence the types of treatment systems. The high investment costs and lack of ongoing operation and maintenance are the main barriers to wastewater treatment in Thailand.

**Institutional Framework**

The Ministry of Industry is responsible for industrial wastewater management, industrial wastewater collection, conveyance, treatment, and quality effluent standards. The local authorities, such as a municipality, district administration, and provincial administration, under the Ministry of Interior, is responsible for community wastewater management and takes charge of the construction of the sewerage system and community wastewater treatment plant, The Wastewater Management Authority and the Department of Pollution Control are under the Ministry of Natural Resources and Environment. The Wastewater Management Authority provides technical advice to local authorities and Department of Pollution Control is responsible for water quality control of natural water resources.

### 2.2.3 Infrastructure Construction

The construction industry proved to be a major contributor to the economy of Thailand. According to GlobalData, the overall construction output was $24.6 billion in 2021 and it is expected to reach $29.7 billion in 2026.

In June 2022, the Transport Ministry (Thailand) announced that it will invest $42.1 billion in 37 p rojects during the year. The funds will be divided among projects into $14.6 billion for 13 ongoing projects and $27.5 billion for 24 new projects.

The 24 new projects are divided into five categories:

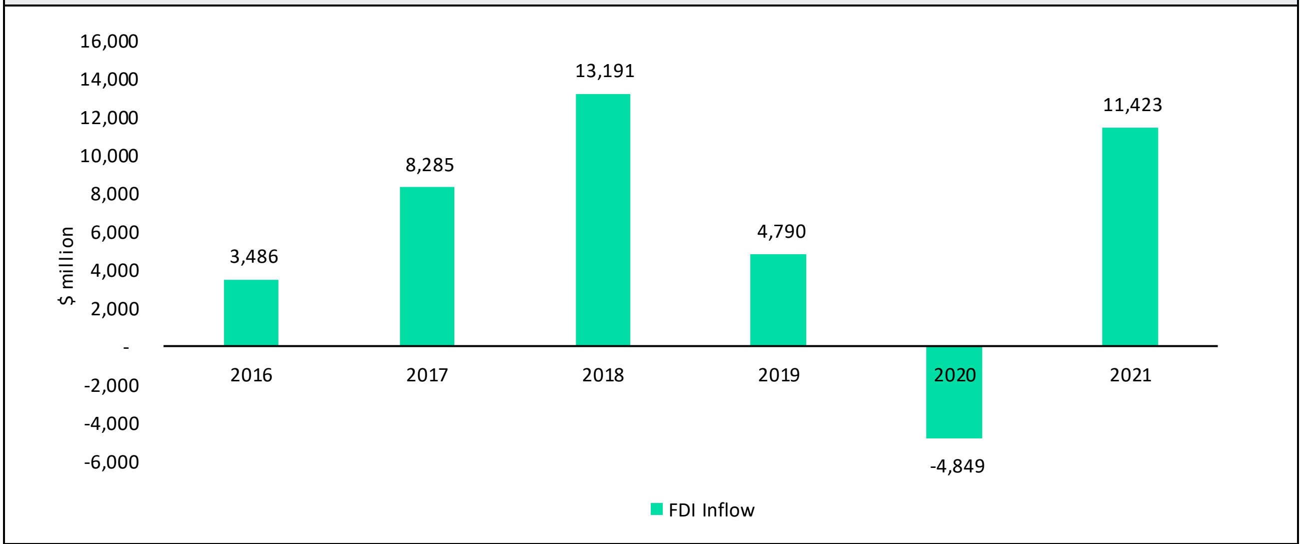
- $7.9 billion for 12 road projects
- $38.2 million for building Nakhon Phanom Cross-Border Logistics Centre
- $17.6 billion for five railway projects, namely:
  - $3.5 billion for the MRT Purple Line extension (Tao Poon-Rat Burana)
  - $3.4 billion for MRT Orange Line (Tao Poon-Rat Burana)
  - $2.4 billion for a dual-track railway (Den Chai-Chiang Rai-Chiang Khong)
  - $1.9 billion for a dual-track railway (Ban Phai-Nakhon Phanom)
  - $6.3 billion for a high-speed railway linking three airports
- $213.8 million for two sea projects, namely:
  - $173 million for a project to tackle coastal erosion
  - $40.7 billion for restoring beaches
- $1.7 billion for refurbishing Don Mueang, Chiang Mai, Chumphon, and Ranong airports

The Ministry of Transport is responsible for the development, construction, and regulation of the land, marine, and air transportation systems in the country.

## 2.2.4 Government Incentives to Attract Foreign Investment

Thailand encourages foreign direct investment (FDI), a policy that is supervised by the Board of Investment (BOI) under the Office of the Prime Minister. The implementation of the policy involves granting non-tax and tax incentives such as tax holidays and waivers of duties on imported capital goods, to foreign firms (together with local firms) in industrial and service sectors. Since April 1993, the BOI shifted its focus, including FDI-related investment, from export promotion to industrial decentralization. New measures were initiated to encourage companies to establish or relocate in regional areas; the more remote the project, the better the incentives, including tax exemptions and import duty reductions.

Figure 38: FDI Inflow (2016–21)




Source: United Nations Conference on Trade and Development © GlobalData

In 2021, the FDI inflow stands at $11,423 million. The top 3 sectors for FDI investment in Thailand are service, electric and electronic products and chemicals and paper with a share of 38%, 21% and 14% respectively.

The Thailand government launched various investment promotion schemes and policy initiatives designed to promote domestic and foreign investment in the country, including the Eastern Economic Corridor Project under the Thailand 4.0 initiative. However, foreigners continue to be restricted from conducting certain business activities under the Foreign Business Act 1999 (FBA).

The FBA sets out the business activities in which foreign participation is either prohibited or restricted as follows:

- List 1 – activities that are prohibited to non-nationals such as newspaper, television broadcasting, land trading, livestock farming, and fisheries.
- List 2 – activities that concern national security or safety, or could affect arts, cultures, traditions, customs, folklore handicrafts, or national resources and environment. A foreign majority-owned company could engage in these activities if Thailand nationals or juristic persons hold no less than 40% of the total shares and the number of Thai directors is at least two-fifths of the total number of directors.

- List 3 – activities in which there are economic protections for Thai nationals, such as retail, wholesale, hotels, and any kind of service business. Foreign businesses looking to take up activities in these areas will require a Foreign Business License.

In June 2019, the Ministry of Commerce promulgated the Ministerial Regulation Prescribing Service Businesses which do not require a Foreign Business License for three services including the granting of domestic loan, rental of office space with public utilities and advisory services regarding management, marketing, and information technology between related juristic persons.

## 2.3 Market Overview

The construction output for energy and utilities is expected to reach $3.8 billion in 2026 from $3.2 billion in 2021, growing at a CAGR of 3.7%. The growth will be supported by the government's aim to develop renewable energy, oil, and gas infrastructure to meet the energy needs of the country. The government has set a target to generate 53% of its energy mix from natural gas, 20% from renewable sources, 12% from coal, and the remainder from other sources by 2037.

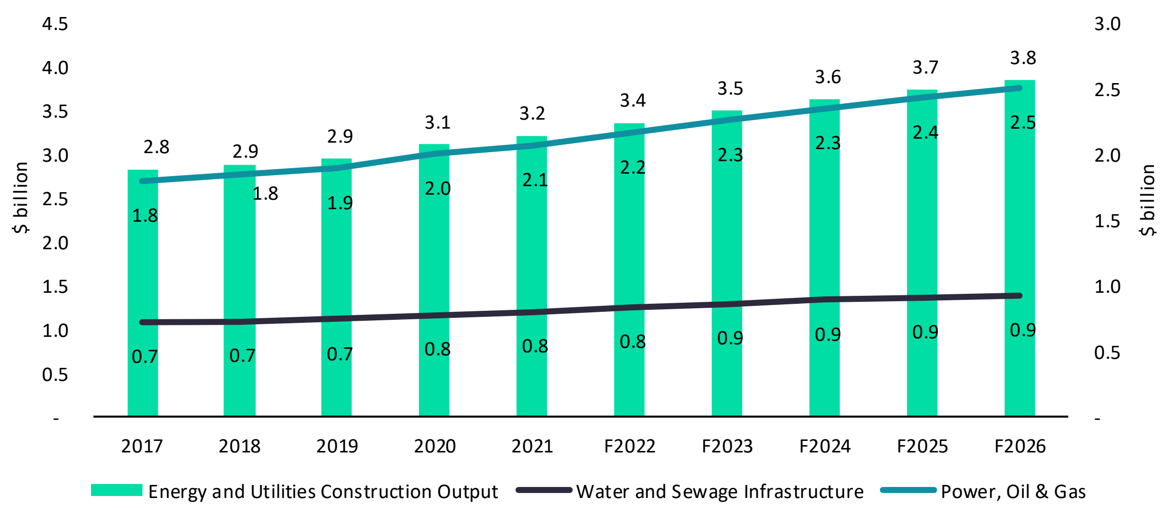
The country also has a target to achieve carbon neutrality by 2050 and net-zero GHG emissions by 2065. To achieve these targets, the government announced plans to reach the non-hydroelectric renewables target of 18.7GW total capacity by 2037 under the Alternative Energy Development Plan 2018-2037 (AEDP).

In 2021, of the total power generation capacity of 52,235MW, nearly 7.8% is hydropower and 7% is solar power. During the forecast period, hydropower capacity is expected to reach 4,117MW in 2026. Solar power generation capacity is expected to reach 4,628MW in 2026 from 3,670MW in 2021.

In 2021, water and sewage infrastructure accounted for 3.3% of the total construction output in Thailand. The construction market for water and sewage infrastructure is expected to reach $0.9 billion in 2026 from $0.8 billion in 2021, growing at a CAGR of 2.9%.

Office of the National Economic and Social Development (NESDC) states that the value-add of water supply, sewerage, waste management, and remediation activity increased 2.8% YoY in Q4 2021, preceded by YoY growth of 2.4% in Q3 and 3.6% in Q2 2021. In cumulative terms, the value-add grew 1.5% in 2021, increasing from $1.8 billion in 2020 to $1.8 billion. In 2020, the value-add of the sector declined by 0.7%.

Figure 39: Energy and Utilities Real Construction Output Forecast (2017–26)



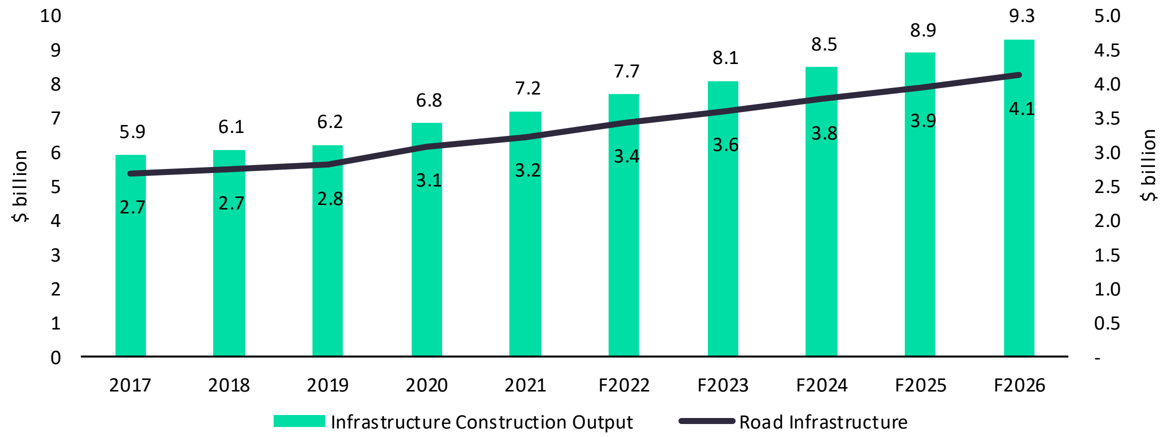

Source: GlobalData © GlobalData

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

The infrastructure construction output sector is expected to grow at a CAGR of 5.3%, reaching $9.3 billion in 2026 from $7.2 billion in 2021, complemented by the government's investment in transport infrastructure.

In January 2022, the Ministry of Transport announced a plan to invest $42.5 billion to improve land, water, and air transportation. The road infrastructure construction market is expected to grow at a CAGR of 5.1% to reach $4.1 billion in 2026 from $3.2 billion in 2021.

Figure 40: Infrastructure Real Construction Output Forecast (2017–26)




Source: GlobalData © GlobalData

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

## 2.4 Water and Sewage Treatment Projects Overview

In Thailand, potable water supply is provided by the Metropolitan Waterworks Authority (MWA) and the Provincial Waterworks Authority (PWA). The MWA controls the production and distribution of potable water in the Bangkok metropolitan region, while the PWA is responsible for water source development, treatment, storage, and distribution to all the urban and rural communities in the provinces.

The country is focusing on improving and expanding existing reservoirs, swamps, weirs, and natural water resources, especially in the North-eastern provincial clusters served by the Loei, Chi, and Mun river basins, which are key cultivation bases for the major economic crops of the region.

Thailand has an annual average rainfall of about 1200 – 1600 mm/year in most of the area. To retain the runoff from rainfall during the rainy season, as well as for preventing flood and drought situations that could negatively impact the agricultural sector, the government has constructed over 3,000 dams.

In 2019 the MWA had an annual water production capacity of about 2,075 million $m^3$. The two major sources of water supplies were the Chao Phraya River (70%), and the Mae Klong Dam (30%). The MWA is taking initiatives to improve water supply operations and as a part of that, there are ongoing pipe replacement projects to support an increase in water pressure by up to 10 meters to reduce electricity costs in water pumping and moderate water loss down to 20%.

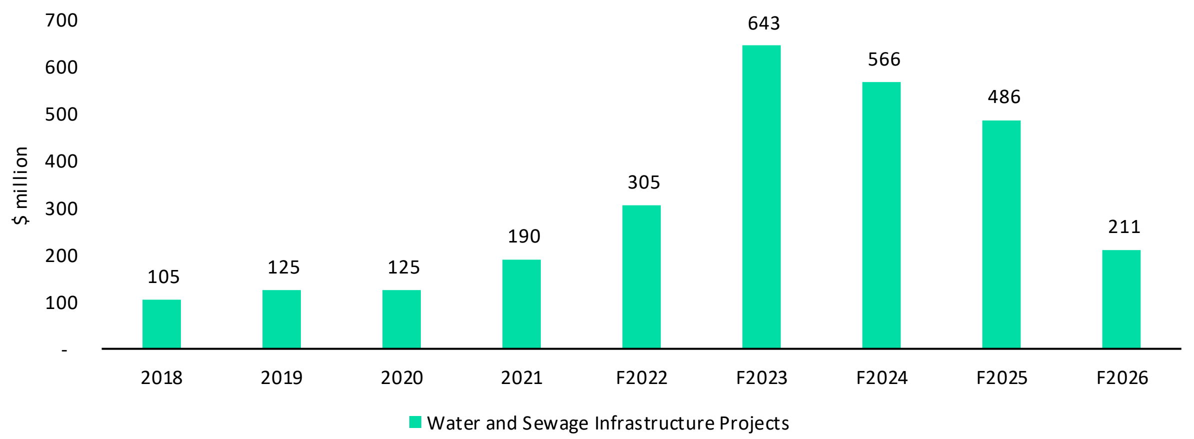
In 2018, the country restructured its water management strategy and approved a 20-year national strategy. The Office of National Water Resources (ONWR) is the new and singular government agency, regulating integrated national water resources management. By 2030, the ONWR has plans to provide clean water to over 75,000 villages in 66 areas covering

5.5 million hectares by building more than 541,000 small dams to restore watershed areas at risk due to flood and drought.

In 2023, the project value spent is expected to be $643 million due to the start of the construction of the treatment plant, transmission and collection and containment projects. In Thailand, the water and sewage infrastructure projects are mainly owned by Royal Irrigation Department (RID).

GlobalData estimates that the value spent on water and sewage infrastructure projects will revive in 2022. The key in-progress and planned water infrastructure projects include Thonburi Wastewater Treatment Plant, Yom River Reservoir, Khlong Maduea Reservoir, Khlong Kapong Reservoir, Lam Saphung Reservoir, Lam Nam Chi Reservoir and others.

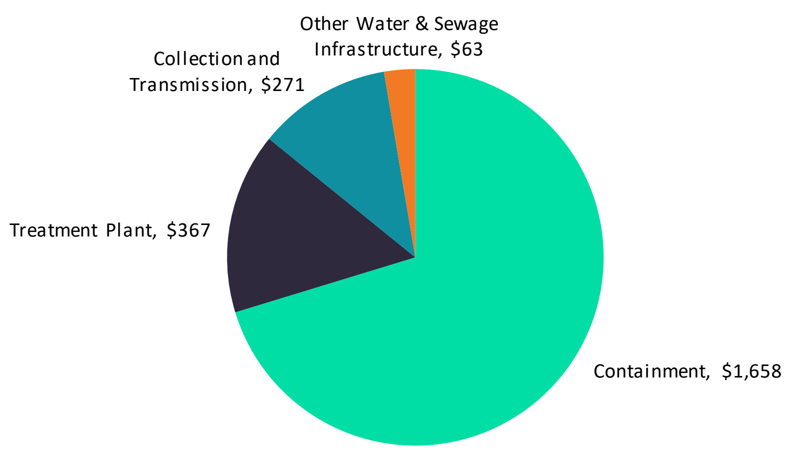
Figure 41: Estimated Project Value Spent for Water and Sewage Infrastructure ($ million)




Source: GlobalData © GlobalData

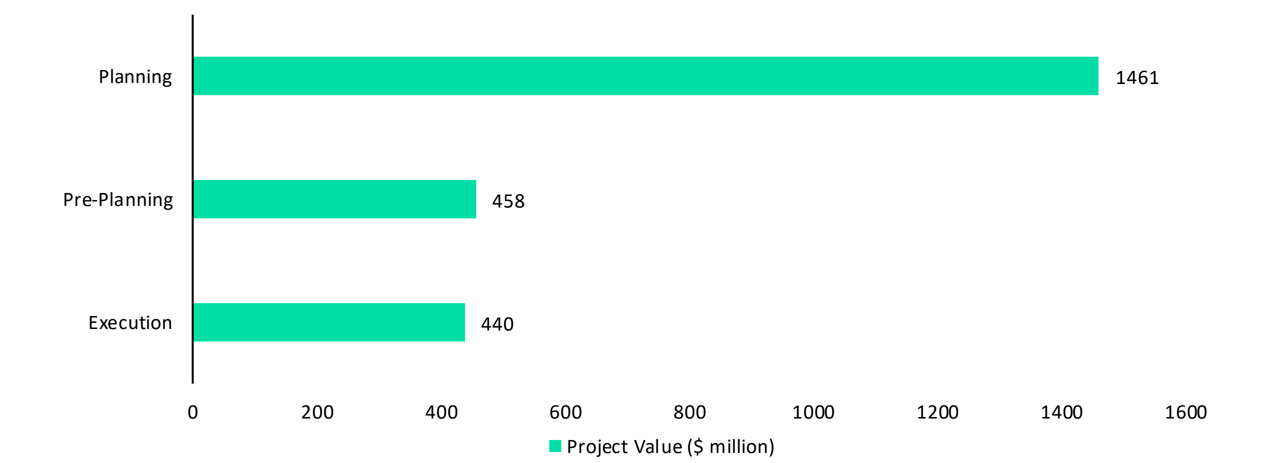
Containment projects accounts for 70% of the water and sewage infrastructure projects in pipeline. During the forecast period, construction for collection and transmission projects worth $271 million is expected to be started in the country.

Figure 42: Water and Sewage Infrastructure Projects Pipeline By Type and Construction Start; 2018–24 ($ million)




Source: GlobalData © GlobalData

Figure 43: Value of Water and Sewage Projects Pipeline-By Stage and Construction Start; 2018–24 ($ million)




Source: GlobalData © GlobalData

Royal Irrigation Department (RID) is one of the biggest owners of water and sewage infrastructure projects in Thailand. Currently, there are nineteen water and sewage infrastructure projects in progress owned by RID. The largest projects being executed include Mae Taeng-Mae Ngat-Mae Kuang Water Diversion Tunnel for which the construction contract was awarded to Right Tunneling Co. Ltd. and Siamphan Enterprise PCL.

Table 27: Top Water and Sewage Infrastructure Contractors by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Nawarat Patanakarn Public Co Ltd | Thailand | 2 | 160 |
| Consulting Engineering Co SAE | Egypt | 1 | 90 |
| Right Tunnelling PCL | Thailand | 1 | 480 |
| TRC Construction PLC | Thailand | 1 | 20 |
| Hydrotek Public Co Ltd | Thailand | 1 | 20 |
| Sino-Thai Engineering & Construction Public Co Ltd | Thailand | 1 | 150 |
| Unique Engineering and Construction Public Co Ltd | Thailand | 1 | 480 |
| Italian-Thai Development PCL | Thailand | 1 | 480 |

Source: GlobalData

Table 28: Top Water and Sewage Infrastructure Owners by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Royal Irrigation Department | Thailand | 37 | 2,680 |
| Bangkok Metropolitan Administration | Thailand | 7 | 1,530 |
| Provincial Waterworks Authority | Thailand | 2 | 40 |
| Wastewater Management Authority | Thailand | 1 | 150 |
| Department of Rural Roads | Thailand | 1 | 60 |
| Department of Drainage and Sewerage | Thailand | 1 | 150 |
| Chulalongkorn University | Thailand | 1 | 400 |
| National Water Resource Committee | Thailand | 1 | 200 |

Source: GlobalData

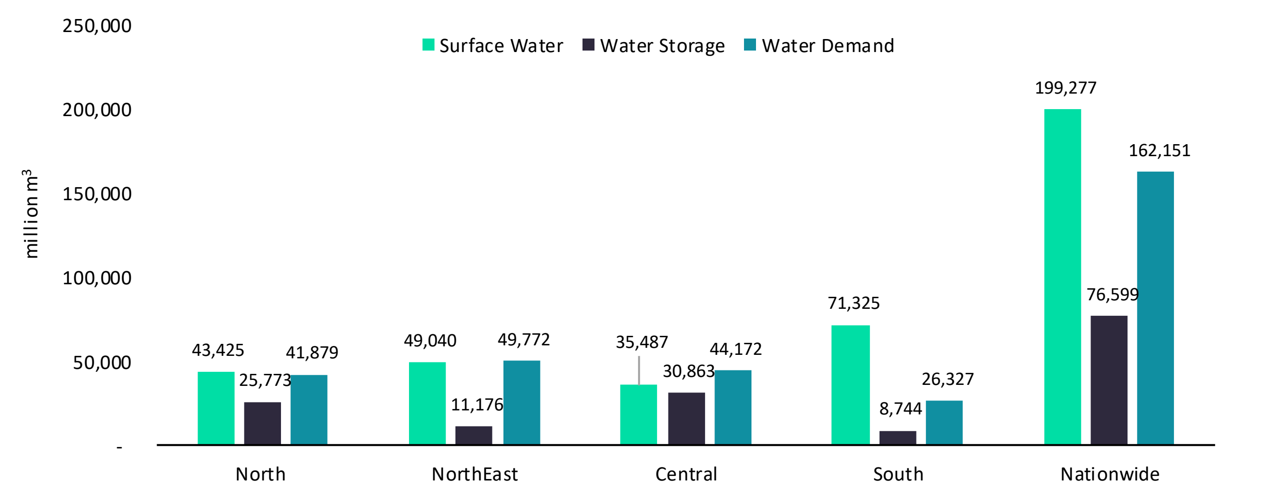
## 2.5 Water Demand by Application

Drought conditions have continued to prevail in Thailand since 2020. The drought conditions would affect agriculture, exacerbating the economic problems of Thailand as the country is among the prominent exporter of rice by quantity in the world, and the agricultural industry consumes 70% of the country's water supply. Rice (paddy) farming requires the largest amount of irrigation water—around 10,489 million $m^3$/year.

In July 2000, Thailand unveiled its National Water Vision, which states that by 2025, "Thailand would have sufficient water of acceptable quality for all users, ensuring equitable and sustainable use of water resources." Thailand will find it challenging to overcome the complexities and politics of water management in the next five years as demand for water increases due to a growing population and economic expansion. Due to overlapping responsibilities across Thai organizations, the country's adoption and implementation of integrated water resource management (IWRM) principles also faced obstacles.

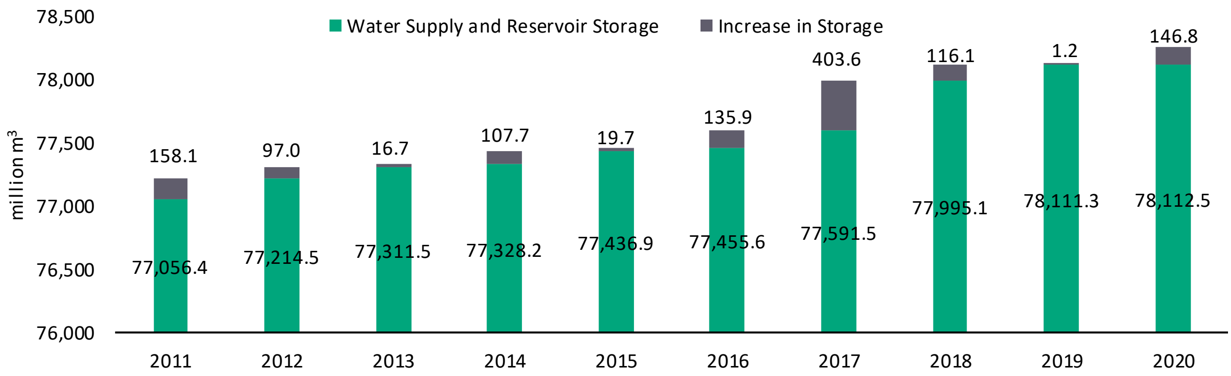
To overcome this predicament, the government restructured the country's water management strategy in 2018, approving a 20-year national strategy. The Office of National Water Resources (ONWR) is a new and distinct government entity that oversees integrated national water resource management. By 2030, the ONWR intends to deliver clean water to over 75,000 settlements in 66 locations totaling 5.5 million hectares by constructing more than 541,000 small dams to restore flood and drought-prone watershed areas.

Figure 44: National and Regional Surface Water, Water Storage and Water Demand of Thailand in 2020, (mcm)




Source: Thailand Water Expo 2021 © GlobalData

Figure 45: Water Supply and Reservoir Storage in Thailand, 2011–20 (mcm)




Source: Thailand Water Expo 2021 © GlobalData

**Key Initiatives for Water Management in the Country:**

In February 2019, the Hydro and Agro Informatics Institute (HAII) was given the mandate by the Thailand Ministry of Science and Technology to develop a roadmap for achieving integrated water resource management capacity. Cloud Asset was chosen as HAII's project partner to vertically integrate various areas of water management. Owing to the new technology, Thailand's water authorities can now forecast water scarcity and availability for improved provisioning, balancing, and water allocation across the country. HAII could advise major stakeholders, particularly the agriculture sector, on probable flood and drought scenarios using short- and long-term forecasts of flood and drought-related hazards, allowing them to plan accordingly. Dams, water reservoirs, and river capacity management are regulated using this data.

Thailand is dedicated to achieving SDG 6 of the United Nations Sustainable Development Goals by 2030. The goal of SDG 6 is to assist countries in improving their water and sanitation systems. According to the Thailand government, the Water Resource Management Strategic Plan is intended to solve the water resource problems that cause severe socio-economic problems, appropriately integrate water management, balance economic development and environmental conservation and extend the basin strategic plan study and action plan.

**Water Infrastructure Projects in the Pipeline:**

In January 2021, WHA Utilities and Power (WHAUP), a Bangkok-listed company, entered into a partnership with Asia Industrial Estate (AIE) to begin a wastewater treatment project in an industrial park. Ten industrial parks in Thailand and one in Vietnam receive treated water from the company.

In January 2020, the Agriculture and Cooperatives Ministry planned to construct 421 new water storage facilities to combat future water scarcity. The new storage facilities will increase water capacity by 942 million $m^3$.

## 2.6 COVID-19 Impact

Thailand registered around 4.5 million COVID-19 cases and 30,239 COVID-19-related deaths as of June 8, 2022, as published by the World Health Organization (WHO). Of the 77 provinces, 68 provinces registered less than 50 cases per week per million population from June 2 to June 8, 2022. During this period, Bangkok reported more than 200 cases per million population, followed by Rayong and Singburi with 101–150 cases. The overall death rate declined in the country due to the immunization drive and continuous monitoring. In the first week of June 2022, 75 out of 77 provinces reported less than two deaths per million population. Amnat Charoen and Yasothon provinces reported a higher death rate of 2.1-4 per million population during this period.

Thailand administered more than 138 million doses of COVID-19 vaccine, as of June 8, 2022. This includes 59 million first doses, 53 million second doses, and 29 million third doses. Forty-six provinces have a coverage of over 70% with two doses of vaccination. Only two provinces have coverage of less than 50% with two doses of vaccination.

On March 10, 2020, the Thailand Cabinet approved a stimulus package worth THB400 billion ($12.7 billion) to help the economy recover from the effects of the pandemic. The package includes THB150 billion ($4.8 billion) for soft loans at 2% interest, THB30 billion ($1 billion) of lending from a security fund at the rate of 3%, and THB20 billion ($0.6 billion) to help businesses and workers, and exemption of import duties. On March 24, 2020, the Cabinet approved a second stimulus package worth THB117 billion ($3.6 billion) to lessen the economic impact of the pandemic through tax exemptions, loans for businesses, and direct cash to households. On April 7, 2020, the Cabinet passed another stimulus package worth THB1.9 trillion ($58.9 billion), which includes THB1 trillion ($31 billion) for bond issuance and THB900 million provided by the central bank. These would focus on commercial banks and SMEs, households, workers, self-employed, and the financial services sector. The government also announced stimulus packages worth THB210 billion ($7 billion) and $11.2 billion on January 12, 2022, and March 23, 2022, respectively, to support individuals and businesses, and to cushion the economy from the impact of the pandemic. On June 1, 2021, the government announced a support package worth $4.5 billion to counter the impact of the pandemic, which includes cash handouts to welfare-card holders and special groups. Following a spike in COVID-19 cases in 10 provinces, the government announced a special package worth THB42 billion ($1.3 billion) on July 16, 2021, to provide financial assistance to businesses and people in those provinces. The government also offered consumers tax deduction of up to THB30,000 ($889) per person on goods purchased between January 1 and February 15, 2022, which is expected to stimulate spending of THB42 billion ($1.3 billion).

The COVID-19 pandemic had a major impact on Thailand's economy since the Asian financial crisis. The economy contracted 6.1% in 2020. Even though the economy expanded 1.1% in 2021, the World Bank estimates that the recovery will not be up to the pre-COVID-19 levels until 2023. The pandemic also increased unemployment in Thailand. According to the World Bank, the unemployment rate increased to 1.1% in 2020 from 0.7% in 2019. With the increase in COVID-19 cases in 2021, the unemployment rate went up to 1.4%.

The construction industry reported a slowdown in 2020 because of the pandemic. According to the Office of the National Economic and Social Development Council, construction activity is mostly aided by public and private construction. Gross fixed capital formation on an overall basis increased to 2.5% in 2021 from 1.8% in 2020. In both years, the overall construction activity was propelled by public sector investments in infrastructure projects. Public construction contracted 3.9% in Q1 2022 in comparison to a 0.7% contraction in Q4 2021. The major factor for the decline was inadequate spending on infrastructure projects such as roads, bridges, and other projects. State enterprise construction declined 6.9% in Q1 2022, after registering a decline of 14.8% in Q4 2021. The major state enterprise projects were the construction of the pipeline system project and power distribution system for the Provincial Waterworks Authority (PWA) and the Metropolitan Electricity Authority (MEA), respectively.

## 2.7 Industry Opportunities

Thailand became a party to the UN Framework Convention on Climate Change (UNFCCC) in 1991 and ratified its Paris Agreement in 2016. Over the years, the Thailand government formulated and developed climate change policies, plans, and institutional arrangements to address climate change, which has a direct impact on the country's economy and society. The first National Strategic Plan on Climate Change (2008–2013) was developed to create appropriate strategies, policies, and planning. The government introduced an important policy framework for climate change —Climate Change Master Plan (2015–2050)—which aims at achieving long-term directions for respective agencies to guide the formulation of plans of action and in achieving sustainable development and low-carbon growth by 2050.

The government set Nationally Appropriate Mitigation Actions (NAMA) goal to reduce GHG emissions from the energy and transport sectors by at least 7% by 2020. However, in 2019, Thailand achieved a GHG emission reduction of 17%. The government also aims at reaching carbon neutrality in 2050, and net zero emissions in or before 2065.

The policy has three important strategies:

1. Climate Change Adaptation – aims at building climate resilience by integrating policies and measures across all sectors
2. Mitigation and Low Carbon Development – facilitates the development of mechanisms for the reduction of GHG emissions and achieving sustainable low-carbon growth
3. Enabling Environment for Climate Change Management – to build capacity for climate change implementation by creating awareness among the key stakeholders, and technology to support climate change adaptation and mitigation

Thailand's climate change plans are divided into short-term, medium-term, and long-term targets up to 2050.

Short-term targets

- To develop medium- and long-term GHG emission reduction targets
- Prepare roadmaps for the implementation of GHG emission targets by sectors, mechanisms for voluntary measurement, reporting, and verification
- Establish incentive mechanisms to encourage low-carbon development

Medium-term targets

- To reduce GHG emissions from the energy and transport sectors by 7–20% against the business-as-usual level by 2020
- Increase the share of renewable energy in the overall consumption to at least 25% by 2021
- Increase the ratio of municipalities with more than 10m$^2$ of green space per capita

Long-term targets

- Reduce energy intensity by at least 30% by 2036 in comparison to a business-as-usual scenario
- Encourage and increase the use of public transportation services and reduce GHG emissions from land transport sectors
- Encourage and increase investment in low-carbon and environment-friendly industries
- Reduce open waste dumping sites and yards and significantly reduce open biomass burning

According to the Ministry of Energy, CO2 emissions in Thailand stood at 246 million tonnes in 2021. The power generation sector was leading with a 36% share, followed by the industry and transport sectors with 31% and 28%, respectively.

The government introduced the Nationally Determined Contribution Sectoral Action Plans 2021–2030 to facilitate the implementation of the NDC Roadmap (2021–2030) across the energy, transport, industrial and product use, and waste sectors.

Summary of NDC sector plans:

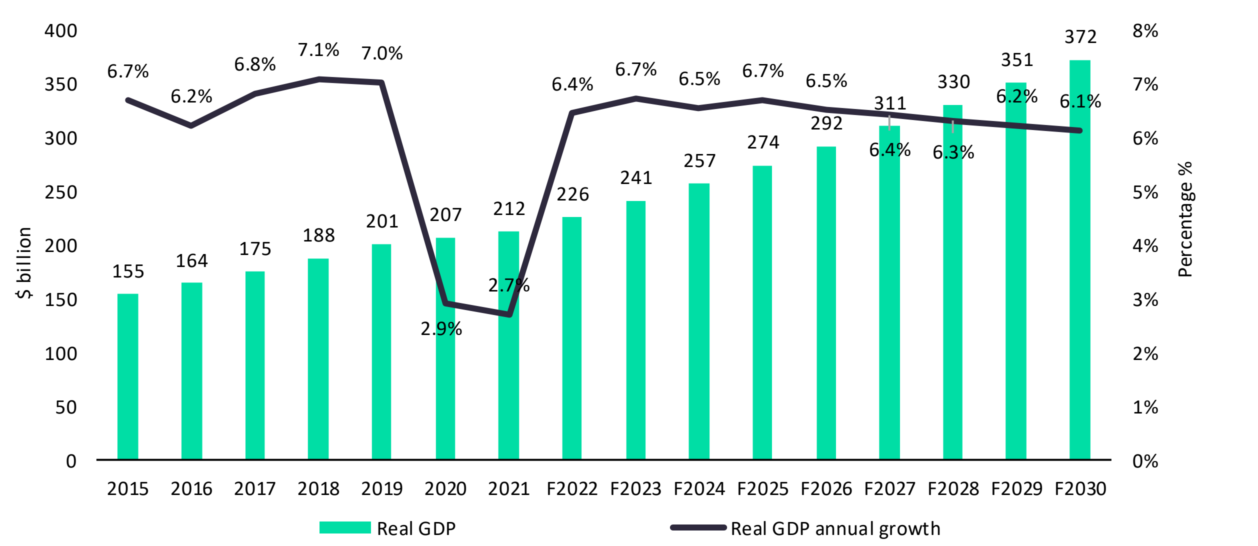
- Energy Sector – The Energy Policy and Planning Office, Ministry of Energy, identification and implementation of mitigation measures through greater energy efficiency and promoting renewable energy.
- Transport Sector – Prepared by the Office of Transport and Traffic Policy and Planning, Ministry of Transport, identification of mitigation measures through efficient plans such as travel demand management, transit-oriented development, expansion of railway network, and upgrade of bus fleet.
- Industrial Processes and Product Use (including Industrial Wastewater Sector) – Prepared by the Department of Industrial Works, Ministry of Industry, identification of mitigation measures such as clinker substitution, refrigerant replacement, and industrial wastewater management.
- Municipal Waste Management Sector – Prepared by the Pollution Control Department, Ministry of Natural Resources and Environment, identification of mitigation measures such as municipal solid waste management and municipal wastewater management.

# 3. Vietnam

## 3.1 Macroeconomic and Demographic Overview

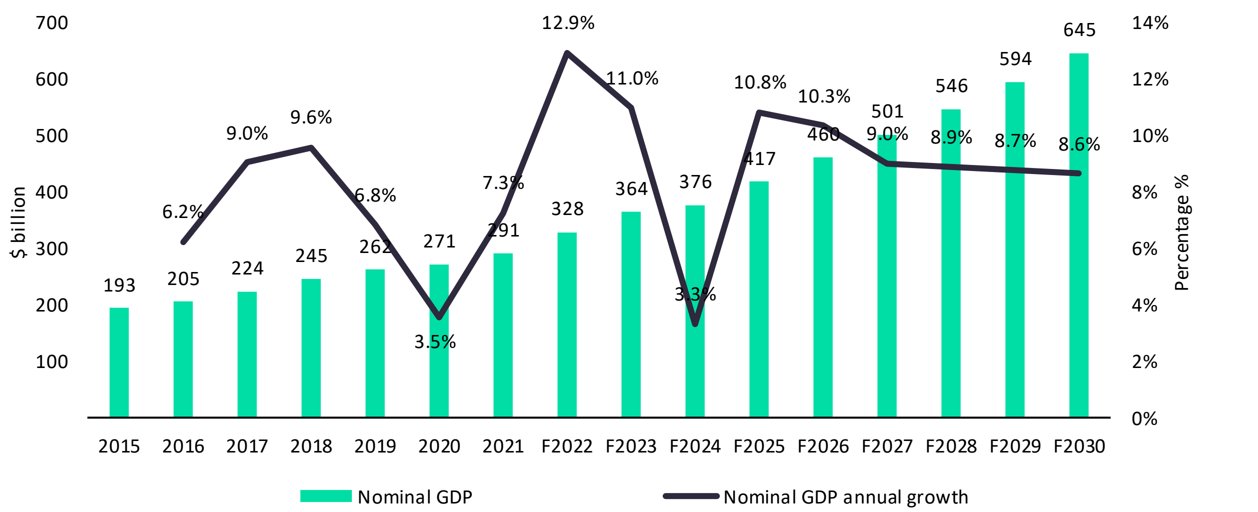
Vietnam population was 98.3 million in 2021 and is expected to reach 104.6 million by 2030. The country's GDP growth declined marginally to 2.7% in 2021 compared to 2.9% in 2020 due to the prolonged lockdown measures taken by the government. In 2021, according to the General Statistics Office of Vietnam, the service sector contributed 41% of GDP, followed by the industry and construction sector contributed 37.9%, agriculture (including forestry and fishery) contributed 12.3%, and product tax minus product subsidies accounted for 8.8%. With the effective rollout of vaccines and government support, domestic consumption and trade are expected to grow in the coming years. According to official statistics, the GDP growth is expected to reach 6.4% in 2022 and 6.7% in 2023, subject to the post-pandemic global economic recovery.

Figure 46: Real GDP (2015–30)



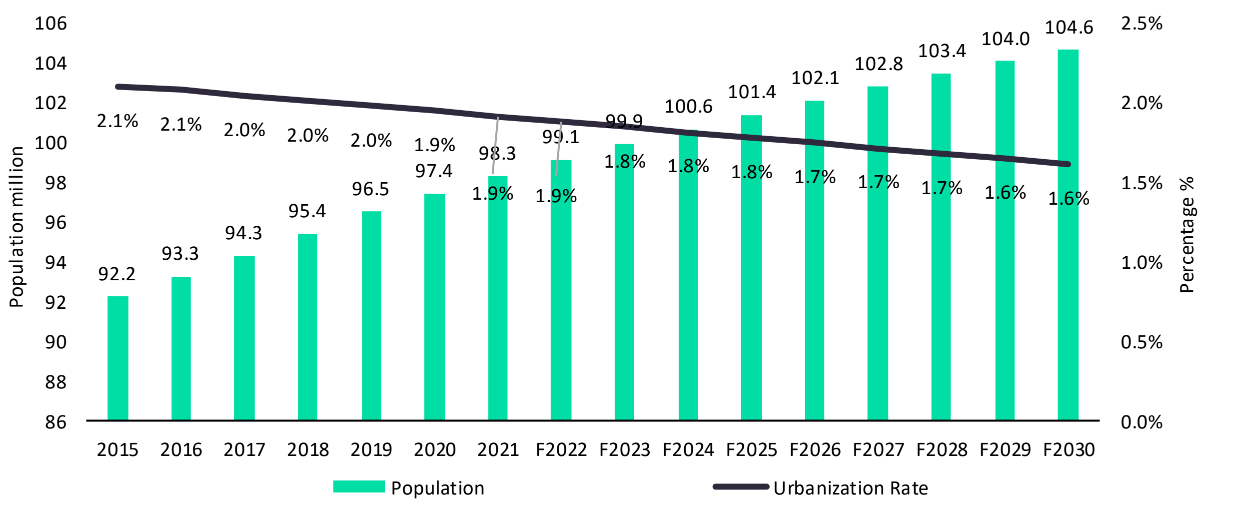

Source: GlobalData analysis using General Statistics Office of Vietnam, International Monetary Fund and The World Bank data © GlobalData

Figure 47: Nominal GDP (2015–30)




Source: General Statistics Office of Vietnam, The World Bank, United Nations Statistics Division and International Monetary Fund data © GlobalData

Figure 48: Population and Urbanization Rate (2015–30)



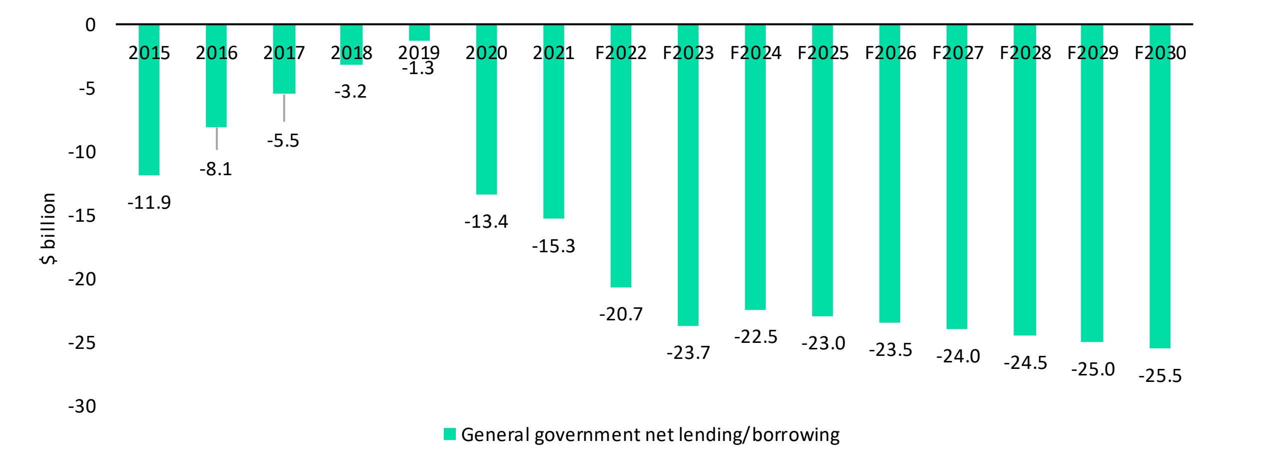

Source: General Statistics Office of Vietnam and The World Bank data © GlobalData

**Note:** The urbanization rate is measured as the average annual percentage change of the urban share of the population (proportion of urban to total population). The indicator has been derived using data on the urban population as a percent of the total Mid-year population.

According to official statistics, the population in Vietnam grew by approximately 1.1% from 2015-21 and forecasted to reach 102.1 million by 2026.

As of 2020, 24% of the population was below 15 years of age and 69.1% was between 15 and 64 years, according to official statistics. The higher share of the working-age population reduces the financial burden of providing security payments to the elderly population. However, according to the World Bank, Vietnam's old-age population is expected to double in the next 17 years.

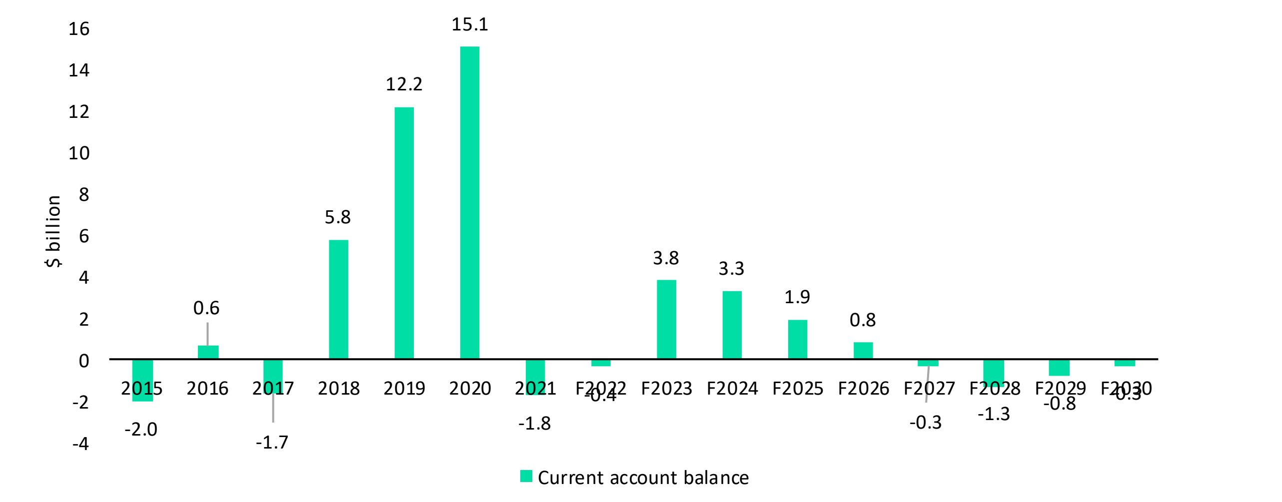
Figure 49: General government net lending/borrowing (2015–30)




Source: GlobalData analysis using Ministry of Finance Vietnam and GlobalData data © GlobalData

Vietnam's net government borrowing increased from $1.3 billion in 2019 to $13.4 billion in 2020 as pandemic-related lockdowns and lower taxes led to a fall in revenue collection. To aid economic recovery, the government spent around 5.3% of its GDP on various stimulus packages, as of 2020. The measures, including deferring payment of VAT and CIT tax obligations and land rental fees by five months, and deferring personal income tax payment to year-end, which is estimated at $7.8 billion, contributed to the increase in borrowing.

Figure 50: Current Account Balance (2015–30)




Source: GlobalData analysis using The World Bank data © GlobalData

According to official statistics, Vietnam's current account balance touched $15.1 billion in 2020. Despite the pandemic, Vietnam registered strong export growth due to an increase in demand for high-tech components and IT equipment.

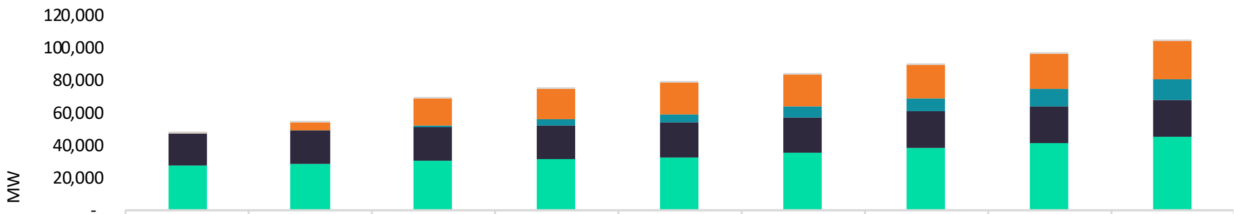
According to the World Bank's Ease of Doing Business Report 2020, Vietnam scored 69.8 out of 100, higher than the East Asia and Pacific (EAP) regional average of 63.3.

## 3.2 Industry Overview

### 3.2.1 Power

Vietnam meets its energy demand from a variety of sources, including coal, oil, natural gas, hydropower, and other renewables. Around 41% of the energy mix is produced from fossil fuels (coal, gas, and oil). According to the Vietnam Electricity Annual Report 2021, The total installed capacity of Vietnam was 69,072MW in 2020, hydropower and coal-fired power plants were the main sources of electricity, followed by gas and renewables.

Figure 51: Power Installed Capacity by Type 2018–26 (MW)



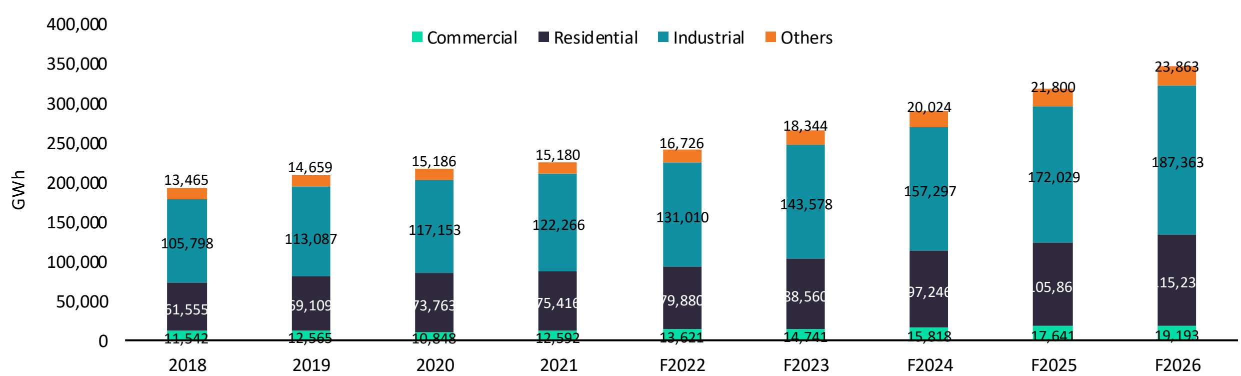

| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Biopower | 616 | 615 | 616 | 599 | 629 | 669 | 723 | 789 | 862 |
| Solar PV | 106 | 4,989 | 16,656 | 18,642 | 19,271 | 20,084 | 21,140 | 22,238 | 23,375 |
| Wind | 327 | 489 | 614 | 3,988 | 5,179 | 6,444 | 8,231 | 10,412 | 12,866 |
| Hydro | 19,559 | 20,283 | 20,774 | 21,193 | 21,327 | 21,783 | 22,310 | 22,919 | 23,161 |
| Thermal | 27,494 | 28,601 | 30,412 | 31,072 | 32,872 | 35,272 | 38,172 | 40,872 | 44,812 |

Source: GlobalData © GlobalData

Biopower installed power capacity stands at 599MW at the end of 2021 and is projected to reach 862MW by the end of 2026.

The demand for energy in Vietnam is expected to increase nearly 9% per year during 2021–26 as a result of increased industrialization and economic development. In 2021, a total of 225,454GWh of power was consumed in Vietnam, with the industrial sector being the major consumer with 122,266GWh, followed by the residential sector with 75,4 16GWh. Power consumption is forecast to reach 345,654GWh by 2026 and industrial power consumption is expected to be the largest with 187,363GWh.

Figure 52: Power Consumption, By End User 2018–26 (GWh)




Source: GlobalData © GlobalData

The government announced the country's first national policy for developing renewable energy in 2015. The policy is intended to have renewables generate 32% of all primary supply and electricity by 2030. The Feed-in Tariff (FiT) revision for wind energy, which was first announced in 2017 and updated in 2020, together with the solar power development plan, aims at producing up to 18.9GW. This exceeds the initial goal of 1,000MW for 2020 by a significant margin. This scheme played a major role in increasing the installed solar power base from 2018 to 2020. Furthermore, private companies made a substantial investment, mostly in the solar power sector, in response to the renewable energy-friendly policy.

The renewable energy sector in Vietnam is one of the most active in Southeast Asia, with prospects for major investments. With demand for power expected to increase, the government is implementing a variety of initiatives to ensure that Vietnam can meet the demand. The new National Power Development Master Plan ("PDP VII") for the 2011–20 period, with a vision for 2030, was adopted by the government in 2016, to provide energy security, climate change mitigation, environmental protection, and sustainable socio-economic development. PDP VII aspires to increase the share of renewable energy to 7% by 2020 and over 10% by 2030, while reducing the use of imported coal-fired electricity.

In continuation to the pervious plan (PDP VII), the government has approved PDP VIII which aims to further increase renewable energy with a long-term vision till 2045. Apart from the development of wind and solar power, the policy also promotes the production of new forms of energy such as hydrogen, green ammonia, etc. Furthermore, the policy limits the development of new coal-fired plants in the country.

**Investments in renewables**

**Solar**

Major investors in Vietnam in the approval, construction, or completion stage projects include German ASEAN Power, B.Grimm Power Public Co Ltd, Trina Solar, Schletter Group, JA Solar, Sunseap International, Ecoprogetti, Tata Power, Shapoorji Pallonji Infrastructure Capital, Gulf Energy Development, InfraCo Asia Development, and ACWA Power.

**Wind**

In the wind energy sector, the major investors include GE Renewable Energy, Mainstream Renewable Power, Phu Cuong Group, Blue Circle, Super Energy Corporation, Siemens Gamesa, Doosan Heavy, Egeres Enerji, and Tan Hoan Cau Corp.

Owing to greater demand for energy, there will be a significant shortage of power, given the projections for consistently high economic development until 2030.

### 3.2.2 Water and Wastewater Treatment

The Vietnamese government drafted urban wastewater regulations to encourage investment in wastewater treatment facilities due to the growth of the population to 98.3 million in 2021. According to the World Bank, only 10% of urban wastewater is processed and 60% of households in the country are connected to public water systems. The World Bank also estimates that 36 million urban residents in the country would require drainage services by 2025 costing $8.3 billion for sewage services.

According to The Ministry of Natural Resources and Environment (MONRE), Vietnam has 43 wastewater treatment plants with a capacity of 926,000 $m^3$ per day, of which Hanoi has six operational plants with a capacity of 276,300 $m^3$ of wastewater per day and Ho Chi Minh City has three operational plants and other local facilities with a capacity of 370,624 $m^3$ of wastewater per day. Industrial wastewater is a major contributor to water pollution for two main reasons: commercial organizations still have a low level of environmental protection knowledge, and the punishment for environmental offenses is excessively low. According to the Ministry of Natural Resources and Environment, the majority of the industrial park wastewater is discharged untreated, which averages 240,000 $m^3$/day. 40% of industrial parks in the country lack centralized wastewater treatment facilities and 60% of industrial parks that have such facilities frequently discharge wastewater untreated.

### 3.2.3 Infrastructure Construction

According to GlobalData, the overall construction output was $68.9 billion in 2021 and is expected to reach $102.5 billion in 2026. In 2021, Infrastructure construction output was $17.3 billion and expected to reach $26.4 billion in 2026 at 8.8% CAGR.

Table 29: Major Infrastructure Projects in Vietnam

| Project Name | Stage | CAPEX ($ million) | Start | Completion |
|---|---|---|---|---|
| MoT – North to South High-Speed Railway Line – Vietnam | Study | 58,700 | Q1 2028 | Q4 2050 |
| MAUR – Ho Chi Minh City Metro Rail System – Vietnam | Execution | 18,000 | Q3 2012 | Q4 2040 |
| MoT – North-South Expressway Development – Vietnam | Execution | 15,000 | Q3 2019 | Q4 2030 |
| MoT – Long Thanh International Airport – Dong Nai | Execution | 14,500 | Q1 2021 | Q4 2050 |
| MoT – Ho Chi Minh City to Can Tho High-Speed Railway Line – Vietnam | Study | 7,000 | Q4 2026 | Q4 2032 |

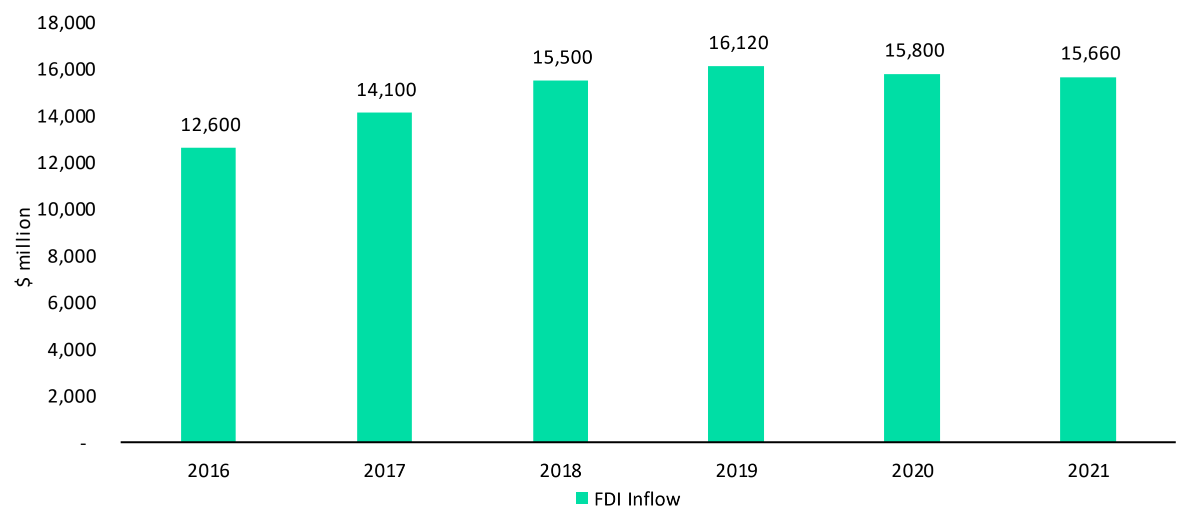
Source: GlobalData

### 3.2.4 Government Incentives to Attract Foreign Investment

According to the General Statistics Office (GSO), despite the impact of the COVID-19 pandemic, Vietnam's GDP growth was 2.9% in 2020, with growth across major industrial sectors such as construction, utilities, and manufacturing.

As of December 20, 2021, there were 34,527 active projects in the country, totaling over $408.1 billion in registered capital. The anticipated total realized capital for projects involving FDI was $241.6 billion or 59.2% of the total valid registered investment capital.

Figure 53: FDI Inflow (2016–21)




Source: United Nations Conference on Trade and Development © GlobalData

The total FDI inflow in the country was $15.7 billion in 2021. Manufacturing, energy, real estate and retail were the key sectors of FDI in Vietnam

**FDI Policy:**

Vietnam has made a concerted effort to create a better investment environment for foreign investors during the past few years. Recently, the National Assembly adopted Law No. 03/2022/QH15 (the New Law No.3) dated 11 January 2022. The new law amends several legislations related to foreign investments, including the Law on Investment 2020, Law on Enterprises 2020, Law on Securities 2019, Law on Electricity 2004, Labor Code 2019, and Law on Environmental Protection 2020. Several legislations have been proposed for amendment, the most notable of which is the Land Law 2013.

With the Law on Investment 2020 replacing the 2014 law, Vietnam adopted the "negative list" approach concerning market entry conditions applicable to foreign investors. Accordingly, business lines not on the negative list, subject to market entry conditions under Decree 31/2021, including those that Vietnam has not committed under international treaties, are open for foreign investors under the same conditions applicable to domestic investors.

Unlike the previous "positive list" approach under which state agencies had the discretion to decide the market entry conditions applied to business lines that Vietnam has not committed under international treaties, the new approach warrants transparency and saves considerable time for administrative licensing procedures.

Owing to the rapid increase in renewable energy projects and long-standing demand to privatize the development and operation of the national electricity transmission system, the new law removed state monopoly by allowing private companies, including foreign-invested companies, to invest in and operate the electricity transmission system. This will open new opportunities for foreign investors in the electricity generation and transmission sectors, helping investors to ensure connectivity from their power projects to the grid.

Vietnam is committed to supporting the recovery of businesses. In 2021, companies with revenue of less than $8.7 million and a decrease in revenue in comparison to 2019 were entitled to a 30% cut in corporate income tax. In 2022, certain groups of goods and services are entitled to a reduction in the value-added tax rate from 10% to 8%. Besides, companies that participated in the unemployment insurance fund before October 1, 2021, are entitled to a reduction in contribution to the fund from 1% to 0% until September 30, 2022.

## 3.3 Market Overview

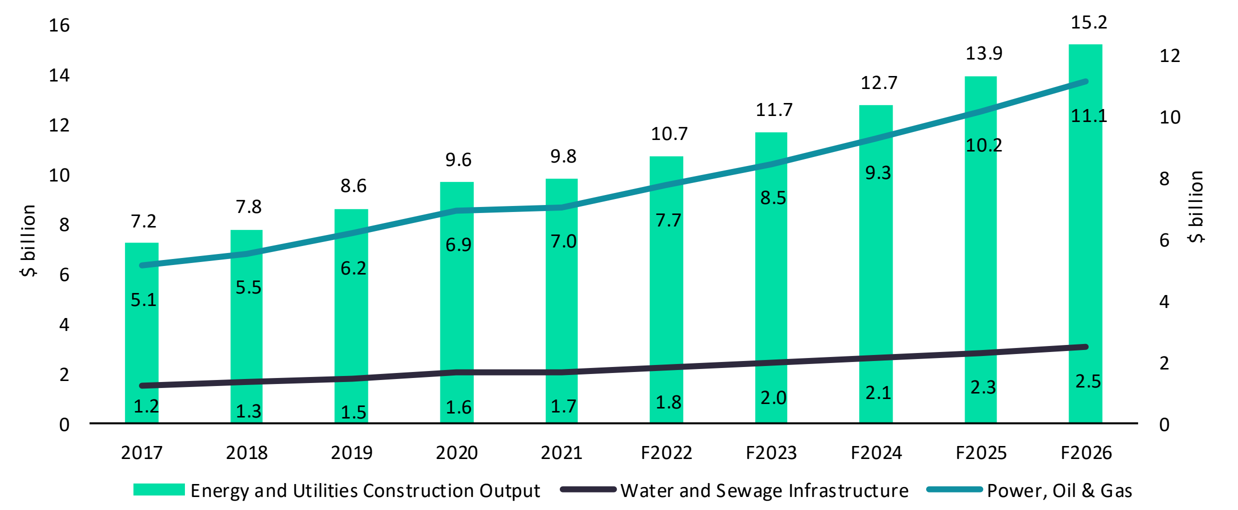
Construction output for energy and utilities is expected to reach $15.2 billion in 2026 from $9.8 billion in 2021, growing at a CAGR of 9.1%, aided by the Power Development Plan VIII (2021 to 2030). According to the plan, the total installed power capacity in Vietnam is expected to increase to 130.4GW (base-load scenario)–146GW (high-load scenario) by 2030, which includes a total installed hydropower capacity of 25.5GW, wind capacity of 11.8GW, and a pumped-storage hydropower and energy storage capacity of 1.2GW–2.4GW by 2030. In November 2021, the government announced plans to increase the share of renewable energy to 75% of the national power production capacity by 2045.

In 2021, out of the total power generation capacity of 75,494MW, 28.1% was generated through hydropower and 24.6% through solar. During the forecast period, hydropower capacity is expected to grow at a CAGR of 1.8%, reaching 23,161MW in 2026 from 21,193MW in 2021. Solar power generation capacity is expected to grow at a CAGR of 4.6% to reach 23,375MW in 2026 from 18,642MW in 2021.

In 2021, water and sewage infrastructure accounted for 2.4% of the total construction output in Vietnam. The construction market for water and sewage infrastructure is expected to reach $2.5 billion in 2026 from $1.7 billion in 2021, growing at a CAGR of 8.4%.

In 2021, Vietnam adopted a new public-private partnership (PPP) law to encourage investment in infrastructure in the country. The new law benefited the water sector in the country. Projects worth $300 million for wastewater treatment were planned at Tuyen Quang, Nam Dinh, Kon Tum, and Phuc Yen, along with a $127 million, 130,000 m$^3$/d plant in Long Khanh.

Figure 54: Energy and Utilities Real Construction Output Forecast (2017–26)



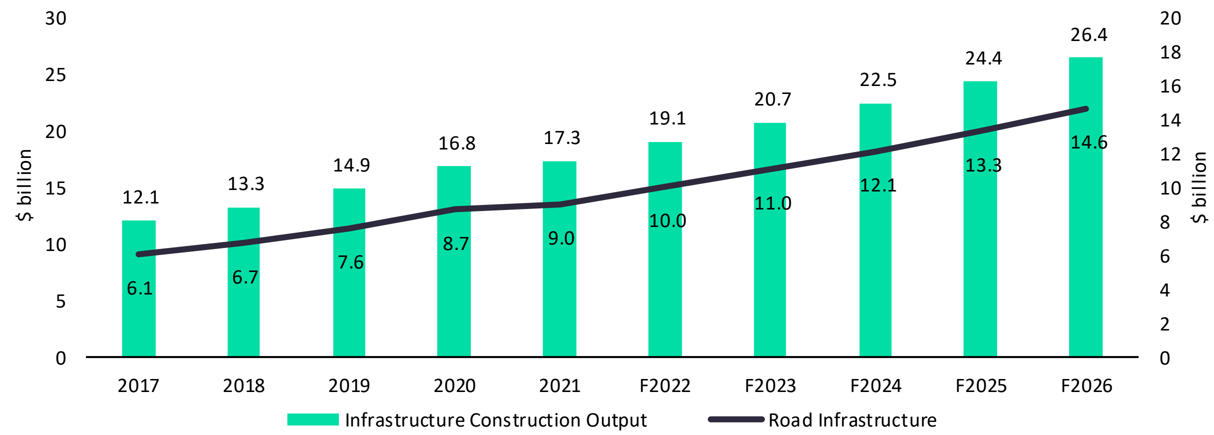

Source: GlobalData © GlobalData

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

Infrastructure construction is the second-largest sector in the Vietnamese construction industry. The infrastructure sector is expected to grow at a CAGR of 8.8% during 2021–26, aided by the government's efforts to improve the country's rail, road, and other public transport infrastructure.

The road infrastructure construction market is expected to grow at a CAGR of 10.2% to reach $14.6 billion in 2026 from $9 billion in 2021. In September 2021, the government approved the road development plan for 2021–30 to increase the country's total expressway length from 1,163 km in 2021 to 5,004 km by 2030.

Figure 55: Infrastructure Real Construction Output Forecast (2017–26)




Source: GlobalData

© GlobalData

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017



## 3.4 Water and Sewage Treatment Projects Overview

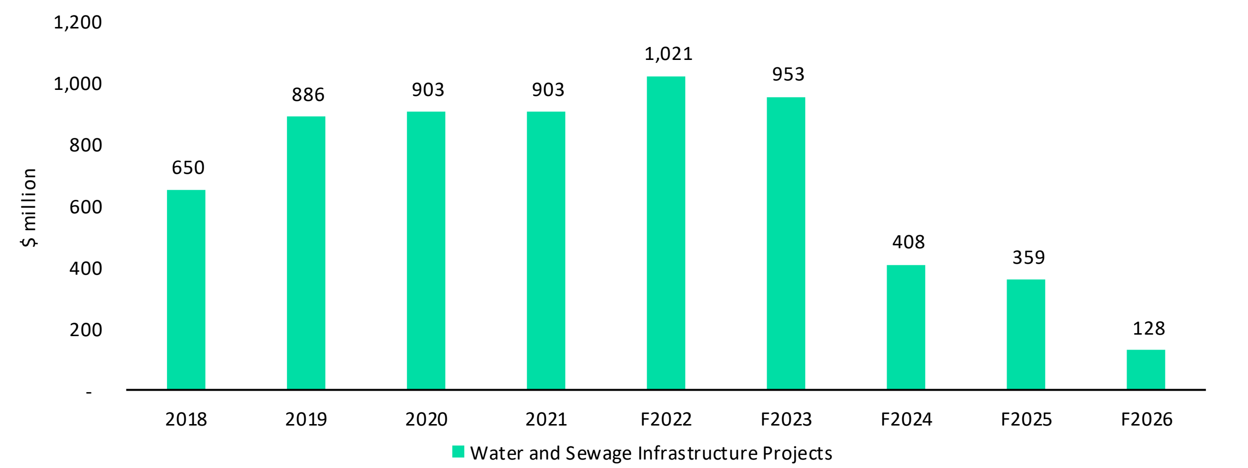
Vietnam's water industry has a total of 61 water supply companies, 18 water drainage companies and 14 water material & equipment suppliers as of 2021. The 2030 Water Resources Group (WRG), a public, private, civil society multi-donor trust fund hosted by the World Bank Group, has initiated its Vietnam program following interest from the Government of Vietnam in the multi-stakeholder partnership approach.

There are threats to the water security of Vietnam, therefore it requires additional investment and policy intervention, such as water pollution control, improving the water productivity of irrigated agriculture, and integrated planning and implementation of climate resilience strategies for managing the water quality. The WRG has proposed two workstreams for water security which are aligned with the World Bank policy recommendations such as agriculture water productivity enhancement and governance and incentives for urban and industrial water.

As a part of governance and incentives for urban and industrial water, it is proposed to enable and incentivize centralized effluent treatment plant (CETP) operational excellence and reuse, along with an appropriate tariff system based on the polluter pays principles to support overall treatment efficiency. The WRG believes that there is great potential for using performance-based public-private partnership (PPP) contracts to develop central effluent treatment plants, intending to move the country toward wastewater reuse and repurposing. This will promote water and sewage infrastructure construction during the forecast period of 2022-26.

In 2022, the construction of two water and sewage infrastructure projects worth $469 million, which include the Tay Saigon Wastewater Plant and Ha Long City Drainage and Wastewater Treatment Plant is expected to commence. Post-COVID, GlobalData, estimates that the value spent on water and sewage infrastructure projects will revive in 2022. The major water infrastructure projects in the planning and implementation phases include Bien Hoa City Drainage and Wastewater Treatment Systems, Ben Tre Water Management Program, Vinh Phuc Flood Risk and Water Management Program, Urban Environment and Climate Change Adaptation Program, Urban Water Supply and Wastewater Program and others.

Figure 56: Estimated Project Value Spent for Water and Sewage Infrastructure ($ million)

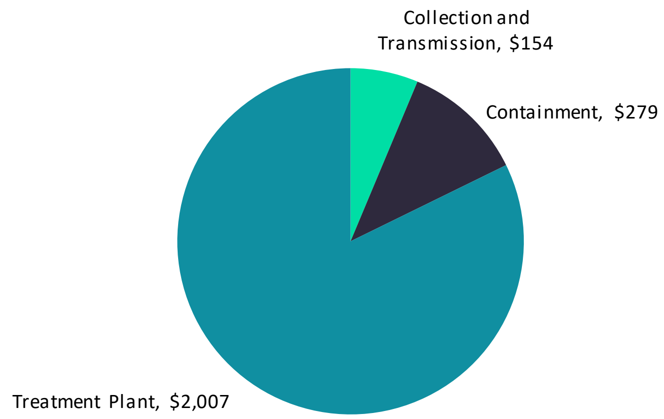



Source: GlobalData

© GlobalData

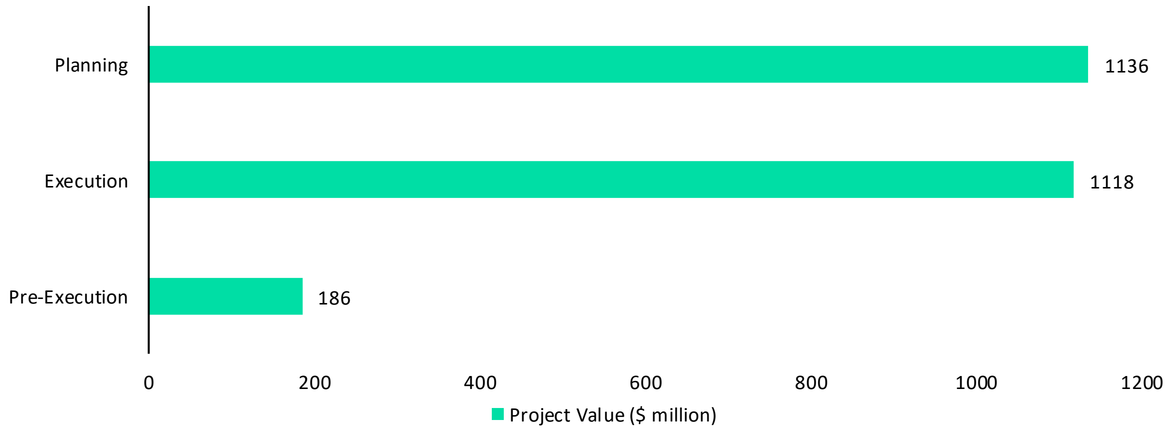
Wastewater treatment plants accounted for 82% of water and sewage infrastructure projects due to the rising industrial development. Nearly 54% of the new projects are in the planning and pre-execution stage, followed by 46% of projects in the execution stage, as of May 2022.

Figure 57: Water and Sewage Infrastructure Projects By Type and Construction Start; 2018–23 ($ million)




Source: GlobalData © GlobalData

Figure 58: Value of Water and Sewage Projects Pipelinef-By Stage and Construction Start; 2018–23 ($ million)




Source: GlobalData © GlobalData

Ho Chi Minh City Council, Ministry of Agriculture and Rural Development and Hanoi City People's Committee are the biggest owners of water and sewage infrastructure projects in Vietnam.

Table 30: Top Water and Sewage Infrastructure Contractors by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Cavico Corporation | United States | 11 | 2,230 |
| Song Da Corp | Vietnam | 3 | 3,860 |
| SFC Environmental Technologies Pvt Ltd | India | 1 | 80 |
| Song Da 9 | Vietnam | 1 | 500 |
| Sinohydro Corp Ltd | China | 1 | 250 |
| Gamuda Berhad | Malaysia | 1 | 3,500 |

| | | | |
|---|---|---|---|
| JFE Engineering Corporation | Japan | 1 | 700 |
| Vinci Construction Grands Projets | France | 2 | 300 |
| Source: GlobalData | | | |

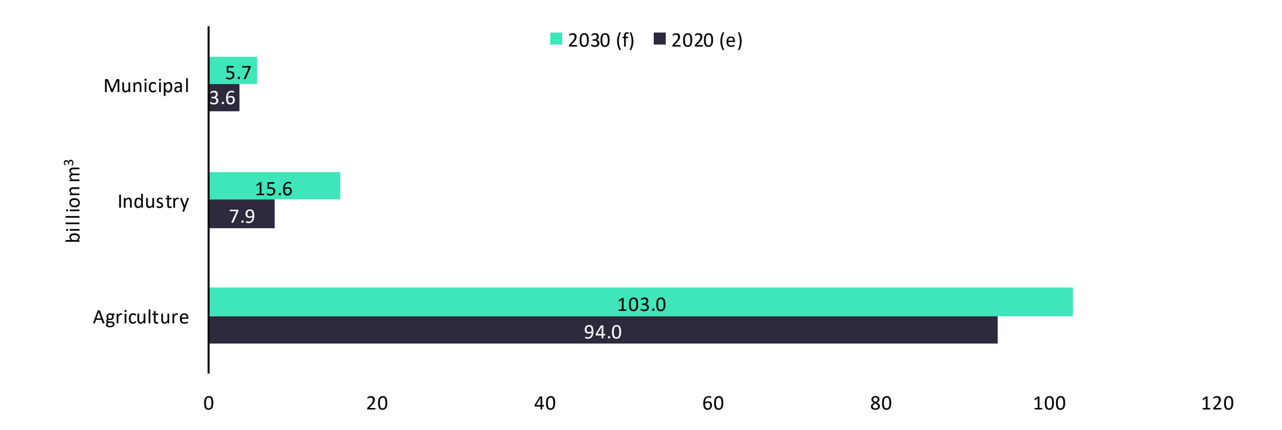
Table 31: Top Water and Sewage Infrastructure Owners by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| Ho Chi Minh City Council | Vietnam | 4 | 1,410 |
| Ministry of Agriculture and Rural Development, Vietnam | Vietnam | 3 | 430 |
| Hanoi City People's Committee | Vietnam | 3 | 4,210 |
| Electricity of Vietnam Group | Vietnam | 2 | 710 |
| Vietnam National Oil and Gas Group | Vietnam | 2 | 450 |
| Central Hydropower Joint Stock Co | Vietnam | 2 | 260 |
| The Saigon Infrastructure Real Estate Investment Company (SII) | Vietnam | 2 | 420 |
| Binh Duong Water Supply Sewerage Environment Co Ltd | Vietnam | 2 | 410 |
| Source: GlobalData | | | |

## 3.5 Water Demand by Application

Vietnam's major river basin regions —Red Thai Binh, Mekong, South East Rivers Cluster (SERC), and Dong Nai—account for over 80% of Vietnam's GDP and could face water stress during the dry season by 2030. Surface water in Vietnam faces issues related to pollution as only 10% of municipal and industrial wastewater is treated. Although the industry is supporting the rapid economic growth of Vietnam, it is also contributing to the high levels of pollution in the country. Only 12.5% of urban wastewater and 71% of industrial wastewater are treated before being discharged, putting Vietnam's water resources under intense pressure. By 2030, the SERC basin, which is severely water-stressed, is expected to face a 28% water deficit during the dry season. The urban, industrial, and hydropower sectors are competing with agriculture for water.

Figure 59: Water Demand, By End-User (2020 and 2030)




Source: World Bank Data © GlobalData

To overcome these issues, the 2030 Water Resources Group (WRG) launched the Vietnam program after the government expressed interest in a multi-stakeholder partnership strategy. The water governance report confirms threats to Vietnam's water security and identifies areas that require increased investment and policy intervention such as water pollution control, increasing irrigated agriculture's water productivity, and integrating climate resilience planning and implementation. The 2030 WRG proposes two workstreams, both of which are in line with World Bank policy recommendations: (1) increasing agricultural water productivity and (2) improving governance and incentives for urban and industrial water.

**Water Infrastructure Projects in the Pipeline:**

InfraCo Asia is co-developing a portfolio of water supply projects with Singapore-listed company Darco Water Technologies. Through the Vietnam Water Supply Portfolio, InfraCo Asia aims at increasing private sector participation in water supply projects at a total cost of $5 million to help Vietnam meet its water supply and sanitation-related development goals, including universal access to safe drinking water by 2030. The Vietnam Water Supply Portfolio involves the implementation of two water distribution systems (or retail water supply plants) in semi-rural regions. The two water distribution systems are intended to deliver piped and treated water 24 hours a day to 13 communes and one industrial area in Ben Tre province and nine communes in Hai Phong municipality, where people rely heavily on rainwater collection for daily use. The projects are expected to register an increase of 30,000 $m^3$/day of clean piped water supplied directly to rural families and industrial facilities once the initial phase of development OF both water distribution systems is completed.

In October 2020, a corporate loan of up to $8 million was negotiated between BIWASE and the Asian Development Bank (ADB) for the Binh Duong Water Treatment Expansion Project. This is Vietnam's first private sector water supply project, funded by the Netherlands Trust Fund through the Water Financing Partnership Facility. The $8 million ADB loan will help BIWASE increase the production capacity of the Tan Hiep Water Treatment Plant (WTP) by 100,000 $m^3$/day. As a result, the water utility will be able to meet the growing demand from residential and industrial customers in Ben Cat town, Tan Uyen town, Binh Duong New City, and Thu Dau Mot city. The loan will also help BIWASE build raw water transmission pipes from the Dong Nai river intake facility and install water intake pumps.

In 2021, Vietnam adopted a new public-private partnership (PPP) law in response to growing calls for infrastructure investment in the country. The government invested $300 million in PPP investment in wastewater treatment projects at Tuyen Quang, Nam Dinh, Kon Tum, and Phuc Yen.

## 3.6 COVID-19 Impact

Vietnam registered 10.7 million COVID-19 cases and 43,083 COVID-19-related deaths as of June 13, 2022, as published by the World Health Organization. Vietnam reported a spike in COVID-19 cases in June 2022. The average number of cases during the first two weeks of June 2022 was more than 1,000 cases/day. Vietnam administered 221 million doses of COVID-19 vaccine, as of June 13, 2022. This includes nearly 85 million first doses and full vaccination doses for nearly 78 million people.

The economy of Vietnam remained robust and positive when compared with other countries in the region with a growth of 2.9% in 2020 and 2.7% in 2021. Unlike other countries which witnessed negative GDP growth during 2020, Vietnam's economy remained positive. The country's GDP is expected to reach the pre-pandemic levels from 2022.

The Vietnam government announced a series of stimulus packages from 2020 to support the economy. The government announced a financial package worth VND284 trillion ($12.2 billion) to support the economy. Support measures include deferring payment of value added tax (VAT) and CIT obligations and land rental fees by five months and PIT payment to year-end, which is estimated at VND180 trillion ($7.8 billion). In January 2022, Vietnam approved a stimulus package worth $15.4 billion for 2022–23 to cushion the economy from the impact of the pandemic, and to assist businesses affected by lockdowns.

Service, industry and construction, and agriculture (forestry and fishery) are the top three sectors contributing to the economy, with a share of 41%, 37.9%, and 8.8%, respectively, in 2021. The industry and construction sector grew 4.1% in 2021 and grew at 6.4% during the first quarter of 2022 because of the economic recovery.

Infrastructure development is one of the major contributors (5.7% of GDP) to the economic growth of the country which is high in comparison to other countries in Southeast Asia. The World Bank estimated an investment requirement of $25 billion by 2025 to boost the infrastructure network and improve economic activity. Public investment is vital for infrastructure development in the country with limited investment from private companies. Typically, the ratio of public-private infrastructure spending in the country was 90:10. Vietnam's government implemented the public-private partnership (PPP) law in 2021 to boost private sector participation in infrastructure development.

Vietnam's logistics industry is estimated at $23.3 billion in 2020. The pandemic disrupted the supply chain industry. The overall revenue of the logistics industry registered a y-o-y decline of 12% in 2020. Logistics cost in Vietnam is one of the highest in the region at 20% of GDP.

## 3.7 Industry Opportunities

Vietnam is a party to the UNFCCC and ratified its Paris Agreement in 2016. The government is committed to reducing its GHG emissions target unconditionally to 8% and 25% with support from the international community by 2030. To achieve the climate change target, the government approved the National Green Growth Strategy 2021–2030 which aimed at restructuring the economy in a sustainable route and reducing risk, thereby achieving an overall socio-economic development model. Key targets of the Green Growth Strategy are to reduce GHG emissions intensity per unit of GDP by 15% by 2030 and 30% by 2050 in comparison to that in 2014.

The National Green Growth Strategy focuses on waste management with a target to collect and treat 95% of municipal solid waste in accordance with regulated standards, 10% treatment through the direct burial method of municipal solid waste, treatment of more than 50% of municipal wastewater following the regulated standards for class II or higher urban areas, and 20% for other types of urban areas. Within the public transport sector, the major target is to achieve passenger transport of 20% and 5% by public transport in class-I and urban areas, respectively, and the adoption of 15% of public transport buses in operation through clean energy in special-class urban areas and 10% new buses in class-I urban areas by 2030.

By 2050, the government aims at achieving 100% solid waste collection and treatment, the minimum burial of organic solid and recyclable waste, increasing the rate of use of public transportation to 40% and 15% in special-class urban areas and class-I urban areas, respectively, and 100% purchase of green energy-based new buses in special-class urban areas and 40% in class-I urban areas.

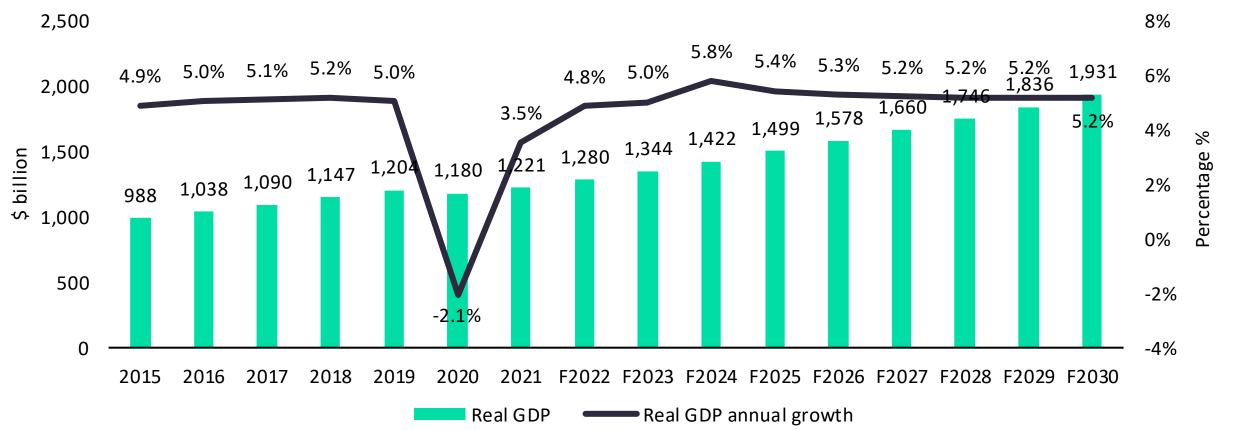
# 4. Indonesia

## 4.1 Macroeconomic and Demographic Overview

Indonesia is the largest economy in Southeast Asia and one of the fastest growing economies in the region. According to official statistics, the population of Indonesia is estimated to be 272 million by the end of 2021. The COVID-19 pandemic had a major impact on the country's GDP and it reported negative GDP growth after 1998, which fell from 5% in 2019 to -2.1% in 2020. In 2021, the GDP growth reached 3.5% and it is expected to reach 4.8% in 2022.

As per the World Bank, Indonesia's industrial sector contributed 38.3% of the country's GDP and accounted for 22.7% of employment in 2021. Indonesia is one of the world's largest producers of tropical timber. It has over three million hectares of certified forest, with more than 2.2 million hectares being natural production forest concessions. Indonesia's service sector contributed 44.4% of the country's GDP and employed 49.6% of the active population in 2021, according to a World Bank report.

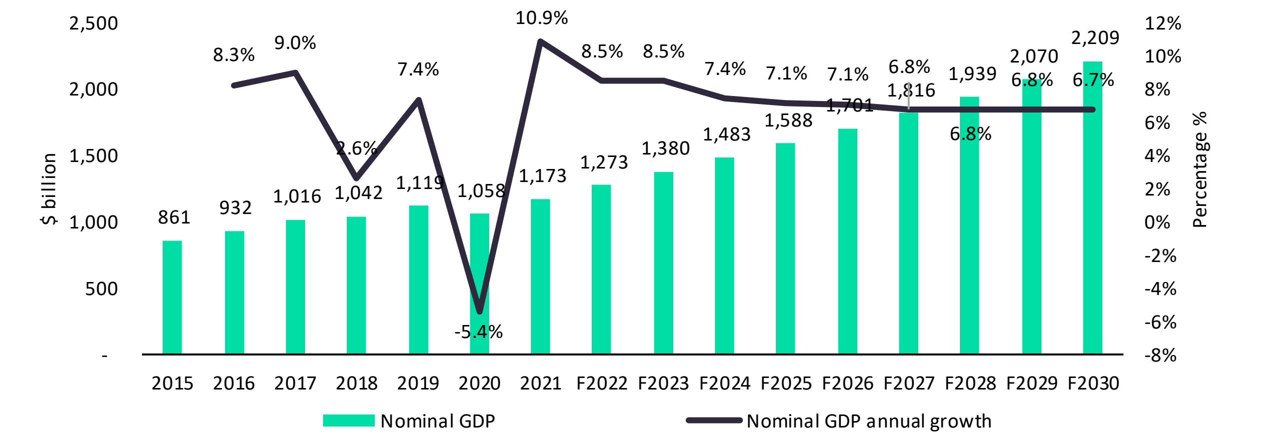
Figure 60: Real GDP (2015–30)




Source: GlobalData analysis using Statistics Indonesia, International Monetary Fund, The World Bank and Asian Development Bank data © GlobalData

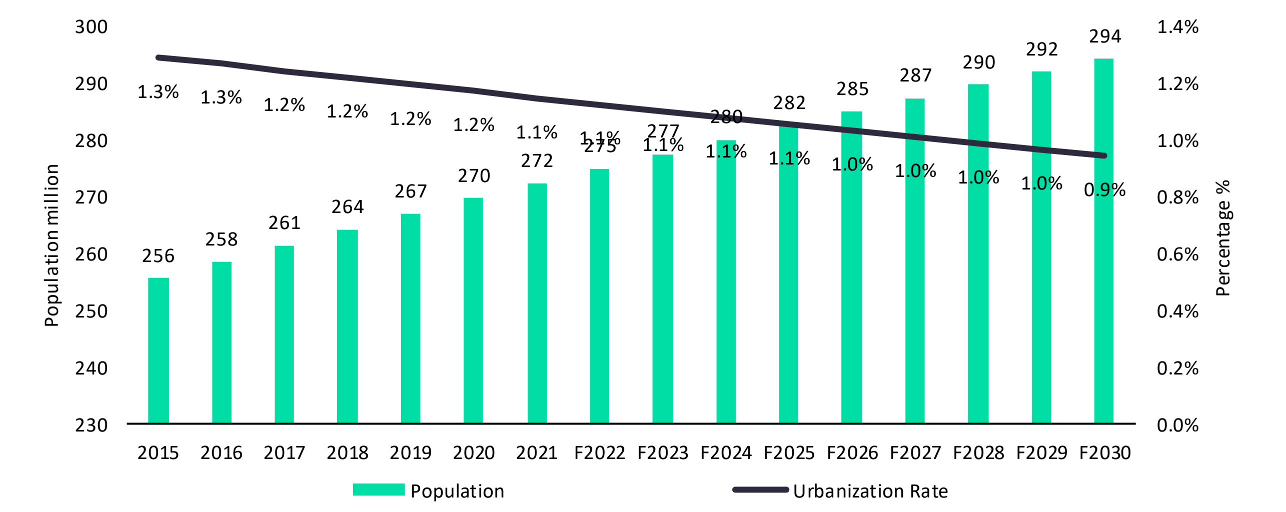
In 2020, the COVID-19 pandemic aggravated the economic crisis in Indonesia, bringing the economy to a standstill. According to official statistics, the Indonesian economy contracted to -2.1%, and household consumption contracted to 1.9% due to the pandemic.

Figure 61: Nominal GDP (2015–30)




Source: GlobalData analysis using BPS-Statistics Indonesia, The World Bank and International Monetary Fund data © GlobalData

Figure 62: Population and Urbanization Rate (2015–30)

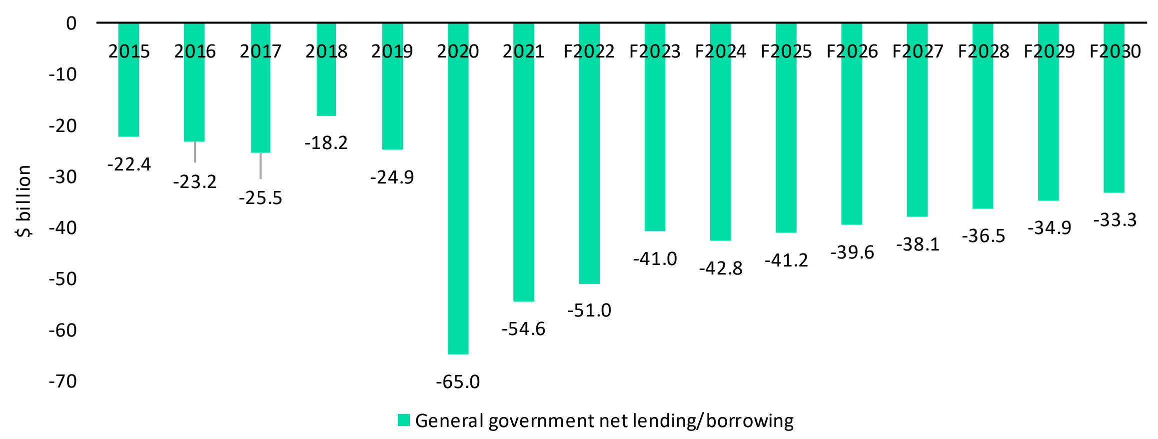



Source: GlobalData analysis using Central Bureau of Statistics Indonesia and The World bank © GlobalData

**Note:** The urbanization rate is measured as the average annual percentage change of the urban share of the population (proportion of urban to total population). The indicator has been derived using data on the urban population as a percent of the total Mid-year population

From 2000 to 2010, Indonesia's population grew at an average annual rate of 1.5% from 206.2 million in 2000 to 238.5 million in 2010. The population increased further during 2011–2019 at an average of 1.2% and stood at 270 million by the end of 2020. According to official statistics, the population in Indonesia is expected to increase at an average annual rate of 0.9% over 2021–2026 to reach 285 million in 2026. Most of Indonesia's population is in the 15-64 years age group. In 2020, 25.6% of the population was aged below 15 years, 67.5% was in the working-age group (15-64) and 6.9% was aged above 65 years. The working-age population is expected to increase from 67.6% in 2015 to 68.4% by 2025. The 65-and-above population group is expected to increase from 6.6% in 2015 to 9.4% by 2025. However, the population aged below 15 is expected to decline from 25.8% in 2015 to 22.2% by 2025. Indonesia's population was 50.4% male and 49.6% female in 2020.

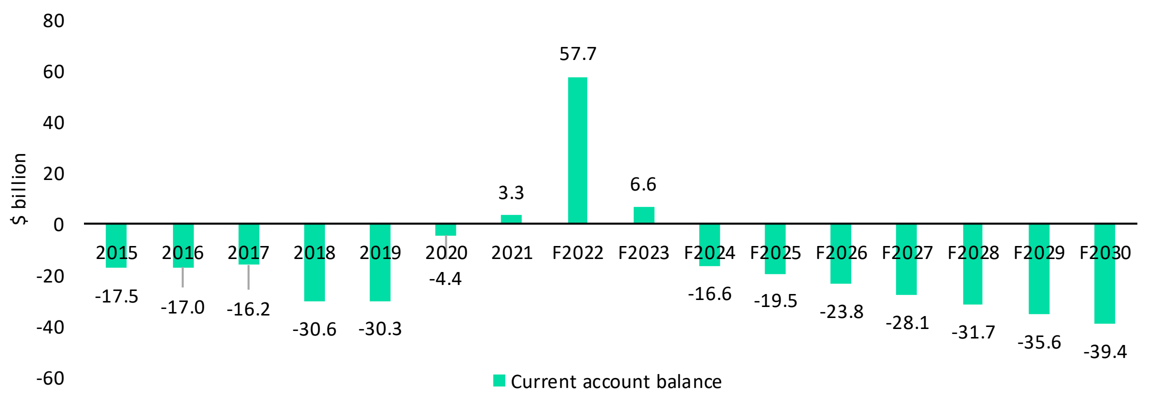
Figure 63: General government net lending/borrowing (2015–30)




Source: GlobalData analysis using Bank Indonesia data © GlobalData

According to official statistics, the general government borrowing in Indonesia stood at $65 billion in 2020 in comparison to $24.9 billion in 2019. The government allocated $43.1 billion for the National Economic Recovery Program in 2020. As many businesses were affected by the pandemic, the government introduced large fiscal stimulus packages spanning various businesses, small and medium enterprises, the healthcare segment, and the aviation industry. In 2020, government revenue declined 17.4% and expenditure increased 5.2%. In the Budget for 2022, the President proposed a total expenditure of $188 billion and stressed the need to reduce the budget deficit.

Figure 64: Current Account Balance (2015–30)




Source: GlobalData analysis using The World Bank data © GlobalData

In 2021 the total GDP was $1,221 million and expected to grow at 5.2% to reach $1,931 million by 2030. According to the World Bank's Ease of Doing Business Report 2020, Indonesia scored 69.6 out of 100, higher than the East Asia and Pacific (EAP) regional average of 63.3.

# 4.2 Industry Overview

## 4.2.1 Power Generation

The National Energy Policy 2014 (KEN), formulated by the Ministry of Energy and Mineral Resources, targets 23% new and renewable energy by 2025 and 28% by 2038. The long-term national energy development plan outlines Indonesia's broad development goals. The National Energy Plan (RUEN), which emphasizes diversification of resources, environmental sustainability, and maximum use of domestic resources, outlines long-term goals for the energy sector in National Energy Policy. This creates opportunities for solar, biofuel, waste-to-energy, and electric vehicles (EVs), among other subsectors.

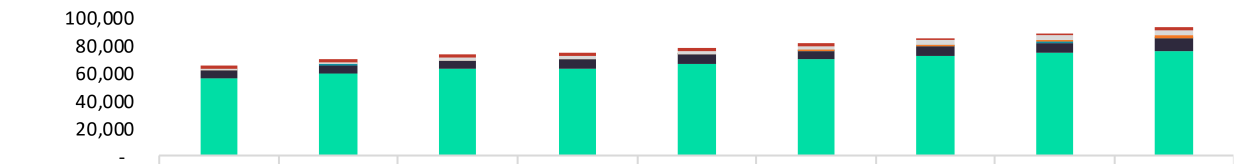
Indonesia has a solar PV potential of around 200GW. Solar registered an increase in demand from households, government buildings, public facilities, and commercial facilities for rooftop solar photovoltaic technology. Furthermore, the Indonesian government is expected to focus on the development of floating solar projects, around Java Island, because floating solar projects pose fewer land acquisition challenges. The government has also begun waste-to-energy projects in 12 cities across the country, and tenders for some of these are expected soon.

The government's 2020–24 policy focuses on shifting from dependency on foreign oil to domestic industries and power sources, primarily coal, geothermal, hydropower, and EVs. The government will continue to invest in the development of a domestic coal sector, which will provide most of the country’s energy supply past 2028. Over the next decade, installed capacity of coal is expected to double. Simultaneously, the Minister of Energy and Mineral Resources announced plans to replace retiring coal facilities with new and renewable energy to fulfill expanding demand across the archipelago, signaling national support for achieving energy mix targets.

In September 2021, the Indonesian Ministry of Energy and Mineral Resources (MEMR) initiated a new policy regime under which renewable energy projects must compete on a strictly economic basis.

The Ministry of Energy and Mineral Resources of the Republic of Indonesia is responsible for aiding the President and Vice President in conducting government affairs in the field of energy and mineral resources.

Figure 65: Power Installed Capacity by Type 2018–26 (MW)

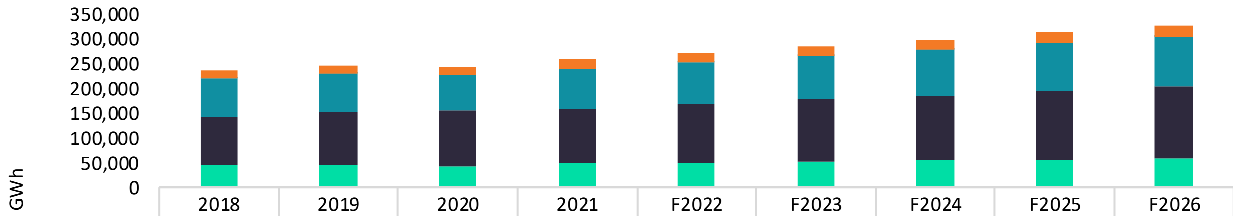



| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Biopower | 1,886 | 1,895 | 1,907 | 1,928 | 1,960 | 1,995 | 2,035 | 2,090 | 2,147 |
| Geothermal | 1,948 | 2,131 | 2,131 | 2,284 | 2,344 | 2,454 | 2,764 | 3,114 | 3,524 |
| Solar PV | 60 | 146 | 158 | 184 | 329 | 614 | 962 | 1,383 | 1,885 |
| Wind | 144 | 155 | 154 | 154 | 154 | 154 | 224 | 304 | 372 |
| Hydro | 5,792 | 5,983 | 6,148 | 6,269 | 6,318 | 6,370 | 7,046 | 7,388 | 8,320 |
| Thermal | 55,144 | 59,377 | 62,293 | 63,074 | 66,207 | 69,231 | 72,021 | 74,090 | 75,885 |

Source: GlobalData

In 2021, thermal power is the largest source with an installed capacity of 63,074MW followed by hydropower with an installed base of 6,269MW. By 2026, the total installed capacity is expected to reach 92,133MW, of which 75,885MW is expected to come from thermal power plants.

Figure 66: Power Consumption, By End User 2018–26 (GWh)




| | 2018 | 2019 | 2020 | 2021 | F2022 | F2023 | F2024 | F2025 | F2026 |
|---|---|---|---|---|---|---|---|---|---|
| Others | 15,812 | 17,005 | 16,254 | 17,421 | 18,356 | 19,161 | 20,157 | 21,131 | 22,114 |
| Transport | 274 | 301 | 292 | 308 | 326 | 341 | 358 | 376 | 393 |
| Industrial | 76,947 | 77,879 | 71,479 | 80,391 | 83,183 | 86,516 | 91,792 | 95,798 | 100,272 |
| Residential | 97,832 | 103,733 | 112,675 | 111,539 | 118,834 | 126,490 | 130,869 | 137,824 | 144,599 |
| Commercial | 43,753 | 46,600 | 41,898 | 46,961 | 49,050 | 50,755 | 53,865 | 56,302 | 58,865 |

Source: GlobalData © GlobalData

In 2021, a total of 256,620GWh was consumed, with the residential sector being the largest consumer with 111,539GWh. Power consumption in Indonesia is projected to reach 326,243GWh by 2026, with the residential sector expected to consume 144,599GWh.

## 4.2.2 Water and Wastewater Treatment

Indonesia's population is growing rapidly, especially in urban areas. About 80% of the used water in the country ends up as waste. Only 1% of urban wastewater is treated safely, only 4% of septage is collected and treated safely, and 95% of wastewater is improperly disposed of. Around 120 million infections and 50,000 early deaths are annually brought on by poor sanitation and hygiene. In light of the above, the government is expected to spend close to $6.3 billion annually (2.3% of GDP) to improve sanitation facilities in the country. During 2015–30, it is estimated that the overall spend on hygiene and sanitation will be to the tune of $42.7 billion.

For domestic wastewater treatment, local governments take up most municipal sanitation planning, development, financing, and management responsibilities. The central government has prioritized the development of policies, establishing standards, monitoring, strengthening capacities, and providing funds for the water sector. For instance, the National Long-term Development Plan (RPJPN) 2005-2025 involves institutional restructuring and is divided into four medium-term plans called the National Medium-Term Development Plan/RPJMN (2005-2009; 2010-2014; 2015-2019; and 2020-2025). The RPJMN aims at achieving equitable growth for all, and the global Post-2015 Sustainable Development Agenda. The government put emphasis on the provision of basic infrastructure, including housing, clean water, sanitation, and electricity; guaranteed water, food, and energy security; supporting national defense, and developing urban mass transport systems.

## 4.2.3 Infrastructure Construction

The construction sector is Indonesia's one of the key contributors to GDP, and construction investments in the country are among the largest of all Asian construction investments. According to GlobalData, the overall construction output was $222.3 billion in 2021 and it is expected to reach $295.1 billion in 2026. The business has been expanding as a result of the government's goal of developing the archipelago's infrastructure to improve connectivity. Indonesian President Joko Widodo declared in August 2019 that the country's capital will be transferred to East Kalimantan and the infrastructure projects in the new location is expected to begin in 2021. However, due to the pandemic, the Indonesian government put many projects on hold in 2020, including the relocation of the capital city. If the Indonesian government focuses on improving the archipelago's infrastructure to strengthen its economy, the construction sector is projected to continue to grow, aided not only by government spending but also by foreign investments and the private sector. The country's infrastructure development is mostly taking place in the transportation sector. In July 2020, the Indonesian government announced an investment of $430 billion in infrastructure up to 2024.

Table 32: Major Infrastructure Projects in Pipeline

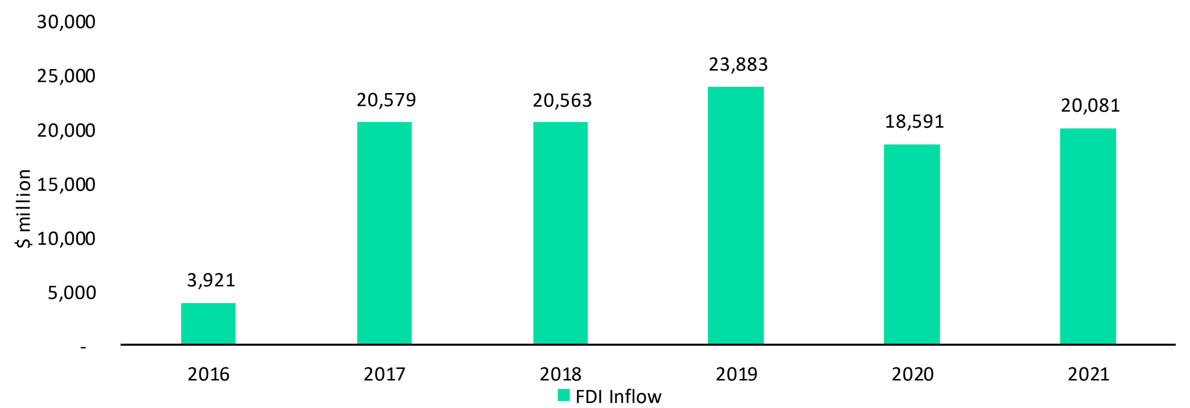
| **Project Name** | **Stage** | **CAPEX ($ million)** | **Start** | **Completion** |
|---|---|---|---|---|
| MoPW – Trans-Sumatra High-Grade Highway – Indonesia | Execution | 24,600 | Q4 2014 | Q4 2029 |
| PTMRT – Jakarta Mass Rapid Transit – Indonesia | Execution | 17,500 | Q3 2020 | Q2 2028 |
| MoT – Jakarta to Bandung High-Speed Railway – Indonesia | Execution | 6,000 | Q3 2017 | Q1 2023 |
| Pelindo II – Tanjung Priok Port Expansion – Jakarta | Execution | 4,660 | Q1 2013 | Q4 2030 |

Source: GlobalData

## 4.2.4 Government Incentives to Attract Foreign Investment

According to the Law no. 25 of 2007 (Investment Law), the government will give equal treatment to domestic investors and foreign investors investing in Indonesia, subject to the prevailing laws and regulations as well as national interest and provide legal certainty, business certainty, and business security to investors from the starting point of investment such as a business licensing application until the time when investors decide to end their investment in the country to the prevailing laws and regulations.

Figure 67: FDI Inflow (2016–21)




Source: United Nations Conference on Trade and Development © GlobalData

In 2021, FDI inflow stands at $20,081 million. Top sectors for FDI investment in Indonesia are metal and equipment, transportation, telecommunication, electricity, gas and water supply.

**FDI Policy:**

The prevailing Negative List is regulated under Presidential Regulation No. 10 of 2021 as amended by Presidential Regulation No. 49 of 2021 on Investment Business Fields (PR 10/2021). Generally, the current Negative List under PR 10/2021 is less restrictive than previous iterations primarily due to Law No. 11 of 2020 on Job Creation (the Omnibus Law). The Omnibus Law mandates the government to ease restrictions on foreign investment to promote ease of doing business to attract foreign investors to Indonesia to create more jobs for the Indonesian people.

In addition, foreign investment in 26 business sectors is partially restricted in that they be owned by 100% domestic capital or foreign investment is limited to a certain maximum percentage. Except for those closed and restricted business sectors, all other business sectors are open with no restrictions on foreign investment.

As a comparison, under the previous Negative List, which was regulated under Presidential Regulation No. 44 of 2016 (PR 44/2016), there were 163 and 228 lines of businesses that were fully closed and partially closed to foreign investment, respectively. Based on this number, PR 10/2021 reduces the lines of businesses that were closed or partially closed to foreign investment under the PR 44/2016 by 75%.

## 4.3 Market Overview

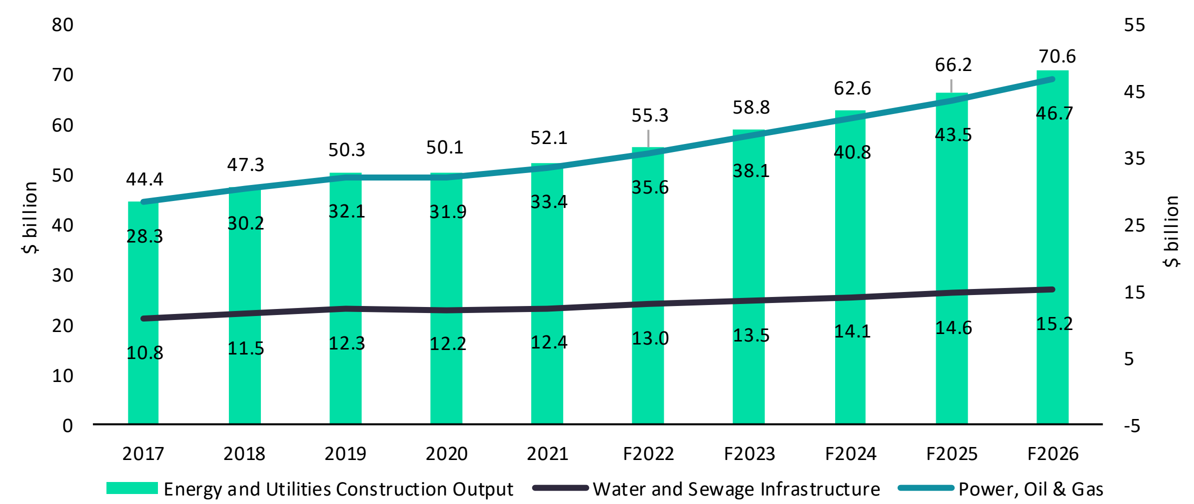
The energy and utilities construction sector is expected to expand 6.2% in real terms in 2022, before registering an average annual growth of 6.3% between 2021-2026. The sector's output over the forecast period will be aided by investment in renewable energy, telecommunications, and water and sewage projects.

As part of the 2021-30 RUPTL, the state utility company, PT Perusahaan Listrik Negara (PLN), plans to add 40.6GW of new power generation capacity by 2030. Of the planned capacity, 51.6% – equivalent to 20.9GW – is intended to be generated by renewable energy sources, including 9.3GW from hydropower plants, 4.7GW from solar power plants, 3.4GW from geothermal power plants, and 1.1GW from mini/micro hydropower plants. These targets will also support the country's aim of reducing greenhouse gas (GHG) emissions by 29% by 2030 and achieving net-zero emissions by 2060.

In 2021, of the total power generation capacity of 73,895MW, nearly 8.5% is hydropower and nearly 0.3% is solar power. However, during the forecast period, hydropower capacity is expected to grow at a CAGR of 5.8%, reaching 8,320MW in 2026 from 6,269MW in 2021. Solar power generation capacity is expected to grow at a CAGR of 59.3% to reach 1,885MW in 2026 from 184MW in 2021.

In 2021, water and sewage infrastructure accounted for 5.6% of the total construction output in Indonesia. The construction market for water and sewage infrastructure is expected to reach $15.2 billion in 2026 from $12.4 billion in 2021, growing at a CAGR of 4.1%.

Figure 68: Energy and Utilities Real Construction Output Forecast (2017–26)




Source: GlobalData



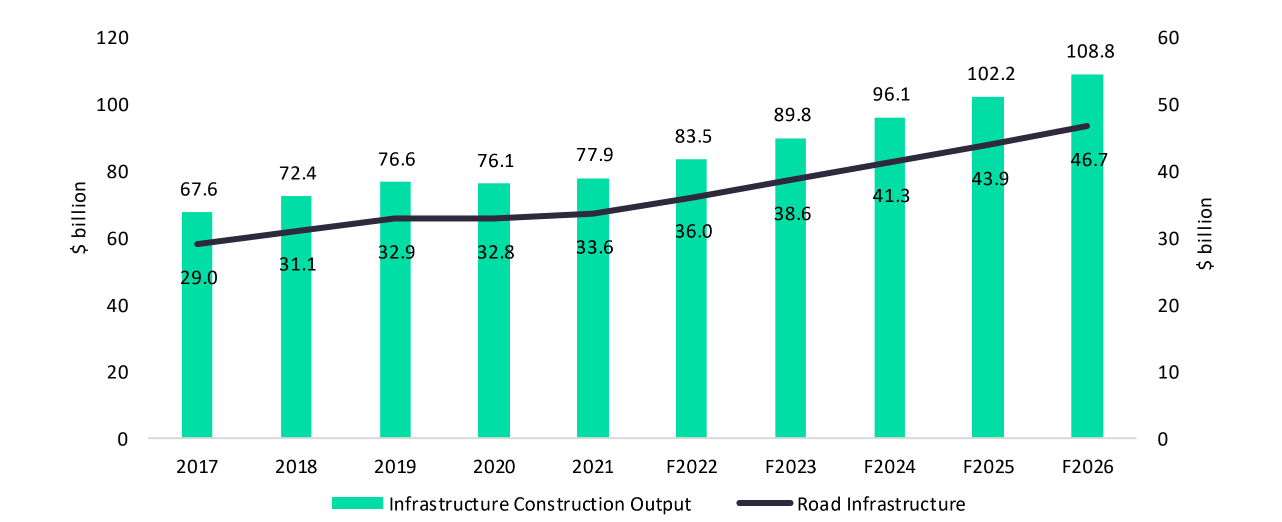
Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

The infrastructure sector is expected to grow at a CAGR of nearly 7% during 2021–26, supported by the government's investment in transport projects to improve regional connectivity.

In Indonesia's 2022 Budget, the government allocated $2.6 billion to the Connectivity Infrastructure Program. The allocation includes $1.4 billion for road and bridge preservation, $379.7 million for road construction, $368.6 million for flyover and underpass construction, and $331.2 million for highway construction. In mid-April 2022, Indonesia's sovereign wealth fund, Indonesia Investment Authority (INA), agreed to invest $2.7 billion in toll roads on the islands of Sumatra and Java, which will propel the growth of infrastructure during the forecast period.

The road infrastructure construction market is expected to grow at a CAGR of 6.8% to reach nearly $47 billion in 2026 from $33.6 billion in 2021, aided by investment as part of the 2020–24 National Medium-Term Development Plan (RPJMN). As part of the plan, the government aims at increasing the length of newly built toll roads in operation from 1,461 km in 2019 to 2,500 km in 2024, along with other rail and sea infrastructure development.

Figure 69: Infrastructure Real Construction Output Forecast (2017–26)




Source: GlobalData © GlobalData

Note: GlobalData's real construction data is calculated by keeping prices and exchange rates constant at the level recorded in 2017

## 4.4 Water and Sewage Treatment Projects Overview

According to water.org, around 18 million Indonesians lack safe water and 20 million lack access to improved sanitation facilities. For many households, water sources are distant, contaminated, or expensive, and household sanitation is unaffordable. As per Water Indonesia, water resources account for 6% of the world and 21% of Asia-Pacific's.

In Indonesia, the total water availability is 690 × 109 $m^3$ per year, which is a lot more than the demand of 175 × 109 $m^3$ /year. The demand for water for industrial and agricultural use is expected to increase in the future due to rising population and rapid industrialisation.

The Indonesian government has set an ambitious plan, named the National Medium-Term Planning (RPJM) 2020-2024, worth $17.5 billion, targeting 100% safe access to drinking water supply by 2024. The government has also allocated $1.2 billion in 2018 for sanitation infrastructure in Indonesia. The allocated budget for water and sanitation is focused on managing wastewater produced by 853,000 households, as well as constructing clean water facilities and water treatment plants.

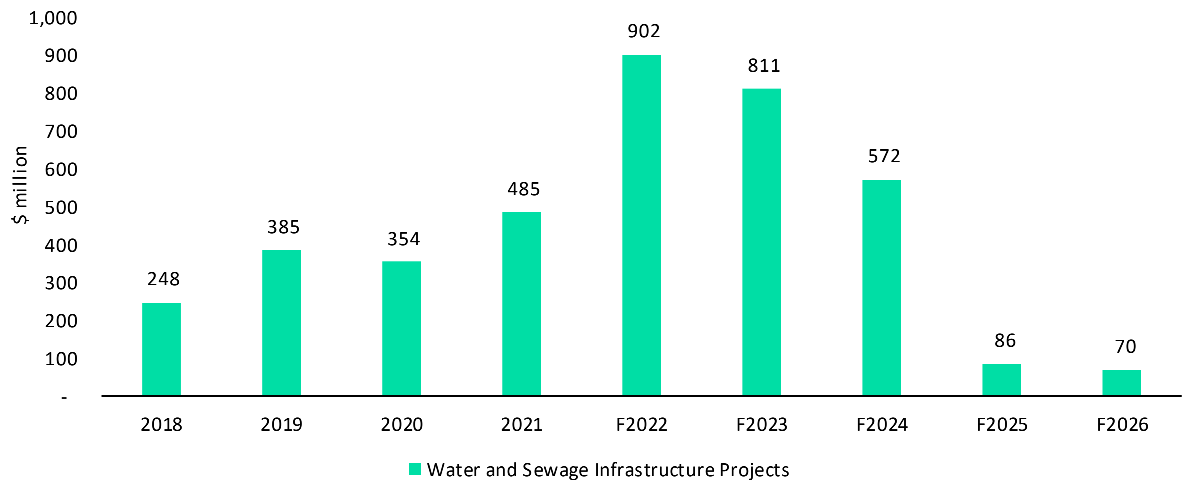
Water used for coal production is heavily polluted, and the total water consumption for the industry reached 3,461 mcm in 2021 and this is expected to increase by 10% per year until 2023. In the Indonesia Construction Industry, water supplies and waste treatments are major concerns as these two subjects are required in the production process for many materials such as concrete and steel. At the moment a huge number of construction projects are undergoing in the country which will lead to a huge demand for water supplies and waste treatment management.

In Indonesia, construction for a total of 5 water and sewage infrastructure projects with a value of nearly $1.7 billion is expected to start in 2022. In 2022, collection & transmission projects will account for the majority of the water and sewage infrastructure. Construction for collection and transmission projects with a value of $1.4 billion is expected to start in 2022.

GlobalData estimates that the project value spent on water and sewage infrastructure is expected to revive in 2022 due to the expected start of construction for Jakarta Integrated Tunnel from Ulujami to Tanah Abang and Djuanda Regional Drinking Water Supply System project.

Some of the key ongoing and planned water infrastructure projects include Multipurpose Deep Tunnel in Jakarta, Durolis Drinking Water Supply System in Riau, Jakarta Sewerage Development Program, Indonesia Regency Settlement Infrastructure Development Program, National Slum Upgrade Program, New Capital City Development Program and others.

Figure 70: Estimated Project Value Spent for Water and Sewage Infrastructure ($ million)

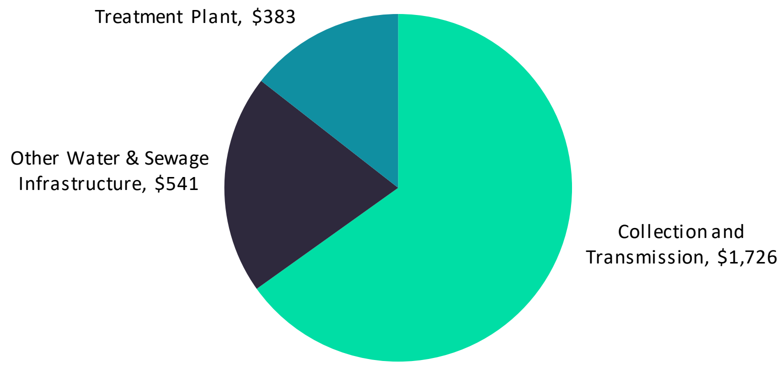



Source: GlobalData © GlobalData

Of the total value of pipeline projects, collection, and transmission projects account for 65% of the water and sewage infrastructure projects. The pipeline, which includes projects from pre-planning to execution, is moderately skewed towards early-stage projects, with 71% of the pipeline value being in projects in the planning, pre-planning and pre-execution stage, followed by the remaining projects in the execution stage, as of May 2022.

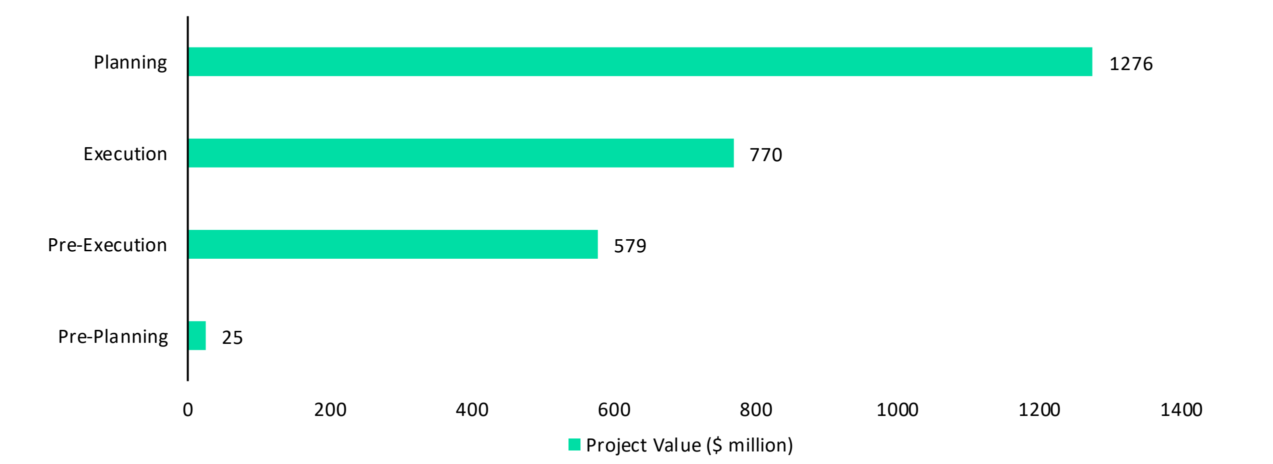
Some of the key projects in the planning stage include Buaran III Water Treatment Plant, Jatigede Water Supply System in West Java and Jakarta Integrated Tunnel.

Figure 71: Water and Sewage Infrastructure Projects Pipeline By Type and Construction Start; 2018–23 ($ million)




Source: GlobalData © GlobalData

Figure 72: Value of Water and Sewage Projects Pipeline-By Stage and Construction Start; 2018–23 ($ million)




Source: GlobalData © GlobalData

Ministry of Public Works is one of the biggest owners of water and sewage infrastructure projects in Indonesia. Currently, there are nine water and sewage infrastructure projects in execution and six projects in the planning and pre-execution stage which are owned by Ministry of Public Works. Some of the projects being executed include:

- Rukoh Dam Development in Aceh for which the main contract was awarded to PT. Nindya Karya (Persero), PT Waskita Karya (Persero) Tbk and PT Adhi Karya Tbk.
- Pekanbaru-Kampar Drinking Water Supply System in Riau for which the main contract was awarded to PT PP Infrastructure, Maynilad Water Services Inc, and PT Varsha Zamindo Lestari.
- Wosusokas Drinking Water Supply System in Central Java.

Table 33: Top Water and Sewage Infrastructure Contractors by Projects Count and CAPEX ($ million)

| Company Name | Headquarters | Projects Count | CAPEX ($ million) |
|---|---|---|---|
| PT PP Infrastructure | Indonesia | 11 | 1,590 |
| PT Wijaya Karya (Persero) Tbk | Indonesia | 5 | 760 |
| PT Waskita Karya (Persero) Tbk | Indonesia | 4 | 480 |
| Sinohydro Corp Ltd | China | 2 | 550 |
| PT Adhi Karya (Persero) Tbk | Indonesia | 3 | 640 |
| PT. Rekayasa Industri | Indonesia | 2 | 380 |
| PT. Nindya Karya (Persero) | Indonesia | 2 | 200 |

Source: GlobalData

| Table 34: Top Water and Sewage Infrastructure Owners by Projects Count and CAPEX ($ million) | | | |
|---|---|---|---|
| **Company Name** | **Headquarters** | **Projects Count** | **CAPEX ($ million)** |
| Ministry of Public Works, Indonesia | Indonesia | 20 | 5,650 |
| PT PLN (Persero) | Indonesia | 3 | 260 |
| Jakarta Provincial Government | Indonesia | 3 | 5,120 |
| PT Chandra Asri Petrochemical Tbk | Indonesia | 1 | 100 |
| PT Jasa Sarana | Indonesia | 1 | 70 |
| PT Pertamina Geothermal Energy | Indonesia | 1 | 230 |
| Perum Jasa Tirta II | Indonesia | 1 | 140 |
| Bali Provincial Government | Indonesia | 1 | 290 |
| The Bekasi Municipal Authority | Indonesia | 1 | 20 |
| Source: GlobalData | | | |

# 4.5 Water Demand by Application

Indonesia has a population of over 272 million, and most people rely on river or bottled water as they do not have access to piped water. The municipal water supply is of poor quality for the 20% of the population that has a water connection, and drinking tap water is discouraged. Around 28 million Indonesians do not have access to safe drinking water. In August 2020, the Indonesian government announced seven new water supply and wastewater treatment projects worth $1.9 billion, which could enhance the export prospects for American companies.

**Water Supply and Wastewater Treatment Projects in 2020:**

- The Development of Regional Water Supply System in Wosusokas ($133 million): Water processing installation with an outtake capacity of 750 liters per second, a 73,800 main distribution network, and 60,000 units of house connections (240,000 people), which can provide services that comply with the four principles of quality, quantity, continuity, and affordability.
- Regency Settlement Infrastructure Development ($105 million): Construction of green infrastructure in the peri-urban area, including water supply, wastewater, solid waste, road drainage, and green belt com ponents.
- Jenelata Dam Construction Project in South Sulawesi Province ($300 million): To irrigate24,000 hectares, reduce flood discharge, provide a raw water supply, and generate 10.9MW of electricity.
- Riam Kiwa Multipurpose Dam Construction Project in South Kalimantan Province ($250 million): To irrigate 1,800 hectares, reduce flood discharge, provide a raw water supply, and generate 0.92MW of electricity.
- Lambakan Dam Project in East Kalimantan Province ($547 million): To irrigate 23,000 hectares, reduce flood discharge, provide a raw water supply, and generate 19.44MW of electricity.
- Pelosika Multipurpose Dam Construction Project in Southeast Sulawesi Province ($352 million): To irrigate 22,764 hectares, reduce flood discharge, provide a raw water supply, and generate 20MW of electricity.

- Karian Dam-Serpong Water Conveyance System in Jakarta and Banten Province ($257 million): For supply of raw water and piped water service in areas that serve four million inhabitants and establish 800,000 new connections.

In June 2021, the Indonesian Ministry of Public Works and Public Housing (Ministry of PUPR RI) announced the construction of water resources resilience infrastructure, especially dams, in 2022. In 2022, the Directorate General of Water Resources plans to build four dams in three provinces: Kedung Langgar and Cabean dams in Central Java, Riam Kiwa dam in South Kalimantan, and Kolhua dam in East Nusa Tenggara (NTT).

Besides, the 2019 Public-Private Partnership Book of the Ministry of National Development Planning listed many water infrastructure projects:

- Drinking water development program ($696.3 million)
- Development of wastewater management program ($3,557.8 million)
    - Community-based sanitation program (SANIMAS)
    - Jakarta sewerage development project – Zones 1 and 6
    - Development of sewage treatment facilities in priority areas
    - Sewerage system development in Indonesia
    - Upscaling wastewater management and treatment system in Bali
    - Optimization of wastewater treatment in Bandung
- Development and management of irrigation program ($1,368.9 million)
- Provision and management of bulk water supply program ($621.9 million)
- Dam development program ($1,964.9 million)
- Mitigation of water hazards program ($874.2 million)
- Management of water resource infrastructure program ($400 million)

## 4.6 COVID-19 Impact

Indonesia registered 6.1 million COVID-19 cases and 156,652 COVID-19-related deaths as of June 13, 2022, as published by WHO. The Jakarta province is the most-affected region in Indonesia, with nearly 1.2 million cases, followed by Jabar province with one million cases. The number of new infections per day is declining, with less than 250 new cases registered per day since April 15, 2022. There are no COVID-19 cases reported from the start of June 2022.

Indonesia administered 417 million doses of COVID-19 vaccine as of June 13, 2022. This includes 201 million first doses, 168 million second doses, and 48 million third doses. Overall coverage for the first, second, and third doses is 96.5%, 80.8%, and 23.1%, respectively, of the population.

The economy of Indonesia was hit hard by the pandemic. In 2020, the Indonesian economy contracted 2.1% and household consumption decreased 1.9%. The government announced a series of economic and stimulus packages in 2020 to aid economic recovery.

The Indonesian government announced a series of stimulus packages from 2020 to support the economy. The government announced a stimulus package through the National Economic Recovery program with an outlay of $47.5 billion. The fiscal packages were implemented to aid the healthcare sector to enhance the testing and treatment capacity for COVID-19 cases; improve social welfare programs such as food aid, conditional cash transfers, and electricity subsidies; provide unemployment benefits to workers, including those in the informal sector, tax relief for individuals (with an income ceiling) and various sectors, including tourism; and permanent reductions in corporate income tax rate from 25% to 22% in 2020–21 and 20% starting in 2022.

The construction sector is the fourth-largest contributor to the economy of Indonesia. Manufacturing, agriculture, trade, and construction are the top four sectors contributing to the economy, with a share of 19.2%, 13.2%, 12.9%, and 10.4%, respectively, in 2021. The construction sector declined 3.3% in 2020 because of the pandemic but registered a growth of 2.8% in 2021.

Infrastructure development is one of the main pillars of the construction industry. Due to the pandemic, government funding for infrastructure projects decreased from $8 billion in 2019 to $5.3 billion in 2020. The reduction in budget led to a delay in the completion of projects, and single-year projects were converted into multi-year projects. Shortage of labor and shortage of construction material added to the delay in the completion of projects. In 2022, the government announced a budget of IDR366 trillion for infrastructure development. The 2022 infrastructure budget aims at accelerating the projects that were delayed due to the pandemic, with high priority for projects which help accelerate the growth of the economy. The budget will be used for the construction of residential, water supply, wastewater treatment, road, rail, and airport projects.

The Indonesian logistics and supply chain industry faced several challenges during the pandemic. One of the major problems faced by the industry was container availability. Indonesia has one of the highest costs of logistics in comparison to other countries in the region. Indonesia has more than 18,000 islands, making it difficult for the logistics operators to use a multi-modal transportation system of land and sea freight. The pandemic paved the way for the logistics industry in Indonesia to adopt latest technologies through digitization and the use of AI to improve productivity. Companies plan to implement smarter transportation systems and smarter warehousing management systems through IoT and AI.

## 4.7 Industry Opportunities

Indonesia is a party to the UNFCCC and ratified its Paris Agreement in 2016. The government is committed to reducing its GHG emissions target unconditionally to 29% and conditionally to 41% in comparison to business-as-usual (BAU) by 2030. The updated NDC (the earlier target was a 26% reduction unconditionally) indicates the government's commitment to adaptation, and risk mitigation by adopting the Paris Agreement, along with national development for 2020–24. The climate change commitment is also in line with the long-term vision – Vision Indonesia 2045 and the Long-Term Strategy on Low Carbon and Climate Resilient Development (LTC-LCCR) 2050.

The Long-Term Strategy on Low Carbon aims at achieving sustainable growth and development beyond the Paris Agreement targets. It helps create a balance between future emission reduction and the economic development of the country. The long-term strategy also outlines Indonesia's goal of achieving net-zero emissions by 2060 or sooner and reducing the country's potential economic loss by 3.5% due to climate change in 2050 by improving the basic socio-economic development needs such as food, water, energy, and environmental health.

# 5. Appendix

| Abbreviation | Description |
|---|---|
| **bbl** | Barrel |
| **bcf** | Billion cubic feet |
| **CAGR** | Compounded Annual Growth Rate |
| **CIT** | Corporate Income Tax |
| **FDI** | Foreign Direct Investment |
| **GDP** | Gross Domestic Product |
| **GHG** | Greenhouse Gas |
| **GW** | Gigawatt |
| **GWh** | Gigawatt-hour |
| **ha** | Hectare |
| **IMF** | International Monetary Fund |
| **IPO** | Initial Public Offering |
| **kv** | Kilovolt |
| **kW** | Kilowatt |
| **kWh** | Kilowatt-hour |
| **LNG** | Liquefied Natural Gas |
| **mmscf** | Million Standard Cubic Feet |
| **MoU** | Memorandum Of Understanding |
| **MW** | Megawatt |
| **Solar PV** | Solar Photovoltaic |
| **VAT** | Value Added Tax |

# 6. Glossary

| Country | Official Statistics Sources |
|---|---|
| **Indonesia** | Statistics Indonesia, International Monetary Fund, The World Bank, Asian Development Bank and BPS-Statistics Indonesia |
| **Philippines** | Philippine Statistics Authority, National Statistics Office Philippines, International Monetary Fund and The World Bank |
| **Thailand** | National Economic and Social Development Council Thailand, International Monetary Fund, The World Bank, Asian Development Bank, National Statistical Office Thailand, United Nations Statistics Division and Bank of Thailand |
| **Vietnam** | General Statistics Office of Vietnam, International Monetary Fund, The World Bank and United Nations Statistics Division |
| **GDP** | Real GDP unless otherwise mentioned |

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# ANNEX 2

# Sustainable Fuels Report

Report for:

## Prime Infrastructure Holdings

September 2022


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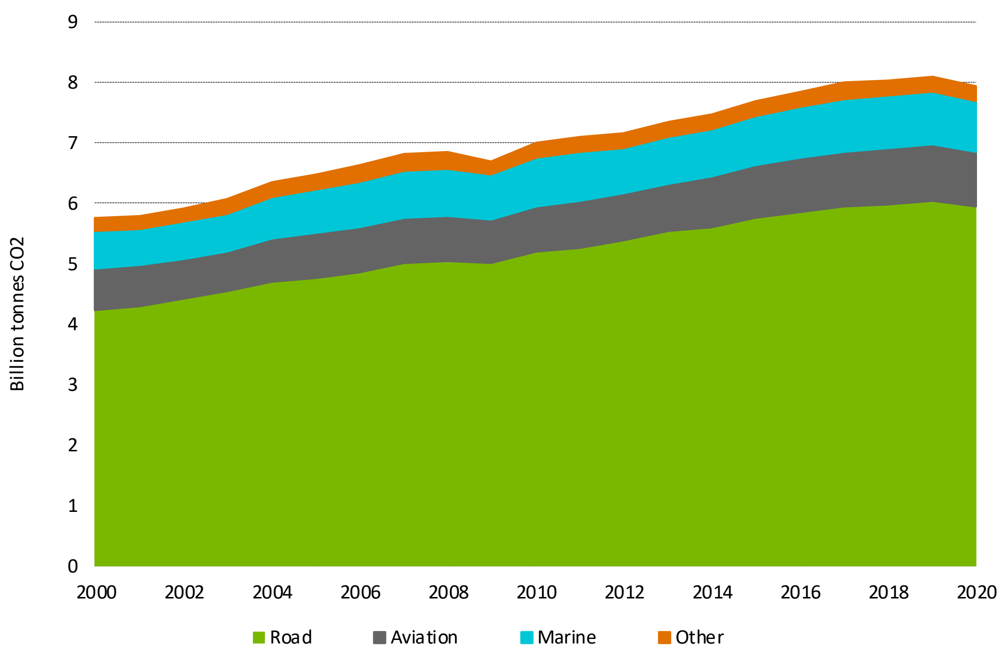
# Chapter 1: Transport Biofuels Policies

As the impact of rising greenhouse gas emissions has increased, global focus has turned to the problem of how to reduce emissions and limit climate change. Global $CO_2$ emissions have been rising steadily, reaching almost 34 billion tonnes in 2019 (based on figures from the IEA).

Of this total, transport is responsible for almost a quarter of the total with over 8 billion tonnes of $CO_2$ emitted by the sector in 2019. This dipped in 2020 due to the Covid-19 pandemic but transport remains a large and growing source of emissions. Road transport is by far the largest source of emissions representing around 75% of the total. Maritime and aviation each make up around 10-12%.

**Diagram 1.1: Global $CO_2$ emissions from transport sector by type**




Source: International Energy Agency (IEA).

The transport sector is difficult to decarbonise due to technological and logistical barriers, so governments have turned to biofuels as a way to reduce emissions by replacing fossil fuels. It is worth noting that the motivation behind biofuels policies varies from country to country. Some are primarily motivated by environmental concerns, but others are driven by wanting to support their domestic agricultural sector and increase fuel security.

Below we outline the key policies driving biofuels demand, starting with programs aimed at aviation followed by marine and finally an overview of road transport policies. In this report we focus on sustainable aviation fuel (SAF), renewable diesel (RD) and Fatty Acid Methyl Ester (FAME) biodiesel. Ethanol is a major biofuel in the road transport sector and policies are often flexible between fuels, so we will discuss policies which cover ethanol briefly where relevant.

## Sustainable aviation fuel policies

This sector is still very much in its infancy with only a few policies confirmed, but very ambitious targets have been announced by the industry and individual countries.

### *International Air Traffic Association*

The International Air Traffic Association (IATA) has announced an industry wide goal to cut net emissions from the global aviation sector. The original target set out in 2020 was to cut net emissions by half of 2005 levels by 2050. However, in October 2021 IATA passed a resolution committing them to achieve net-zero carbon emissions by 2050.

It is worth noting that this target is an absolute target for cutting GHG emissions, not a reduction per MJ of fuel used as we have seen in country level policies. This means that as the sector continues to expand the target becomes increasingly difficult to meet.

IATA has modelled how this target will be met and they forecast that sustainable aviation fuel (SAF) will be the main contributor, meeting 65% of the required GHG reduction. Depending on the emissions saving achieved by SAF this could require SAF to make up around 75% of total jet fuel use in 2050.

### *Country level policies*

Currently only Norway, Sweden and France have policies in place, all starting at low volumes, but several countries have announced plans to implement targets. Table 1.1 presents an overview of current and planned SAF mandates.

Norway was the first country to have a mandate. Implemented in 2020, it requires a minimum blend of 0.5% (volumetric) SAF in all jet fuel sold in the country. There are plans to increase this to 30% by 2030 but as of mid-2022 the mandate remains at 0.5% with no specific trajectory announced.

**Table 1.1: Current and planned SAF mandates**

| Country | Mandate | Further notes |
|---|---|---|
| Canada | No | Aviation currently excluded from Clean Fuel Standard |
| USA | No | Eligible for support in California and Oregon, nationwide 20% GHG saving by 2030 and 100% SAF blend by 2050 considered. Tax credit planned from 2023. |
| Brazil | Planned | Mandate to start at 1% GHG reduction in 2027, plans to increase to 10% |
| Australia | No | Limited funding support in Queensland, 50% GHG reduction by 2050 discussed |
| China | No | N/A |
| Japan | Planned | Target of 10% by volume by 2030 |
| EU-27 | Planned | Mandate to begin at 2% rising to 63% or 85% in 2050 (negotiations ongoing) |
| *Sweden* | Yes | Mandate to start at 0.8% GHG cut in 2021 |
| *Finland* | Planned | Mandate originally planned to begin in 2023, likely postponed |
| *France* | Yes | Mandate begins at 1% in 2022 |
| *Germany* | Planned | Mandate begins at 0.5% in 2026 |
| Norway | Yes | Set at 0.5% by volume |
| UK | Planned | Aiming for 10% blend in 2030, 65% by 2050 |
| Philippines | No | No mandate plans but domestic airlines have goals to reduce emissions in line with IATA targets |

Other than the three policies in place, the EU has made the most significant progress towards implementing a SAF mandate. The European Commission released proposed policy in mid-2021 which is hoped to be finalised and passed by the end of 2022.

The **RefuelEU Aviation** policy would target a volumetric SAF blend including a sub target for Renewable Fuels of Non-Biological Origin (RFNBO). RFNBO are liquid or gaseous fuels made from renewable sources but not using biological feedstocks and are also known as synthetic fuels. The main examples are green hydrogen (produced using renewable electricity and water) and e-fuels which use green hydrogen and waste $CO_2$ gases to produce kerosene.

The targets are:

- 2% SAF from 1 January 2025
- 5% SAF from 1 January 2030, with a 0.7% RFNBO sub-target
- 20% SAF from 1 January 2035, with a 5% RFNBO sub-target
- 32% SAF from 1 January 2040, with a 8% RFNBO sub-target
- 38% SAF from 1 January 2045, with a 11% RFNBO sub-target
- 63% SAF from 1 January 2050, with a 28% RFNBO sub-target

Discussions over the targets are ongoing with proposals to increase the target in 2050 to 85%.

While other countries have announced a range of targets and ambitions, so far there is little firm legislation in the pipeline. The largest potential policy discussed so far is in the US where President Biden announced a goal of cutting $CO_2$ emissions in aviation by 20% in 2030 and then reaching 100% SAF by 2050.

Currently the **Philippines** has not yet discussed SAF targets at a national level but domestic airlines Philippine Airlines and Cebu have announced plans to use SAF in order to lower emissions.

## *Industry initiatives*

While few mandates are currently in place, anticipation of their implementation, combined with a desire for a more environmentally friendly public image, have led many airlines and industry organisations to promote and invest in SAF.

These are currently taking the form of offtake agreements rather than specific targets to cut carbon or reach certain blends.

Notable agreements include:

- Alder Fuels to provide SAF to both United Airlines and Avfuel, each of which are planned to last 20 years and to cover 4.3 million and 2.9 million tonnes of SAF respectively. The agreement with Avfuel is set to begin in 2024.

- Gevo has signed two 5-year agreements, one to provide SAF to OneWorld Alliance 2.9 million tonnes from 2027, and one to provide American Airlines 1.4 million tonnes from 2026.

- SG Preston has agreed to provide Jet Blue with 1.9 million tonnes over 10 years from 2023.

At present, these and many other smaller agreements form the bulk of global demand for SAF.

## Marine biofuel policies

The marine sector has been slow to implement biofuels policies, partly due to the difficulties of policing an international industry.

The International Maritime Organisation (IMO) GHG Reduction Strategy is the most important of the policies in place for decarbonising marine as it applies to all 175 of its members, the world's largest consumers of marine fuel. The IMO is part of the United Nations and this also informs its policies.

### *IMO GHG Reduction Strategy*

The IMO adopted its initial strategy to decarbonise shipping in April 2018. The IMO aims to reduce GHG emissions from shipping and to phase them out as soon as possible in this century.

There are three stated goals:

- To reduce the carbon intensity of new ships through improved energy efficiency (achieved via implementation of further phases of the energy efficiency design index (EEDI) for new ships.)

- To reduce the $CO_2$ emissions per distance travelled as an average across international shipping, by at least 40% by 2030, pursuing efforts towards 70% by 2050, compared to 2008.

- To peak GHG emissions from international shipping as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out on a pathway consistent with the Paris Agreement temperature goals.

These do not specifically target the use of biofuels but they could be used to reduce emissions as part of meeting the wider target.

In 2020, the IMO approved several short-term measures to achieve the target of reducing carbon intensity by 40% by 2030. The measures require both technical and operational improvements to be made. The former relates to a new Energy Efficiency Existing Ship Index (EEESI). Under this rule, the existing fleet must meet certain energy efficiency targets from 2023 onwards. The operational requirements relate to a Carbon Intensity Indicator (CII) becoming mandatory from 2026. The CII measures grams of $CO_2$ emitted per cargo carrying capacity and nautical mile. Each vessel will be rated against a baseline CII, which will become increasingly stringent over time. The IMO has not published specific fines for vessels not meeting the new efficiency targets but ships which attain an unsatisfactory rating will have to submit a corrective action plan to show how they will achieve the required index rating. The IMO also encourage administrations, port authorities and other stakeholders to provide incentives to ship achieving/over meeting the targets but these are not specified.

It remains to be seen what will be agreed to achieve the medium and longer term goals and what role biofuels will play. Although technical and operational improvements can generate some modest GHG savings, it is thought that the bulk of the savings will have to come from biofuels and new technologies in the longer term. Japan and China welcomed the IMO's short term measures while other countries (and shipping companies like Maersk) expressed concern over the slow pace of decarbonisation. The IMO is leaving discussions over zero carbon biofuels until 2030.

## *Country and industry level policies*

In addition to the IMO, some countries/regions are pursuing their own policies to decarbonise marine. The most prominent of these is the European Union.

***European Union***

In July 2021, the Commission proposed the **FuelEU Maritime Initiative**, which imposes restraints on the average annual GHG intensity of on-board energy used by ships. The goal is to force ships to gradually adopt low-carbon fuels during voyages within the European Union and for half of voyages to and from the European Union. Several countries (notably China and Japan) are unhappy with the EU's plans, suggesting that only the IMO should be setting GHG reduction targets on international shipping.

The essence of the Regulation is that ships must reduce their GHG emissions relative to the reference value by the following percentage:

- 2% from 1 January 2025
- 6% from 1 January 2030
- 13% from 1 January 2035
- 26% from 1 January 2040
- 59% from 1 January 2045
- 75% from 1 January 2050

The reference value is yet to be determined but will correspond to the fleet average greenhouse gas intensity of the energy used on-board by ships in 2020.

***Zero-Emission Shipping Mission***

Denmark (led by the Danish Maritime Authority), the United States, Norway, Global Maritime Forum and Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping have formed an international public-private partnership called 'Zero-Emission Shipping Mission'.

By 2030 the Shipping Mission aims to:

- Introduce into the global fleet commercially viable vessels that operate on zero-emission fuels. Well-to-wake zero-emission fuels include green hydrogen, green ammonia, green methanol, and advanced biofuels.
- Scale up efficient production of zero-emission fuels.
- Establish global port infrastructure to support vessels operating on zero-emission fuels, thereby making vessels that operate on zero-emission fuels the natural choice for ship owners when they renew their fleet.

***Others***

- **Port of Rotterdam**. Has a goal of climate neutrality. As part of this they have an initiative to support innovative projects involving alternative fuels in sea-going shipping.
- **Swedish shipping industry**. Has adopted the EU Maritime strategy goal of climate neutral shipping by 2050. There are no concrete policies but the association has published a roadmap which aims to cut $CO_2$ emissions by 30% compared to 2010 in 2030 and completely eliminate emissions of $CO_2$ and other harmful substances by 2050.
- **United Kingdom**. The Clean Maritime Plan (2019) outlines the UK's path to zero emission shipping. It also includes measures to improve air quality in ports. The basis of the UK strategy is the IMO's target for at least 50% carbon reduction by shipping by 2050. The plan does not mandate the use of biofuels, nor does it impose specific targets for emission reductions in the sector. Instead, it proposes a range of measures to help decarbonise the sector.
- **Panama Canal**. The Panama Canal Authority is set to become one of the first governmental entities in the world to charge shipowners a fee for their vessels' greenhouse gas emissions. A GHG charge would create a small financial penalty for the operators of higher-emitting vessels.
- **Singapore Maritime & Port Authority (MPA)**. The Maritime Singapore Decarbonisation Blueprint outlines seven key areas which MPA will focus on to support the decarbonisation of the maritime industry. As part of this the MPA intends in the immediate term to pilot the use of biofuel blends in existing harbour craft.
- **California.** Under a new commercial harbour craft regulation passed in March 2022, the California Air Resources Board will require commercial harbour craft vessels in the state to burn renewable diesel instead of ultra-low sulphur diesel (ULSD). Commercial harbour vessels include bunker barges, ferries, pilot boats, dredging vessels, articulated tug barges and commercial fishing vessels.

## Road transport policies

The road transport sector has the most developed biofuels policies. Many of these have been in place for many years and are very complex, including volumetric mandates, energy mandates, GHG targets, tax incentives, feedstock rules and trade limitations. Below we outline current and planned policies for key countries, highlighting policies which specifically drive biofuels demand.

### *Country level policies*

#### *Argentina*

The biodiesel blend in Argentina is currently 12.5%, this was implemented in 2022 as a temporary increase from the 5% blend but ministers are now considering making the 12.5% blend permanent. For ethanol the mandate is a 12% blend split equally between ethanol made from corn and cane.

#### *Brazil*

Brazil has minimum blends of ethanol and biodiesel in fossil fuels and, on top of these minimums, has implemented a GHG reduction target, known as Renovabio.

For ethanol there is a minimum blend of 27% ethanol in gasoline (Brazil also sees widespread discretionary ethanol use above this as it is competitive with gasoline). For biodiesel the blend is currently 10% with plans to increase to 15% and possibly further to 20%.

The Renovabio program targets GHG reduction in road transport. It sets out a trajectory for the number of tonnes of $CO_2$ to be saved each year, rising to an estimated 95 million tonnes of $CO_2$ by 2031.

#### *Canada*

Canada is set to implement a GHG reduction target in 2023. The Clean Fuel Standard (CFS) targets GHG reductions by 2030 of 14.7% for gasoline and 15% for diesel.

#### *Colombia*

There is a mandated blend of 12% biodiesel in diesel and 10% ethanol in gasoline.

#### *European Union*

The EU biofuels policy is the Renewable Energy Directive (RED). The current form of the policy targets renewable fuels making up 14% of transport energy by 2030. However, the Commission has proposed changing the system to a GHG reduction target. The proposed target is 13% in 2030 (equivalent to around a 26% energy target under the current rules).

The RED contains many rules for how the target can be met, including a cap on crop-based biofuels, incentives to use waste-based biofuels, sub-targets for ‘advanced’ biofuels and renewable fuels of non-biological origin and minimum requirements for the GHG savings for biofuels.

Each member state has implemented these targets separately so there are differences between the states but in general the overall targets have been adopted. The key points for the EU are that the goals to reduce emissions are strong but countries do not want to see increased use of traditional biofuels. There is some space for more ethanol and biodiesel made from waste feedstocks to be used as well as an increased focus on using electricity in transport.

***India***

Currently has a target of blending 10% ethanol with gasoline and plans to increase it to 20% by 2025. Ethanol used for fuel must be produced domestically and the market is highly regulated. No biodiesel policy.

***Indonesia***

Currently requires a 30% blend of biodiesel in diesel with plans to increase to 40%. This covers all diesel use in the country, including transport, heating and industrial uses. The sector is supported through subsidies funded through export taxes on palm oil products.

***Malaysia***

Since 2018 there has been a 10% mandate for biodiesel in transport diesel and 7% for diesel used in industry. The government targets a 20% blend of biodiesel but this has proved difficult to achieve.

***New Zealand***

Implementing a GHG reduction mandate of 1.2% in 2023, rising to 3.5% in 2025. This is not fuel specific and will likely be met with a mixture of ethanol and biodiesel.

***Philippines***

Blends of 2% for biodiesel and 10% for ethanol are mandated in the Philippines. Higher targets of 20% for both biodiesel and ethanol have been discussed but little progress has been made toward these. Locally produced biofuels are prioritised but difficulties in increasing supply have meant that imports have been required to meet the ethanol blend.

***Thailand***

Thailand supports the use of ethanol and biodiesel through tax incentives on fuels with higher blends of biofuels. This has been successful but has become costly over time. They have also moved to phase out fuels with no or lower biofuel blends. For ethanol the standard blend is now 10% with plans to move this to 20% (however 10% blends will still be available). For biodiesel the typical blend is 7% with 20% blends also available.

***United States***

The US has a federal biofuels program, the Renewable Fuels Standard (RFS), which sets out volumetric mandates each year for different types of biofuel. In 2022 the targets required 20.77 billion ethanol equivalent gallons of biofuels. The target is split into conventional and advanced categories where conventional biofuels achieve lower GHG savings. The advanced target is then further split into biodiesel, cellulosic and other advanced biofuels. The program has been hampered in recent years by political pressure from oil companies, so the outlook is uncertain.

In practice the use of ethanol is limited to 10% of gasoline as availability of higher blends is very limited.

Biodiesel use has some potential to grow, currently use is around 2.8 billion gallons (4.2 billion ethanol equivalent gallons). There is some space for this to grow in the future, but the trajectory of the federal scheme is uncertain.

***California***

California has a much more ambitious program than the federal targets. The state has a Low Carbon Fuel Standard (LCFS), which targets reducing the GHG emissions of each MJ of fuel used by 20% by 2030 (although there are ongoing talks which could see this target increased). This program is not fuel specific but due to blending limits on ethanol and FAME biodiesel, growth in low carbon fuel use is coming from renewable diesel and electricity in transport.

## Conclusions

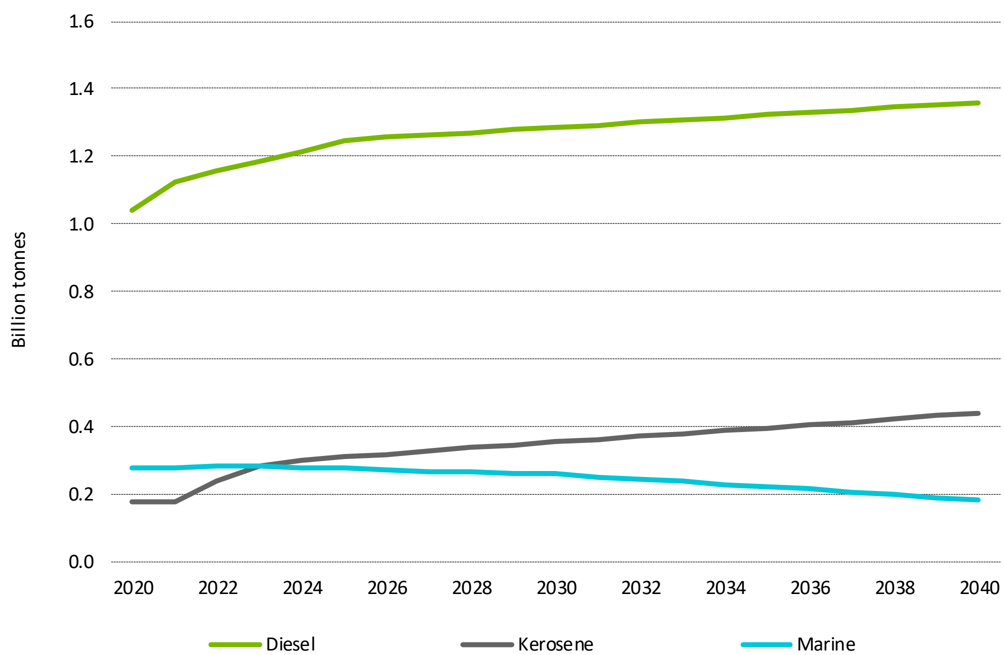
As the cost of producing biofuels is typically higher than fossil fuels demand for these fuels is primarily driven by government policy. While biofuels targets in road transport have been in place for many years we are only just starting to see focus shift to the aviation and maritime sectors. Aviation overs huge potential for biofuels, attention on emissions from this sector has been growing and there are few alternative ways to decarbonise. As a result, the targets being discussed in government and industry are very ambitious. Maritime on the other hand has many more options to decarbonise and policies reflect that, with none targeting specific blends of biofuel.

# Chapter 2: Biofuel demand

Biofuel demand is driven by policy as it is typically not competitive with fossil fuels. As outlined in Chapter 1 there are a wide range of policies mandating and incentivising biofuel use around the world. Here we will look at the current and forecast demand for biofuels in the aviation, marine and road transport sectors.

Together with the policies driving biofuel use, the other key input to assess the outlook for biofuels is the total demand for fuels in these sectors. Diagram 2.1 reveals the current and forecast fuel pools for diesel, jet kerosene and marine fuel (for marine this shows the liquid fuel pool covering oil and biofuels as this is the pool which can be blended with biofuels). In total demand for these fuels is around 1.7 billion tonnes per year with the majority of use in diesel. The sector is set to rise to close to 2 billion tonnes by 2040.

**Diagram 2.1: Total fuel pool demand for diesel, kerosene and liquid marine fuel**




## Sustainable aviation fuel

Based on the country level policies discussed in Chapter 1 and the outlook for jet kerosene demand we estimate the demand for SAF. As many of the polices are still at an early stage we outline our assumptions in Table 2.1. Where a mandate is based on GHG savings rather than volumetric blends we assume SAF achieves an average GHG saving of 86% compared to fossil kerosene.

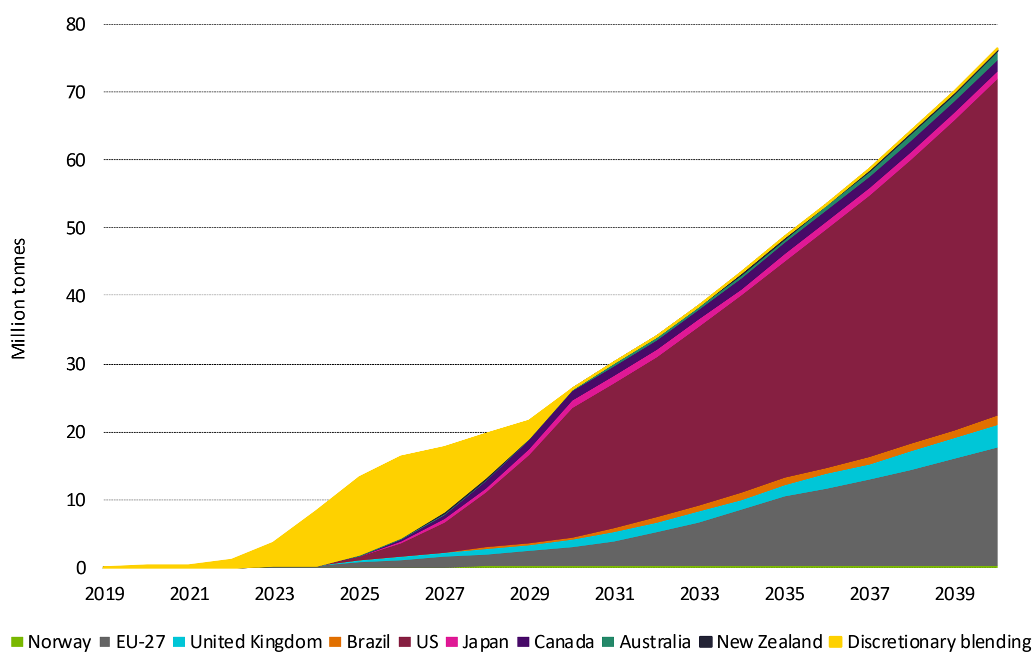
In the near term, before mandates ramp up, we allow for discretionary blending. This is based on the outlook for supply given announced capacity growth over the next few years. Any production is likely to be consumed mainly in Europe and the US.

**Table 2.1: Central scenario policy assumptions**

| Country | Start year | Type | Level |
|---|---|---|---|
| EU-27 | 2025 | Energy | 2% in 2025, rising to 5% in 2030, 32% in 2040 and 63% in 2050 |
| *Sweden* | *2021* | *GHG* | *0.8% in 2021, rising to 27% by 2030* |
| *Finland* | *2023* | *Energy* | *30% by 2030* |
| *France* | *2022* | *Energy* | *1%, rising to 2% in 2025, 5% in 2030* |
| *Germany* | *2026* | *Energy* | *0.5%, rising to 1% in 2028, 2% in 2030* |
| Norway | 2020 | Volume | 0.5%, aiming for 30% in 2030. Increases from 0.5% begin in 2023. |
| USA | 2025 | GHG | Starts at 3.3% in 2025, rising to 20% in 2030, 86% in 2050 |
| Canada | 2025 | GHG | Starts at 1.7% in 2025, rising to 15.1% in 2030 |
| Brazil | 2025 | GHG | Starts at 1% in 2027, rising linearly to 10% in 2032. |
| UK | 2025 | GHG | (In volumetric equivalents): 2% in 2025, rising to 10% in 2030, 15% in 2035, 25% in 2040, 40% in 2045 and 65% in 2050 |
| Japan | 2025 | Volume | 2% in 2026 rising linearly to 10% in 2030. |
| Australia | 2025 | GHG | 2.5% reduction in emissions intensity from jet fuel by 2025, a 3% reduction by 2030, 10% in 2040 and 50% in 2050. |
| New Zealand | 2025 | GHG | As Australia |

The EU and US are set to be the largest consumers of SAF over the next 20 years. By 2040 total SAF demand is set to reach around 76 million tonnes, equivalent to 17% of the total jet kerosene market. While this is a very ambitious target, in order to be on track to meet the net zero target set out by IATA, SAF demand could be more than three times higher than this.

**Diagram 2.2: Forecast SAF demand by country**



As the **Philippines** has not discussed SAF goals at a national level we have not assumed any policy in our base case forecast. However, kerosene demand is forecast to increase from around 2.2 million tonnes in 2025 (when most mandates are set to start) to 3.6 million tonnes in 2040. At a 5% blend this would result in demand of around 1-200,000 tonnes a year while an ambitious target, in line with IATA targets, would result in demand reaching almost 1.5 million tonnes in 2040.

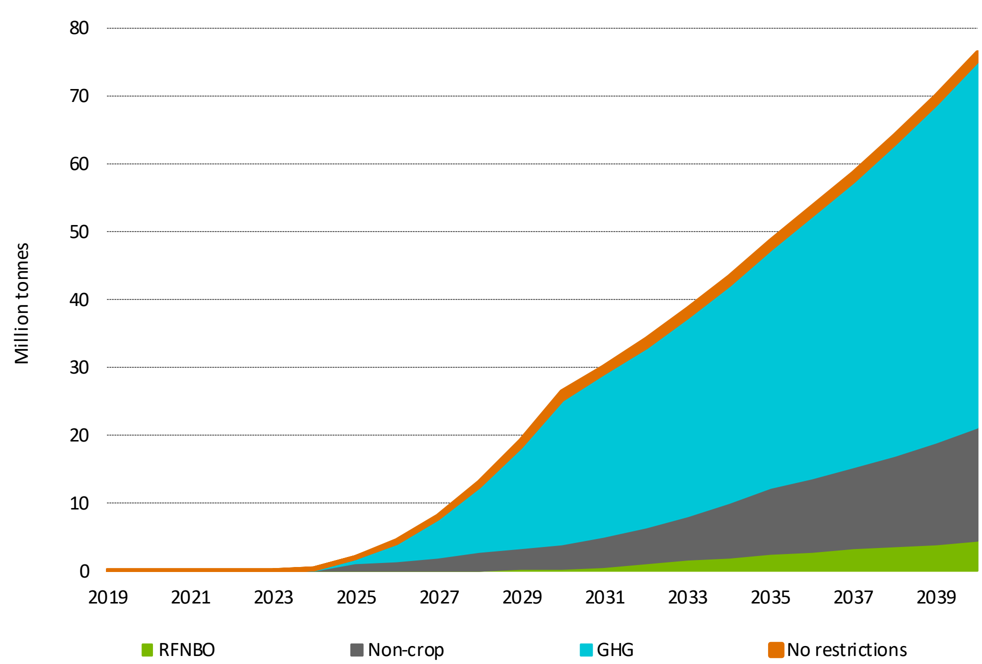
As SAF can be made from a variety of feedstocks using several different technologies some of the policies announced include rules for feedstocks and sub-targets for technology. So far, the EU has the most rules over the type of SAF that can be used. They specify that no crop feedstocks can be used and have a sub-target for RFNBO (as outlined in Chapter 1). The UK and Norway have also ruled out crop feedstocks and the UK has said they are planning a sub-target for RFNBO but so far, no targets have been set. RFNBO are typically made from green hydrogen and waste $CO_2$ gases.

By specifying no crop feedstocks these policies will require SAF to be made of waste-based feedstocks, including waste oils and fats (such as used cooking oil) and waste biomass.

The other countries which have discussed SAF policies have not specified feedstock or technology, but all except Japan are based on a GHG saving target. This will place a premium on waste feedstocks over crops but do not rule crops out (although some countries including the US are likely to exclude all palm-based material). There are also minimum GHG savings requirements in place in most policies which will rule out some crop feedstock.

Diagram 2.3 presents the outlook for demand by mandate type in terms of technology and feedstock type. The vast majority is either non-crop or GHG based which will put the focus on waste-based SAF.

**Diagram 2.3: Forecast SAF by technology/feedstock type**



## Marine biofuel

The marine fuel sector is more complex than aviation or road as there are a range of options to reduce emissions and the policies currently in place are typically less specific about how to reach the targets. As discussed in Chapter 1, none of the policies announced so far contain specific goals for biofuels use. This makes the outlook for marine biofuel demand less clear.

As it is easier to use alternative fuels in marine than in aviation, we expect the sector to diversify over the forecast period to use a wider range of fuel types. Our outlook is based on forecasts from industry participants and sees the proportion of the sector using traditional liquid fuels (diesel/fuel oil/biofuels) shrinking from 93% in 2021 to 53% in 2040. LNG and hydrogen-based fuels are expected to take up a growing share of the market as well as smaller volumes of biogas and electricity.

Based on this outlook and our forecast of total marine energy demand, this results in a shrinking pool into which biofuels can be blended.

**Diagram 2.4: Forecast marine energy split by type**

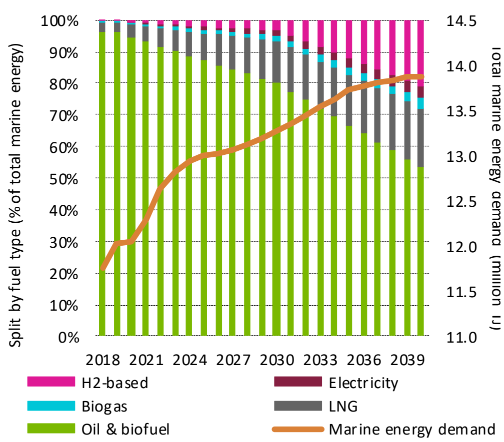
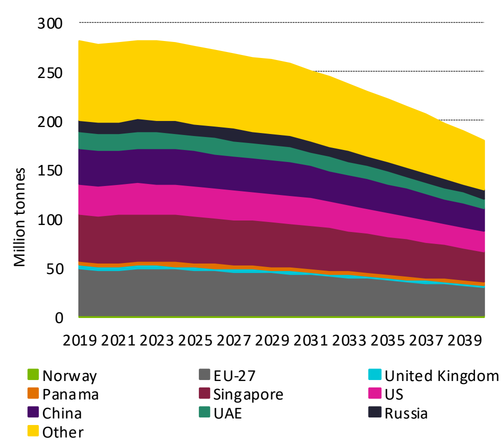



**Diagram 2.5: Forecast consumption of liquid oil and bio-fuels in marine transport**




A handful of countries/ports have included biofuels support specifically in their goals to reduce marine emissions. While these are not blending targets we assume that this support will result in biofuel demand, particularly in the short-medium term until other technologies mature. We assume that all biofuel blended into marine fuel will be biodiesel, predominantly FAME as the cheaper option, but some locations could use small volumes of RD, particularly in ports located close to an RD facility.

Our key assumptions are:

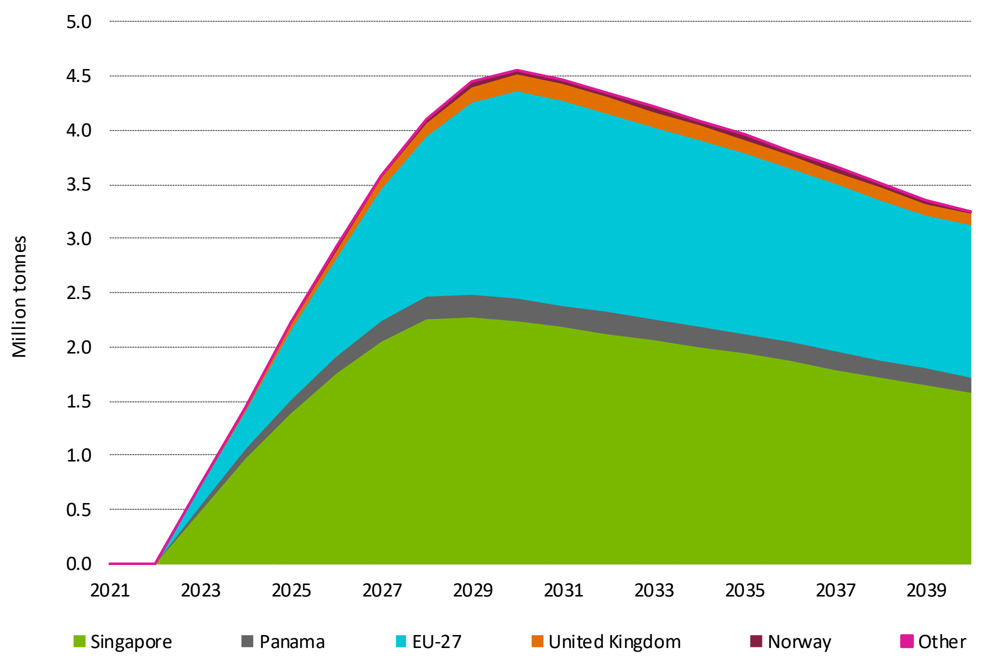
- The EU will move towards a 5% blend of FAME by 2030, this blend will then remain flat (with volumes therefore reducing) out to 2040.
- The UK and Norway have also signalled support, and we assume they match EU blends.

- Singapore's plans include pilot schemes for using biofuels in maritime in the near term. We have assumed that they will ramp up slightly faster than the EU, starting with a blend of 1% in 2023, rising to 5% by 2028 and then remaining at this level.

- The carbon fees in Panama are expected to result in some demand for biofuels. We have assumed that this follows the same trend as Singapore.

This results in demand for biodiesel in marine fuel rising to 4.6 million tonnes by 2030 and then steadily tailing off to around 3.3 million tonnes in 2040. While these blends are low and limited to just a few countries we believe that marine biofuels will face strong competition from aviation and road transport in the future. Therefore, bidding away supplies of lipid-based FAME will be difficult, and the industry is expected to look to other alternatives to reach their emission goals.

**Diagram 2.6: Forecast biodiesel use in marine transport by country**




There is significant upside potential to this forecast, for example, a worldwide blend of 5% biodiesel in marine fuel would result in demand of 13 million tonnes by 2030. Given the tightness in supply of oils and fats, and even more so for waste oils which are typically targeted, this target is not achievable without taking supplies away from other sectors.

## Biodiesel in road transport

Global biodiesel consumption stands at 44.5 million tonnes in 2021. It is forecast to grow by an average of 5.5% per year over the forecast period from 2021 to 2030, increasing by 27.8 million tonnes. In the period from 2030 growth is slower at an average of 0.6% per year to reach 76.5 million tonnes in 2040. The slower growth is due to a range of factors including falling diesel demand in several key countries and fewer policy changes.

The majority of growth over the next 20 years is from the EU, Indonesia, Brazil and the US, as a result of higher mandates and greater availability of RD. Growth in Canada and Malaysia is also forecast to be strong. It is worth noting that these volumes include biodiesel used in industrial uses where they are covered by the biofuel policy (as in Indonesia) but these volumes are small.

Total biodiesel is made up of FAME and renewable diesel (RD). FAME is traditional biodiesel which has low production costs and makes up the majority of the market. However, FAME has technical issues which limits the proportion it can be blended into diesel. These limits have meant that, as mandates have risen, FAME demand has been unable to increase, this has opened the door to RD. RD is more costly to produce, requiring more feedstock per tonne of biodiesel, higher costs of production and large capital investments needed to build refineries. However, RD has superior fuel quality and is chemically identical to diesel so it can be blended in any proportion, and it can use the same pipelines without issue.

**Diagram 2.7: Forecast biodiesel use in road transport by country**

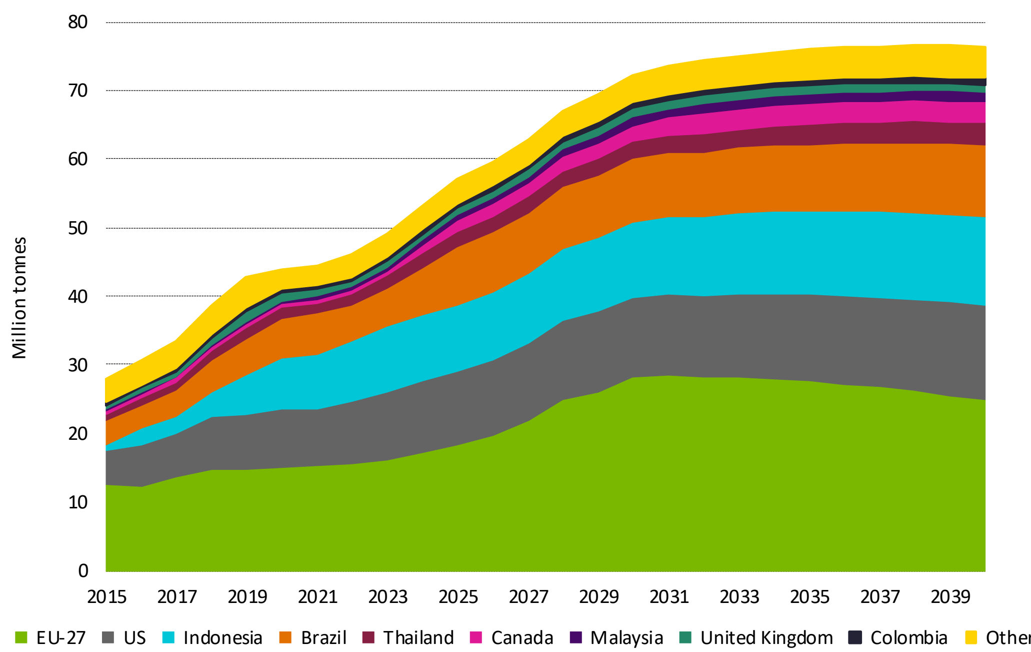
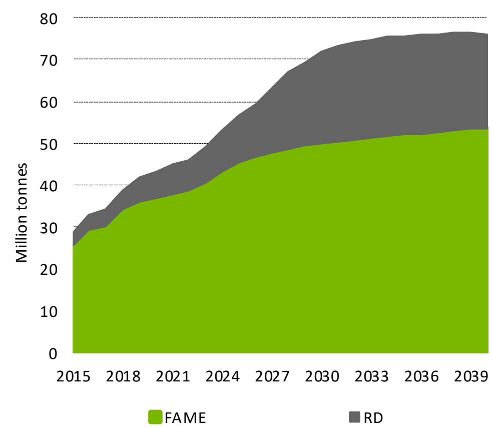


Diagram 2.8: Forecast FAME and RD use in road transport




Over recent years we have seen RD supplies grow to meet the rising demand for biodiesel. Consumption of RD is set to surge in the period to 2030, more than tripling in size as growing mandates hit blend walls for ethanol and FAME, requiring drop-in fuels such as RD. The forecast for RD is based on the outlook for demand which is driven predominantly by the EU as member states exceed FAME blend walls, and the US as California and other western states increase their GHG targets. We also expect increasing consumption from Canada as their Clean Fuel Standard takes effect.

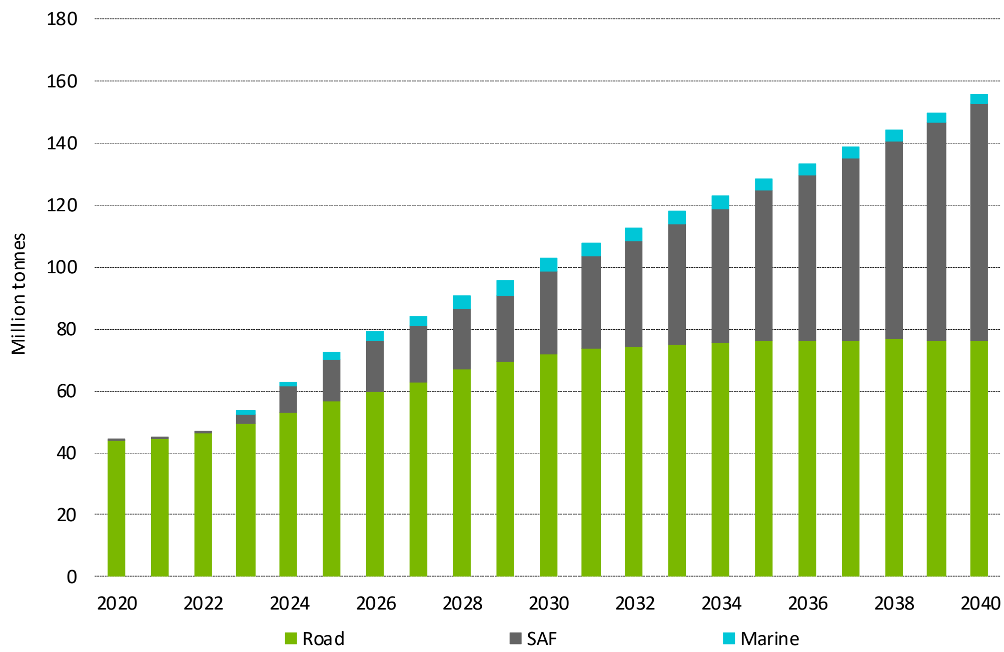
In 2021 RD made up 26% of the biodiesel sector. By 2030 this is forecast to reach currently in the EU, US. These will remain the largest consumers, but we will also see consumption increasing in Canada, Indonesia and Norway over the forecast period.

## Summary

Based on these forecasts, demand for biodiesel in road and marine and SAF in aviation will rise from current volumes of 45 million tonnes in 2021 to close to 156 million tonnes in 2040.

- In the medium-term growth will come from road transport but in the mid to longer term growth will be driven by SAF.
- Marine biofuels are expected to remain a small sector as limited feedstocks for biodiesel/HEFA SAF will create competition between the sectors for lipid-based biofuels.
- SAF demand will be driven by a handful of countries and will rely on new technologies coming on stream to meet targets in the longer term.

**Diagram 2.9: Forecast biodiesel and SAF demand in road, aviation and marine transport**



# Chapter 3: Biofuel Supply

Based on the analysis in Chapter 2, demand for biodiesel in road and marine and SAF in aviation will rise from current volumes of 45 million tonnes in 2021 to close to 156 million tonnes in 2040. To meet this demand we will need to see a significant supply response which brings several key supply challenges.

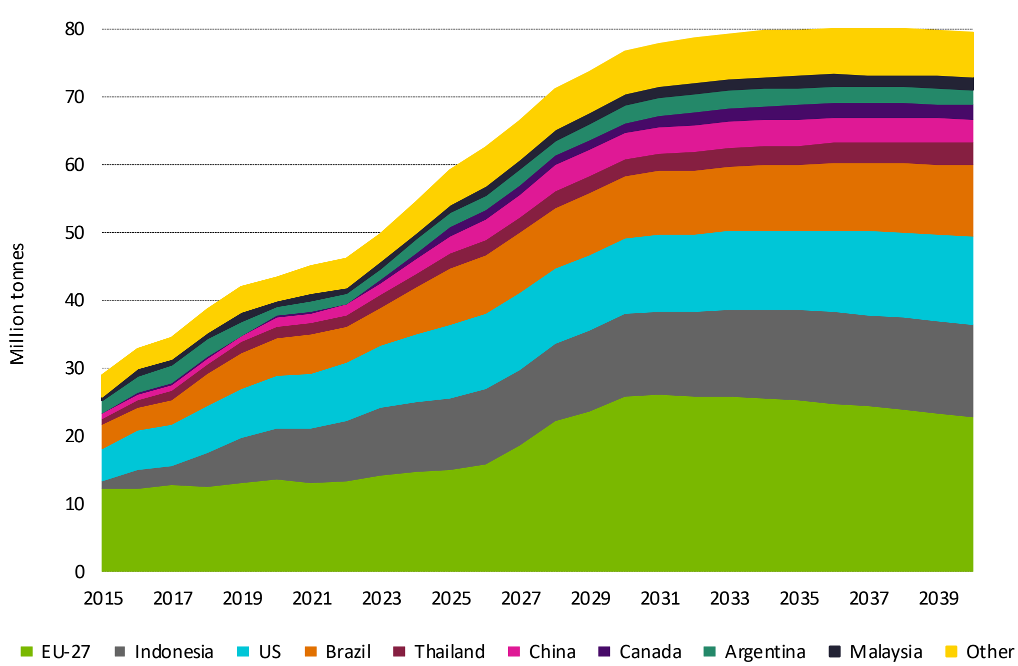
We will start by looking at the outlook for supply. We will then focus on the challenges and opportunities facing the sector.

## Biodiesel supply forecast

Biodiesel demand from both road and marine transport will grow from 44.5 million tonnes in 2021 to 79.5 million tonnes in 2040. The products used in road transport and marine are the same – produced from the same feedstocks at the same facilities. Therefore, we look at them together.

Currently the EU, US, Indonesia and Brazil are the largest producers of biodiesel, supplying 78% of the total market. They are forecast to remain the majority of supply over the forecast period although other countries will increase their market share slightly. Most biodiesel is consumed domestically so countries with supply are typically the same as those with demand. China, Argentina and Singapore are key outliers as major exports of FAME and RD.

**Diagram 3.1: Forecast biodiesel and RD supply for road and marine transport**




FAME makes up the majority of this supply, mirroring demand, but RD is set to increase its market share to around 30% by 3031. RD production is centred around the EU and US as that is where the majority of demand is, but there are a few plants designed to export to these markets, particularly in Singapore and China.

**Diagram 3.2: Forecast FAME for road and marine supply by country**

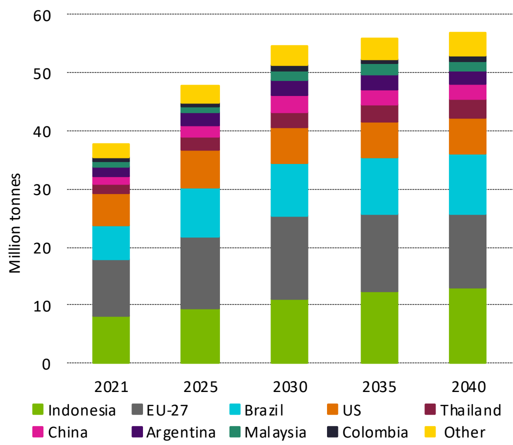
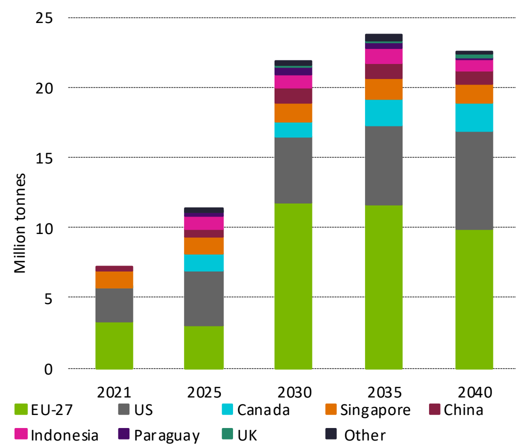


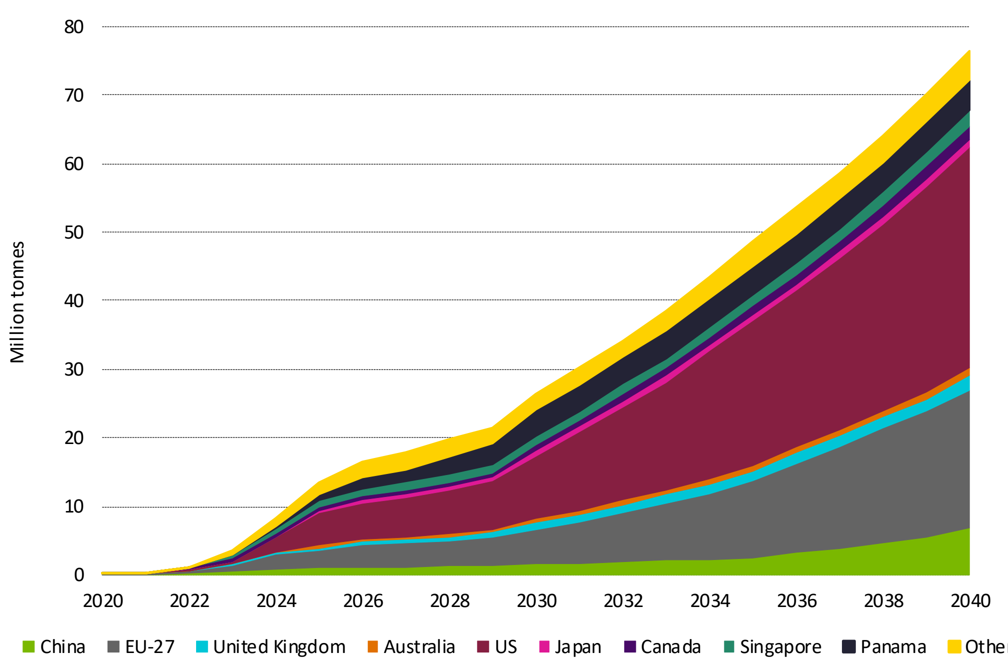

**Diagram 3.3: Forecast RD for road and marine supply by country**




## SAF supply forecast

SAF supply will ramp up quickly in the next few years as planned projects come on stream. There is a risk that supplies in the short term will fall below this volume if plants fail to come to fruition or struggle to source enough feedstocks. However, while some plants may not succeed, we expect more announcements to be made in the coming years. In the longer term, supplies are set to match demand from mandates as discussed in previous chapters. This will see supplies reach 76 million tonnes by 2040.

**Diagram 3.4: Forecast SAF supply by country**



As with biodiesel, we expect most supply of SAF to be in the EU and US, as they have the largest projected demand and have seen the greatest investment in capacity so far. As with RD, we have seen a few large plants planned outside these regions, aimed at exports. These include Singapore and Panama as well as a few projects in China.

SAF can be made from a variety of feedstocks using several different technologies. To date, the ASTM, the agency which sets the global standards for fuels, has approved eight pathways to biojet fuel, outlined in Table 3.1.

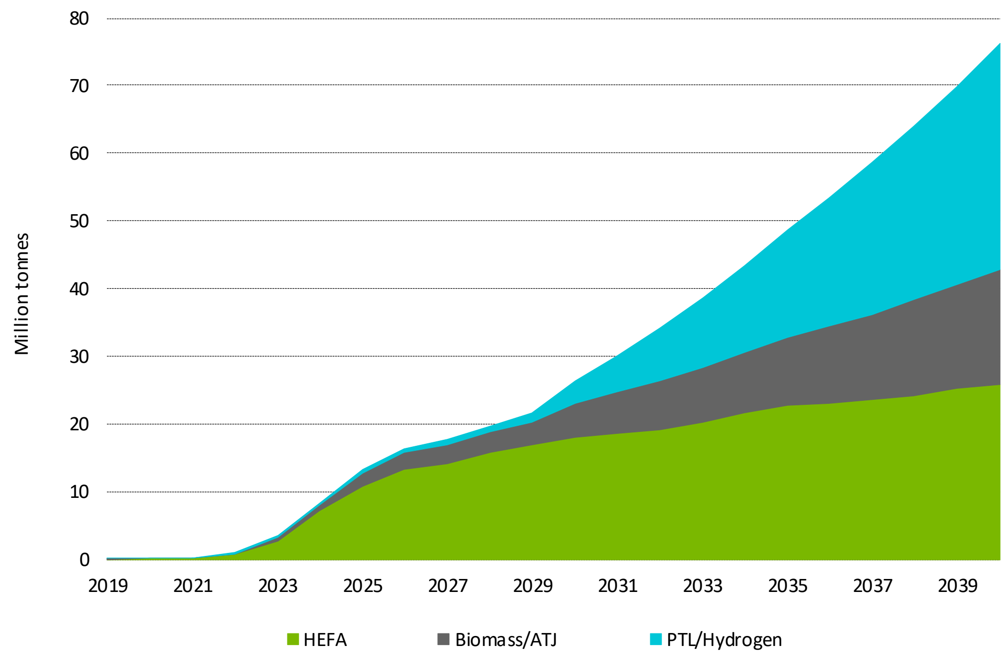
**Table 3.1: SAF production pathways**

| Pathway name | Feedstocks | Date of ASTM approval |
|---|---|---|
| Fischer-Tropsch (FT-SPK) | Biomass such as forestry residues and municipal solid waste (MSW) | 2009 |
| Hydroprocessed Esters and Fatty Acids (HEFA-SPK) | Vegetable oils, waste oils and fats | 2011 |
| Synthesised Iso-Paraffins (SIP) | Sugarcane | 2014 |
| Fischer-Tropsch FT-SPK/A, with aromatics | Biomass such as forestry residues and municipal solid waste (MSW) | 2015 |
| Alcohol-to-Jet (ATJ-SPK via isobutanol) | Agricultural waste products | 2016 |
| Alcohol-to-Jet (ATJ-SPK via ethanol) | Agricultural waste products, industrial waste gases | 2018 |
| Catalytic Hydrothermolysis (CHJ-SPK) | Plant oils, waste oils, algae oils, soybean oil | 2020 |
| High Hydrogen Content (HHC-SPK) | Algae | 2020 |

Currently only HEFA technology (using fats and oils) is available at a commercial scale but there is significant investment and research going into developing other SAF pathways. The limits on fats and oils availability will mean that other technologies will be needed to meet the forecast demand.

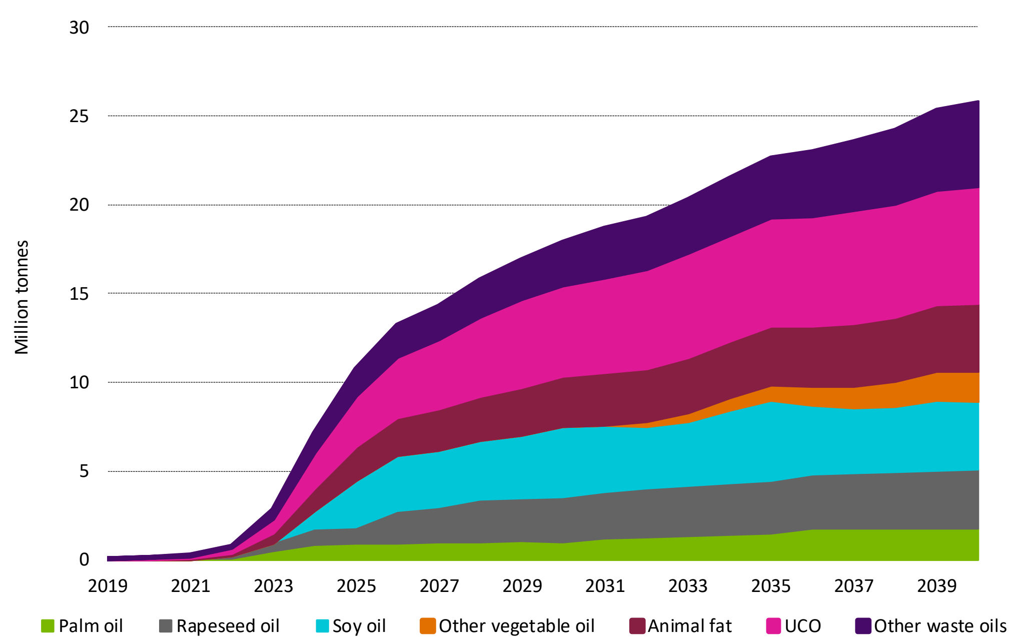
In the near term HEFA technology using fats and oils will make up the majority of supply. In the longer term as more technologies come on-stream, we expect the majority of growth to come from technologies using biomass (FT, Pyrolysis and ATJ) and power-to-liquid, which uses green hydrogen and captured waste carbon.

**Diagram 3.5: Forecast SAF supply by technology**




HEFA SAF is limited by the availability of oils and fats. Diagram 3.6 reveals the outlook for supply by type of oil. There is expected to be a rapid increase in the near term with growth slowing beyond that. This is due to limits on supplies of oils and fats as well as limits in some countries over the use of crop-based feedstocks.

**Diagram 3.6: Forecast HEFA SAF supply by feedstock**



The outlook for the newer technologies is uncertain as they are still in development stages. However, based on current progress and plant announcements we expect biomass technologies to start to take off over the next decade with power to liquid and hydrogen technologies only ramping up after 2030. Biomass based fuels include alcohol to jet which can use alcohol made from traditional crop feedstocks or biomass, as well as pyrolysis and Fischer-Tropsch technologies which use waste biomass to produce bio-oil which can then be refined.

Power to liquid technologies use green electricity to create hydrogen (by splitting water into hydrogen and oxygen). This hydrogen can either be used directly as a fuel (in specially designed planes) or combined with captured waste $CO_2$ gases to produce a kerosene fuel.

We have not forecast the split between biomass feedstocks as it will depend heavily on where the plant is located, and so far only a handful of projects have been discussed. In the short term we will see ATJ SAF produced from corn and sugar cane ethanol. Beyond this focus will shift toward non-crop biomass.

## Bio-methanol for marine biofuel supply

We have focused on biodiesel as a replacement for marine fuel as this is the most developed route. However, there are other routes which are being considered, including the use of bio-methanol which can be used as transport fuel either by blending with gasoline or in the form of methyl tert-butyl ether (MTBE) and dimethyl ether (DME). It also functions as an ignition improver for diesel engines if used as an additive to diesel fuel. To the maritime industry, methanol is compatible in two-stroke and four-stroke diesel engines.

At present, several technologies are available to produce methanol. Most methanol produced today is derived from coal gasification or natural gas reforming, but it can also be obtained from diverse biomass feedstocks and renewable electricity.

Biogas reforming is one technology used to process biomethane using steam to form syngas (carbon monoxide and hydrogen), this is then converted to methanol, which is distilled to achieve high purity of methanol. Other established routes to produce bio-methanol are gasification of biomass and pulping condensate recovery, there is also research into the power-to-liquid route which would use green hydrogen and captured carbon dioxide.

As one of the largest chemical commodities globally, around 120 million tonnes of methanol were produced in 2021. About 65% of methanol is produced by natural gas reforming, and the remaining 35% is based on coal gasification, while less than 0.2% comes from renewable sources. Current renewable methanol capacity is around 130,000 mt from eight commercially operated facilities. Amongst them, BASF (Germany) contributes the most capacity of bio-methanol by co-feeding biomethane with natural gas at their Ludwigshafen facility in Germany. The same gas reforming technology is also utilised by other major methanol producers such as OCI (Netherlands) and Methanex (US).

Capacity using technologies other than gas reforming are smaller but growing. Around 7,250 mt of bio-methanol is generated from pulping mills, including Södra (Sweden) and Alberta Pacific (Canada). In addition, Enerkem, a Canadian renewable fuel manufacturer, started to produce 31,000 mt of bio-methanol via gasification of MSW in 2016 at their Edmonton plant. Two more plants gasification are in development, located in Rotterdam, Netherlands and Tarragona, Spain. Each will convert 360,000-400,000 mt of wastes to 220,000 mt of bio-methanol. Following the same pathway, two facilities built by Trans World Energy (US) and LowLands Methanol (Netherlands) respectively are expected to come online in 2023 and will produce 875,000 mt and 120,000 mt of methanol from biomass and MSW.

At present, more than 60% of methanol goes to the chemical industry where it is used as an intermediate for synthesis of formaldehyde, olefins and acetic acid, whereas the other 40% is used as an energy carrier such as pure methanol, methyl tert-butyl ether (MTBE), dimethyl ether (DME), or biodiesel. In the meantime, interest in the use of methanol in the marine sector is growing, motivated by tightening emission regulations. Several leading shipping companies have investigated the use of methanol for shipping.

Stena Line, the Swedish shipping company and one of the world's largest ferry operators, launched the world's first methanol powered ferry, Stena Germanica in 2015 which is a 1,500 passenger ferry operating between Sweden and Germany. The ferry was adapted to dual-fuel technology, using marine gas oil (MGO) as backup.

Maersk (Denmark) is one of world's largest shipping companies who has chosen green methanol as one of their approaches to decarbonisation. The company has ordered 13 container ships running on either bio-methanol or e-methanol, which are expected to operate in 2024 and 2025. Meanwhile, to boost renewable methanol production, Maersk has formed partnerships with six companies with the intent of sourcing at least 730,000 mt by the end of 2025.

Apart from bunkering, much of the infrastructure for the transportation and storage of methanol already exists. According to DNV, around 117 terminals offer truck and bunker vessel loading as well as methanol storage. More than 50 vessels are operating on methanol, mainly container ships and chemical tankers. Methanol can be used in two-stroke and four-stroke diesel engines, yet redesign of parts of the engine, injection and storage system may be required due to methanol's corrosive nature. A few engines specifically designed to run on methanol are already available provided by MAN (Germany) and Wärtsilä (Finland).

Renewable methanol has been seen as a promising fuel for the transportation sector due to its potential GHG reduction, low emissions, engine compatibility and ease of handling. Judging from the current and planned projects, the total bio-methanol/e-methanol production could reach 4 million tonnes by 2030. This along with the initiative taken by ship owners and engine makers, methanol has great potential to contribute to decarbonise in the marine sector.

## Supply challenges and opportunities

Biofuel markets have huge potential demand driven by policies looking to replace fossil fuels in road, aviation and marine transport. The industry must grow to supply this demand but there are a number of challenges facing the sector which could limit growth.

## *Blending limits*

***Challenges***

This is mainly an issue in road transport. The technical properties of FAME mean that the proportion of FAME that can be blended into standard diesel is limited. Higher blends are possible if used in specially adapted vehicles by typically these fleets are a small proportion of the market. Blending limits vary between countries, in the US and EU they are relatively low at 5% and 7% respectively. However, the EU is considering increasing the limit to 10%. Countries in South East Asia and South America tend to allow higher blends, partly because warmer weather means clogging is less of an issue.

These limits mean that as mandates rise the use of the traditional biofuels FAME and ethanol (which is also limited by blending limits) can no longer meet the targets. This therefore requires other biofuels to be used or new ways to reduce emissions to be found.

In the short-medium term the road transport sector is looking to RD to increase the use of biofuels as it has better technical properties than FAME and be blended in any proportion with diesel. In the longer term the sector is looking to electrification as another way to reduce emissions and reliance on fossil fuels.

There have been investigations into using other alternative biofuels including biogas and bio-methanol but these have struggled to take market share due to technical and logistical issues.

***Opportunity***

The opportunity here is for suppliers of renewable diesel, if they can secure low-carbon (ideally waste) feedstocks and enter the market at the right time there is a growing market for their output. Looking longer term, many RD plants will be able to produce both RD and SAF, giving flexibility and a safety net if demand for biodiesel is eroded by electrification.

## *Feedstock supply*

***Challenges***

The feedstocks for FAME, RD and SAF are predominantly lipid based. These oils and fats include both crop-based oils and wastes and residues. Waste oils have become more popular over recent years thanks to incentives in various policies (particularly in the EU and California). However, these waste oils are intrinsically limited. While there is still scope to collect and extract greater volumes of waste oils over the coming years the limited supply will limit growth in the sector in the mid-long term.

The supply of vegetable oils is not limited in the same way as they can react to demand with increased plantings. However, many countries are looking to limit the use of crops due to issues with land use change and food versus fuel debates. There are also practical limits over how quickly supplies can increase. A further barrier is that prices need to rise substantially in order to incentivise farmers to expand planting areas into new land. High prices cause complaints from consumers and can cause governments to pull back on support.

These limits in lipid feedstock supplies will constrain biodiesel and SAF supply growth in the future.

***Opportunity***

There is opportunity here if producers are able to form solid supply chains for feedstock. For example, several large producers are becoming vertically integrated by partnering with or buying waste oil collectors.

## *Technology development*

***Challenges***

New technologies are being developed to create biofuels from alternative feedstocks, particularly focused on the SAF market. Developing new technologies is costly and risky, particularly in a sector driven by government policy which can be changed or rolled back with little notice. If these technologies don't take off SAF supplies will be limited and mandates may have to be rolled back.

***Opportunity***

There are opportunities to invest in new technologies using biomass, alcohol-to-jet or power-to-liquid to produce biofuels. While investment costs are high for these technologies, industry leaders in this area will find a large market.

## *Alcohol to Jet (ATJ)*

The ATJ process can use either ethanol or isobutanol as a feedstock to produce SAF. There are currently no commercial-scale plants using ATJ technology and research is ongoing, but several companies have announced plans to build large scale plants.

To date fifteen plants have been proposed using ATJ technology which have a combined planned capacity of around 2.9 million tonnes. By far the largest plant is planned as a joint venture between ag and ethanol major ADM and technology provider Gevo. This plant will be in the US and will have capacity to produce over 1.4 million tonnes of SAF per year, produced from US corn ethanol (the total capacity investment for this project has not been announced). Most other projects in the pipeline are much smaller with a couple aiming to produce 300-350,000 tonnes of SAF per year but most capacities below 100,000 tonnes.

***Challenges***

As a new technology there are risks that scaling up production will run into problems. So far, most announced plants are small with only the ADM/Gevo project hoping to reach a similar scale to large HEFA plants. There is scope for this to change in the future but at this stage the outlook is uncertain.

One major issue for ATJ is the capital cost of new facilities. Capital costs per tonne of annual capacity are estimated at around $2,500-4,000/tonne, for comparison costs for HEFA capacity are around $600-1,500/tonne. This may fall in time, but as things stand this will form a significant barrier to entry to the sector and slow down progress in development.

A further issue for ATJ is around feedstocks. Around 1.8 litres of ethanol are needed per litre of SAF output. Although large volumes of first generation, crop-based ethanol are available, this ethanol will not be eligible for use in the EU and other countries with limits on crop-based fuels. Furthermore, ATJ from crop ethanol may struggle to achieve large GHG savings, reducing the potential value of the fuel.

***Opportunities***

Despite the high capital costs the marginal costs of production for ATJ are lower than HEFA SAF. Looking ahead, demand for ethanol in road transport in some key regions is likely to fall as electric vehicles take market share from gasoline. This will leave under-utilised capacity of ethanol which could be diverted to SAF production. Lower production costs and potentially available feedstocks could make ATJ SAF competitive. However, if demand for this fuel rises sharply, we will see a similar situation as for lipid feedstock demand, pushing up crop prices and potentially causing governments to pull back if food vs food issues are raised.

A further opportunity lies in ATJ SAF which is made from second generation ethanol. Historically cellulosic ethanol has struggled to reach commercial volumes due to high production costs, limitations over economically available biomass and technical issues at plants. There has been renewed interest in this area thanks to the potential use in SAF production. If the hurdles can be passed, this could give a very low GHG, non-crop feedstock to produce SAF.

As a new technology there are opportunities for early adopters to become front runners, as we have seen with Neste in the HEFA space. While there are risks to this, the ability to secure feedstock supply is likely to be crucial so setting up supply chains before the market grows will be beneficial.

## *Electrification*

***Challenges***

Many governments are seeking to increase the use of electricity in transport in order to reduce emissions. However, electrification requires huge investment in logistics, investment in renewable energy supply and buy-in from consumers as well as improvements in technology.

In the longer term this may take significant market share from liquid transport fuels, reducing the blending pool and the need for biofuels to meet the target.

Electrification is the largest threat in the passenger cars sector, which are typically gasoline based. The diesel-based heavy goods vehicle sector is more difficult to electrify but progress is being made toward this. This could limit the need for biofuels in the road transport sector.

There is little potential for electrification in aviation as the technical limitations make it unsuited to flying. This should mean there is little impact on demand for SAF.

There is some potential for electrification in the marine sector, both in powering ships and also the use of renewable energy around the sector to reduce emissions.

## Sector conclusions

### *Aviation*

Biofuels use in the aviation sector has huge potential for growth. The targets are hugely ambitious and SAF represents the best way to decarbonise the sector.

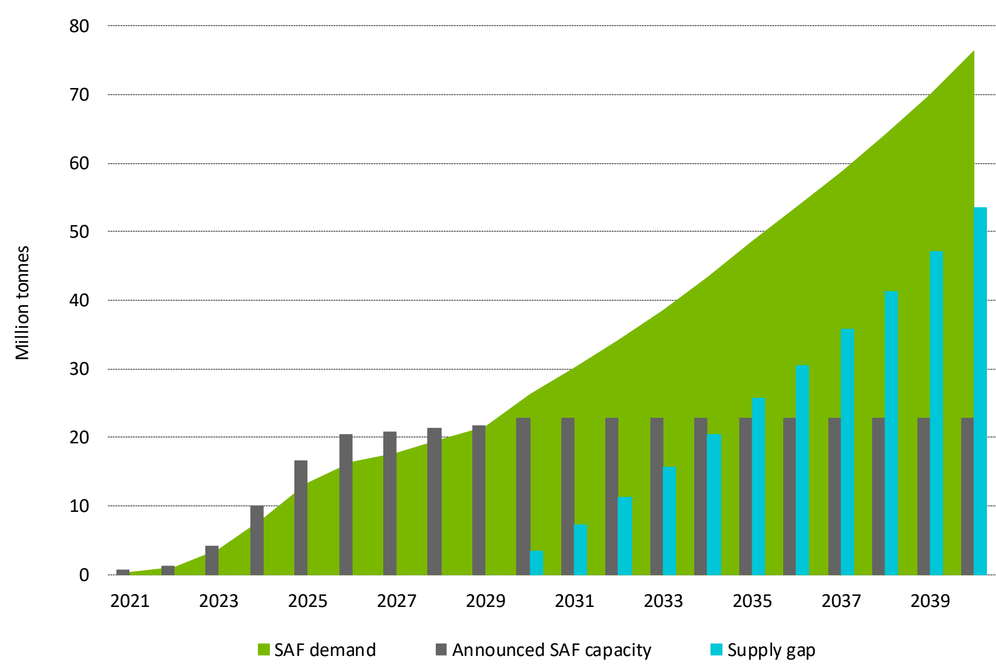
Key issues in this sector will be sourcing the volume of feedstock required for lipid-based SAF and the need to develop new technologies to supply SAF from non-lipid sources.

Most policies for SAF are focused on reducing emissions and the use of crop-based biofuels will be penalised or discouraged. This will increase pressure to find waste feedstocks and develop the technologies able to produce from biomass and green electricity.

This also opens up opportunities in this sector for producers with secure feedstock supplies or able to lead the way in non-lipid based SAF.

While we have seen a raft of plants announced over the lest two years, as mandates ramp up we will see demand grow faster than planned supply. If all announced capacity comes onstream as planned, without further investments we will see a growing supply gap opening from 2030.

**Diagram 3.7: SAF demand vs announced capacity**




### *Marine*

Biofuels use in the marine sector is much more uncertain with most policies so far not specifying the use of biofuels. Decarbonisation of the sector is expected to come from a wide range of pathways meaning that biofuels are less necessary to meet the goals.

The uncertainty of policy is a key issue for this sector as without clear incentives suppliers and obligated parties will be unwilling to invest in capacity, logistics or technology.

There are some opportunities in this sector, particularly in the near term as biofuels can provide quick results while other technology is being developed.

As well as biodiesel used in the marine sector, there is potential for bio-methanol to be used. The use of methanol as a fuel requires specifically designed and adapted engines which is likely to slow its adoption but several large companies have made investments in this area. Current supplies of bio-methanol are limited so there are opportunities for further investment but given the greater restrictions over use it is important to assess the local market in more detail before going ahead.

### *Road*

This sector is much more well established. There is significant potential for growth as mandates ramp up over the next decade although beyond that the outlook begins to stagnate.

Key issues in this sector are blending limits on FAME, requiring expensive investments in RD capacity, limited oils and fats supplies constraining potential supply and, in the longer term, electrification of the fleet reducing the need for biofuels in meeting decarbonisation targets. An additional issue in the next few years is the risk of over capacity of RD. There has been significant investment in recent years and a significant volume of capacity is due to come on-steam over the next few years. If this all comes to fruition, we could see supply outpace demand, leading to falling prices until the market finds a new equilibrium.

Despite this risk, rising demand out to 2030 still gives opportunities for RD producers, particularly if they have strong supply chains for low carbon feedstocks.

The outlook for biodiesel from both road and marine sectors reveals that without increased supply from the established FAME market there will be a wide and growing supply gap over the forecast period. The FAME demand includes both road and marine demand for biodiesel.

However, for RD, if all announced capacity comes onstream there will be over supply in the sector. In reality we will see some of this capacity fail to come to fruition (particularly as some companies will struggle to source sufficient feedstocks), some will convert to SAF to meet some of the supply gap in that sector, and some may be used in to meet growing FAME demand (although this will need to be priced at a competitive level to FAME so we do not expect this to be a major market outcome).

**Diagram 3.8: FAME demand vs current supply**

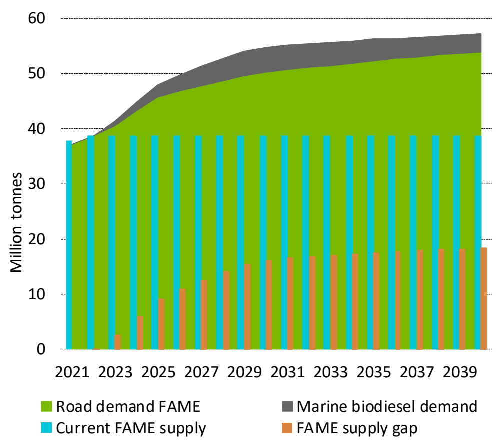
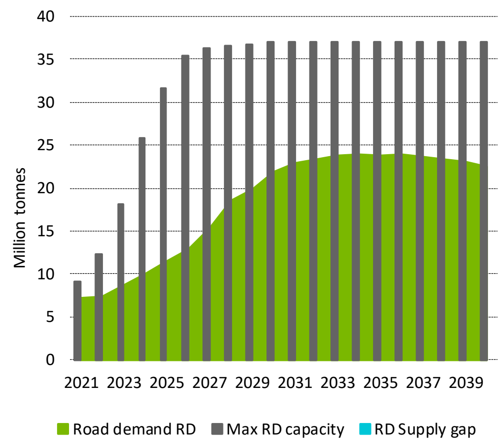



**Diagram 3.9: RD demand vs announced capacity**




## Strategic conclusions for Prime Infrastructure Holdings

Prime Infrastructure Holdings is assessing investments in ATJ capacity and methanol via reformer technology aimed at the marine sector. The key points to consider are:

- The SAF sector has huge potential and although there has been a number of capacity announcements there is still a significant supply gap in the medium to long term.
- Capacity using non-lipid feedstocks is in high demand and should avoid some of the feedstock supply issues experienced by HEFA plants.
- Ethanol has some limitations as a feedstock. If crop-based it will limit the use in some areas and reduce the GHG savings of the fuel. If using non-crop ethanol, the risk is that supplies will not be available given the difficulties seen previously in ramping up cellulosic ethanol production.
- For the marine sector, demand for biofuels in the sector will initially focus on biodiesel but this sector will struggle to bid supplies of limited lipid-based fuel away from road and aviation sectors.
- There will be growing demand for other ways to decarbonise the marine sector, including bio-methanol.
- There is significant potential here but the widespread use of methanol in marine will require investment from the sector in new engines and vessels which will take time.
- So far, although targets have been announced in the marine sector to cut GHG emissions, policies have not been enough to add the value to biofuels as has been seen in other sectors.
- The Philippines has only very limited biofuel policy in place for road transport and nothing yet in the pipeline for marine or aviation at a national level. Although there is potential for this to change, the risk is that production would need to be aimed at the export market, at least in the near term.

- However, historically the Philippine government has been reluctant to implement policy which could not be met with domestic production. Therefore, if domestic production exists the government may be more open to implementing policy.
- If IATA targets are reached in the Philippines, demand for SAF will reach around 1.4 million tonnes in 2040.

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