Maynilad Water Services, Inc. and Subsidiaries

(A Subsidiary of Maynilad Water Holding Company, Inc.)

Consolidated Financial Statements
December 31, 2023 and 2022
And Years Ended December 31, 2023,
2022 and 2021

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Maynilad Water Services, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Maynilad Water Services, Inc. and Subsidiaries (the Group), a subsidiary of Maynilad Water Holding Company, Inc., which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2023 and 2022, and its financial performance and its cash flows for the three years in the period ended December 31, 2023 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.

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- 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.

Meynard A. Bonoen
Partner
CPA Certificate No. 0110259
Tax Identification No. 301-105-435
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-136-2021, November 10, 2021, valid until November 9, 2024
PTR No. 10079912, January 5, 2024, Makati City

February 27, 2024

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 24 and 25)	**₱4,902,556**	₱10,438,664
Trade and other receivables (Notes 3, 5, 14, 24 and 25)	**2,418,070**	2,831,360
Contract assets (Notes 14, 24 and 25)	**1,205,041**	1,000,925
Other current assets (Notes 6, 11, 14, 24 and 25)	**1,862,498**	1,819,169
Total Current Assets	**10,388,165**	16,090,118
Noncurrent Assets		
Service concession assets (Notes 3, 7, 10, 11, 15 and 22)	**140,919,477**	121,187,932
Property and equipment (Notes 3 and 8)	**1,889,754**	1,573,960
Financial asset at fair value through other comprehensive income (Notes 9, 24 and 25)	**124,864**	124,864
Other noncurrent assets (Notes 3, 5, 6, 14, 22, 24 and 25)	**10,381,305**	4,401,107
Total Noncurrent Assets	**153,315,400**	127,287,863
	₱163,703,565	₱143,377,981
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 3, 12, 14, 15, 17, 23, 24 and 25)	**₱20,567,655**	₱22,116,183
Short-term and current portion of interest-bearing loans (Notes 7, 11, 24 and 25)	**2,587,660**	3,806,311
Current portion of service concession obligation payable to MWSS (Notes 7, 10, 24 and 25)	**874,561**	940,917
Income tax payable	**530,752**	631,442
Total Current Liabilities	**24,560,628**	27,494,853
Noncurrent Liabilities		
Interest-bearing loans - net of current portion (Notes 7, 11, 24 and 25)	**59,214,238**	43,107,785
Service concession obligation payable to MWSS - net of current portion (Notes 7, 10, 24 and 25)	**6,489,036**	6,069,162
Deferred tax liabilities - net (Note 16)	**1,524,795**	1,037,049
Deferred credits (Notes 3, 24 and 25)	**1,207,936**	795,403
Customers' deposits (Notes 24 and 25)	**548,618**	529,363
Pension liability (Notes 3 and 17)	**285,731**	151,791
Other noncurrent liabilities (Notes 2, 14 and 17)	**1,702,283**	1,255,130
Total Noncurrent Liabilities	**70,972,637**	52,945,683
Total Liabilities	**95,533,265**	80,440,536

(Forward)

	December 31	
	2023	2022
Equity		
Capital stock (Notes 1 and 13)	**₱4,546,982**	₱4,546,982
Additional paid-in capital (Note 13)	**10,041,662**	10,032,877
Treasury shares (Note 13)	**(391,919)**	(349,054)
Other equity adjustments (Note 13)	**(309,220)**	(309,220)
Other comprehensive income (loss) (Notes 9 and 17)	**(108,427)**	35,817
Retained earnings (Note 13)		
Unappropriated	**25,641,222**	20,230,043
Appropriated	**28,750,000**	28,750,000
Total Equity	**68,170,300**	62,937,445
	₱163,703,565	₱143,377,981

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings per Share Value)

	Years Ended December 31		
	2023	2022	2021
OPERATING REVENUE (Note 14)			
Water services:			
West zone	**₱22,169,809**	₱18,569,512	₱17,837,168
Outside west zone	**255,429**	239,100	204,632
Wastewater services -			
West zone	**4,727,116**	3,946,133	3,778,097
Others	**170,911**	119,988	130,117
	27,323,265	22,874,733	21,950,014
COSTS AND EXPENSES			
Amortization of service concession assets (Notes 3 and 7)	**2,744,831**	2,459,156	3,981,774
Salaries, wages and benefits (Notes 3, 15 and 17)	**2,525,069**	2,267,079	2,251,794
Utilities	**1,665,086**	1,714,030	1,166,931
Contracted services	**1,458,707**	1,138,976	1,028,369
Repairs and maintenance	**900,059**	688,362	627,947
Taxes and licenses	**834,058**	662,739	311,662
Materials and supplies	**832,128**	682,699	480,899
Purchased water	**619,525**	362,364	–
Provision for expected credit losses (Notes 3 and 5)	**600,524**	82,921	6,281
Depreciation and amortization (Notes 3, 8 and 22)	**524,326**	485,877	598,082
Regulatory costs	**242,203**	207,252	181,410
Transportation and travel	**191,252**	236,623	134,246
Collection charges	**182,165**	152,144	135,938
Business meetings and representations	**159,701**	119,494	118,792
Rental (Notes 22 and 23)	**89,117**	47,380	75,470
Insurance	**62,227**	51,145	70,166
Advertising and promotion	**57,550**	33,819	40,834
Others	**412,651**	460,705	221,689
	14,101,179	11,852,765	11,432,284
INCOME BEFORE OTHER INCOME (EXPENSES)	**13,222,086**	11,021,968	10,517,730
OTHER INCOME (EXPENSES)			
Revenue from rehabilitation works	**19,175,281**	14,994,961	8,081,184
Cost of rehabilitation works	**(19,175,281)**	(14,994,961)	(8,081,184)
Interest expense and other financing charges (Note 18)	**(2,503,388)**	(2,321,672)	(2,135,863)
Foreign exchange gains (losses) - net (Note 24)	**(1,167,582)**	1,764,650	1,599,868
Foreign currency differential adjustments (FCDA) (Note 3)	**1,129,029**	(1,741,839)	(1,584,370)
Interest income (Note 4)	**221,664**	30,093	45,790
Others - net (Notes 8, 9 and 12)	**1,021,230**	(771,473)	(453,648)
	(1,299,047)	(3,040,241)	(2,528,223)
INCOME BEFORE INCOME TAX	**11,923,039**	7,981,727	7,989,507
PROVISION FOR INCOME TAXES (Note 16)			
Current	**2,409,324**	1,919,469	1,530,425
Deferred	**502,536**	187,334	315,783
	2,911,860	2,106,803	1,846,208
NET INCOME	**₱9,011,179**	₱5,874,924	₱6,143,299
Basic Earnings Per Share (Note 19)	**₱1,997.78**	₱1,317.70	₱1,377.89
Diluted Earnings Per Share (Note 19)	**₱1,981.79**	₱1,300.15	₱1,356.52

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
NET INCOME	**₱9,011,179**	₱5,874,924	₱6,143,299
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent period (Note 17):			
Remeasurement gain (loss) on retirement plan	**(159,034)**	224,564	424,268
Income tax effect	**14,790**	(38,412)	(77,767)
	(144,244)	186,152	346,501
TOTAL COMPREHENSIVE INCOME	**₱8,866,935**	₱6,061,076	₱6,489,800

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Thousands)

	Capital Stock (Notes 1 and 13)	Additional Paid-in Capital (Note 13)	Treasury Shares (Note 13)	Other Comprehensive Income (Loss) (Notes 9 and 17)	Other Equity Adjustments (Note 13)	Retained Earnings (Note 13) Unappropriated	Retained Earnings (Note 13) Appropriated	Total
At December 31, 2022	**₱4,546,982**	**₱10,032,877**	**(₱349,054)**	**₱35,817**	**(₱309,220)**	**₱20,230,043**	**₱28,750,000**	**₱62,937,445**
Total comprehensive income	–	–	–	**(144,244)**	–	**9,011,179**	–	**8,866,935**
Acquisition of treasury shares	–	–	**(122,137)**	–	–	–	–	**(122,137)**
Issuance of ESOP shares	–	**8,785**	**79,272**	–	–	–	–	**88,057**
Dividends declared	–	–	–	–	–	**(3,600,000)**	–	**(3,600,000)**
At December 31, 2023	**₱4,546,982**	**₱10,041,662**	**(₱391,919)**	**(₱108,427)**	**(₱309,220)**	**₱25,641,222**	**₱28,750,000**	**₱68,170,300**

See accompanying Notes to Consolidated Financial Statements.

	Capital Stock (Notes 1 and 13)	Additional Paid-in Capital (Note 13)	Treasury Shares (Note 13)	Other Comprehensive Income (Loss) (Notes 9 and 17)	Other Equity Adjustments (Note 13)	Retained Earnings (Note 13) Unappropriated	Retained Earnings (Note 13) Appropriated	Total
At December 31, 2021	₱4,546,982	₱10,032,877	(₱217,245)	(₱150,335)	(₱309,220)	₱17,355,119	₱28,750,000	₱60,008,178
Total comprehensive income	–	–	–	186,152	–	5,874,924	–	6,061,076
Acquisition of treasury shares	–	–	(131,809)	–	–	–	–	(131,809)
Dividends declared	–	–	–	–	–	(3,000,000)	–	(3,000,000)
At December 31, 2022	₱4,546,982	₱10,032,877	(₱349,054)	₱35,817	(₱309,220)	₱20,230,043	₱28,750,000	₱62,937,445
At December 31, 2020	₱4,546,982	₱10,032,877	(₱103,836)	(₱496,836)	(₱309,220)	₱14,211,820	₱28,750,000	₱56,631,787
Total comprehensive income	–	–	–	346,501	–	6,143,299	–	6,489,800
Acquisition of treasury shares	–	–	(113,409)	–	–	–	–	(113,409)
Dividends declared	–	–	–	–	–	(3,000,000)	–	(3,000,000)
At December 31, 2021	₱4,546,982	₱10,032,877	(₱217,245)	(₱150,335)	(₱309,220)	₱17,355,119	₱28,750,000	₱60,008,178

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱11,923,039**	₱7,981,727	₱7,989,507
Adjustments for:			
Amortization of service concession assets (Note 7)	**2,744,831**	2,459,156	3,981,774
Interest expense and other financing charges (Note 18)	**2,503,388**	2,321,672	2,135,863
Provision for expected credit losses	**600,524**	82,921	6,281
Depreciation and amortization (Note 8)	**524,326**	485,877	598,082
Interest income (Note 4)	**(221,664)**	(30,093)	(45,790)
Cost of share-based payment (Note 13)	**116,725**	–	–
Pension cost (Note 17)	**102,808**	140,736	194,493
Dividend income (Note 9)	**(16,000)**	(15,000)	(15,000)
Gain on sale of property and equipment (Note 8)	**(1,998)**	(895)	(544)
Unrealized foreign exchange losses (gains)	**(703)**	(7,133)	2,858
Others	**(30,312)**	(27,418)	(24,785)
Operating income before working capital changes	**18,244,964**	13,391,550	14,822,739
Decrease (increase) in:			
Trade and other receivables	**(185,601)**	460,408	823,498
Contract assets	**(204,116)**	158,144	(105,991)
Other current assets	**(299,031)**	(555,989)	(445,904)
Additions to service concession assets (Notes 7 and 26)	**(19,564,546)**	(15,313,961)	(8,176,989)
Increase (decrease) in:			
Trade and other payables	**(1,483,302)**	2,748,105	(1,396,415)
Customers' deposits	**(31,064)**	52,006	57,344
Other noncurrent liabilities	**104,424**	134,649	1,328,611
Cash generated from operations	**(3,418,272)**	1,074,912	6,906,893
Contributions to pension fund (Note 17)	**(127,803)**	(160,586)	(165,737)
Interest received	**219,729**	30,175	46,918
Income taxes paid	**(2,513,388)**	(1,654,400)	(1,607,687)
Net cash provided by (used in) operating activities	**(5,839,734)**	(709,899)	5,180,387
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in other noncurrent assets	**(6,564,072)**	421,352	(717,910)
Acquisitions of property and equipment (Note 8)	**(523,990)**	(328,601)	(466,740)
Dividends received (Note 9)	**16,000**	15,000	15,000
Proceeds from sale of property and equipment (Note 8)	**15,181**	4,642	3,246
Net cash provided by (used in) investing activities	**(7,056,881)**	112,393	(1,166,404)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the availment/drawdown of interest-bearing loans (Note 11)	**18,829,316**	17,741,902	–
Payments of:			
Interest-bearing loans (Notes 11 and 27)	**(3,804,755)**	(8,902,924)	(2,101,238)
Dividends (Notes 13 and 27)	**(3,599,723)**	(2,999,782)	(2,999,799)
Service concession obligation payable to MWSS (Notes 10 and 27)	**(927,222)**	(747,639)	(735,893)
Lease liability (Note 22)	**(209,808)**	(146,705)	(140,940)
Interest paid (Note 27)	**(2,805,164)**	(1,742,578)	(1,909,172)
Acquisition of treasury shares (Note 13)	**(122,137)**	(131,809)	(113,408)
Net cash provided by (used in) financing activities	**7,360,507**	3,070,465	(8,000,450)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,536,108)**	2,472,959	(3,986,467)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**10,438,664**	7,965,705	11,952,172
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱4,902,556**	₱10,438,664	₱7,965,705

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Number of Shares, Earnings per Share Value and Unless Otherwise Specified)

1. Corporate Information and Status of Operations

General
Maynilad Water Services, Inc. (Maynilad or Parent Company) was incorporated on January 22, 1997 in the Philippines primarily to bid for the operation of the privatized system of waterworks and wastewater services of the Metropolitan Waterworks and Sewerage System (MWSS) for Metropolitan Manila.

On October 26, 2011, the Securities and Exchange Commission approved the amendment of the Articles of Incorporation to amend its primary purpose to include the provision of allied and ancillary services and undertaking such other activities incidental to its secondary purposes.

Effective Interest in Maynilad
Maynilad Water Holding Company, Inc. (MWHCI) and Maynilad Subscription Agreements. Pursuant to the Subscription Agreements executed between Maynilad and MWHCI, a company incorporated in the Philippines and a 51.27% owned subsidiary of Metro Pacific Investments Corporation (MPIC), MWHCI subscribed to 134,022 common shares of Maynilad at par value on December 28, 2012. Such shares, however, were issued only on February 13, 2013 and together with the additional subscription to 402,067 common shares increased MWHCI ownership interest in Maynilad to 92.85% as at December 31, 2013.

MCNK JV Corporation and MWHCI Subscription Agreements. On December 28, 2012, a Subscription Agreement between MCNK JV Corporation (MCNK, a subsidiary of a Japan-listed entity Marubeni Corp.) and MWHCI was executed, wherein MCNK subscribed to 169,617,682 common shares of MWHCI. On February 13, 2013, MCNK and MWHCI entered into another Subscription Agreement for the subscription by MCNK to an additional 508,853,045 common shares resulting in 21.54% interest in MWHCI. On the same date, MPIC purchased 154,992,852 common shares of stock of MWHCI from DMCI Holdings, Inc. (DMCI, a listed Philippine entity) resulting in 51.27% and 27.19% ownership interest as at December 31, 2013 by MPIC and DMCI, respectively.

As at December 31, 2023 and 2022, Maynilad is a 92.85% owned subsidiary of MWHCI. In addition, MPIC directly owns 5.19% of Maynilad thereby having effective ownership interest of 52.80%.

Metro Pacific Holdings, Inc. (MPHI) owns 46.3% and 46.1% of the total issued common shares of MPIC as at December 31, 2023 and 2022. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings in MPIC is estimated at 58.3% and 59.1% as at December 31, 2023 and 2022, respectively.

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL; 13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group companies in Hong Kong.

The registered office address of the Parent Company is Engineering Building, MWSS Complex, Katipunan Ave., Balara, 1119 Quezon City.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 27, 2024.

Concession Agreement
On February 21, 1997, Maynilad entered into a Concession Agreement with the MWSS ("Original Concession Agreement" or "OCA"). Under the OCA, MWSS granted Maynilad, as agent, the right to perform certain functions and to exercise certain rights and powers under the MWSS's Charter, and as contractor, the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required (except certain retained assets of MWSS) to provide water and wastewater services in the West Service Area, as defined in the OCA, including the right to bill and collect for water and wastewater services supplied therein, for 25 years or until May 6, 2022 (the "Expiration Date"). In April 2011, the Expiration Date was extended for 15 years, moving the Expiration Date to July 31, 2037, unless the OCA is pre-terminated due to an event of default. The 15-year extension of the OCA was approved by the MWSS in 2009 (see Notes 7, 10 and 22) and was duly acknowledged by the Republic of the Philippines ("RoP)", in accordance with the OCA, through a Letter of Consent and Undertaking dated March 17, 2010 ("Republic Undertaking").

Maynilad is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. The legal title to these assets remains with MWSS. However, legal title to the property, plant and equipment that Maynilad contributes to the existing MWSS system during the concession period remains with Maynilad until the Expiration Date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest in MWSS.

Sometime in the latter part of 2019, then President Rodrigo Duterte ordered the review of the terms of the Concession Agreements of Maynilad and Manila Water, and in January 2020, formed the Concession Agreements Review Committee ("RevCom") to conduct such review and to submit its recommendations to the President. The RevCom was composed of the Executive Secretary, the Secretaries of the Departments of Justice and Finance, the Solicitor General, the Government Corporate Counsel and the Presidential Adviser on Flagship Programs and Projects.

On May 18, 2021, Maynilad and MWSS signed the Revised Concession Agreement ("RCA"), the notable provisions of which are the following:

1. Confirmation of the July 31, 2037 Expiration Date;
2. Imposition of a tariff freeze until December 31, 2022;
3. Removal of Corporate Income Tax ("CIT") from among Maynilad's recoverable expenditures as well as the Foreign Currency Differential Adjustment ("FCDA");
4. Capping of the annual inflation factor to 2/3 of the Consumer Price Index ("CPI");
5. Imposition of rate caps for water and sewerage services to 1.3x and 1.5x, respectively, of the previous standard rate;
6. Removal from the Republic Undertaking of the non-interference of the Government in the rate-setting process, and the limitation of the RoP's financial guarantees to cover only those loans and contracts that are existing as of the signing of the RCA;
7. Replacement of the market-driven Appropriate Discount Rate with a 12% fixed nominal discount rate; and

8. Retention of the rate rebasing mechanism where, subject to the rate caps in item 5 above, the rates for the provision of water and wastewater services will be set at a level that will allow Maynilad to recover, over the term of the concession, expenditures efficiently and prudently incurred and to earn a reasonable rate of return.

The RCA was to take effect six months after its signing on May 18, 2021, or on November 18, 2021 ("Effective Date"), upon compliance with all the conditions precedent ("CPs"). However, the Republic Undertaking, which is among the CPs, has not yet been issued as of November 18, 2021. Hence, upon the request of the Concessionaires, the MWSS Board of Trustees ("MWSS BOT"), through a resolution passed on November 16, 2021, moved the RCA's Effective Date to December 18, 2021.

Maynilad, on December 14, 2021, again requested the MWSS BOT to defer the RCA's Effective Date by another two months (until February 16, 2022) or until the Republic Undertaking has been issued. Following the Regular Board Meeting held on February 10, 2022, MWSS issued Resolution No. 2022-015-CO to further extend the Effective Date of the RCA for thirty (30) days or until March 18, 2022. On March 9, 2022, the MWSS BOT approved to defer further the RCA Effective Date from March 18, 2022, until such time that the Republic Undertaking is issued.

On June 9, 2022, Maynilad received a copy of Resolution No. 2022-073-CO dated June 2, 2022, which approved the further extension of the Effective Date of the RCA until June 30, 2022, subject to receipt of the signed Republic Undertaking as required under Article 16.3 (iii) (c) of the RCA.

On June 30, 2022, Maynilad received MWSS's letter of even date informing Maynilad that the DOF has issued the Republic Undertaking dated June 24, 2022, signed by the Executive Secretary and the DOF Secretary.

Maynilad wrote the MWSS on July 1, 2022, informing them that the signed Republic Undertaking did not conform to the agreed form in the RCA, and, thus, Section 16.3 (iii) (c) of the RCA has not been satisfied. Thus, Maynilad's obligation to effect the changes in the OCA has not commenced.

Maynilad posited that the OCA [as amended by the Technical Corrections Agreement dated July 31, 1997, and Amendment No. 1 dated October 5, 2001, and extended by the Memorandum of Agreement and Confirmation dated April 22, 2010 ("2010 MOA")], and the Letter of Undertaking dated March 17, 2010 issued by the Department of Finance, remained valid and effective.

In the meantime, on January 22, 2022, Maynilad's legislative franchise or Republic Act No. 11600 ("RA 11600") took effect. RA 11600 which granted Maynilad a 25-year franchise, or until 2047, to "establish, operate and maintain a waterworks system and sewerage and sanitation services in the West Zone Service Area of Metro Manila and Province of Cavite," recognizes the OCA and the 2010 MOA. The latter extended the term of the concession for 15 years, or until 2037.

On August 9, 2022, pursuant to RA 11600, Maynilad formally applied for a 10-year extension of the OCA with the MWSS to be able to provide affordable water to its customers and mitigate anticipated tariff increases. On September 6, 2022, Maynilad provided MWSS the preliminary tariff impact simulations, and highlighted the fiscal benefits of a 10-year extension of the OCA.

In a subsequent letter dated September 14, 2022, Maynilad proposed to the MWSS certain amendments to the RCA, which include: (a) reinstatement of the FCDA mechanism; (b) reinstatement of the full CPI Adjustment; and (c) review of the exclusions from the Material Adverse Government Action provision. Such request was made on account of certain events, i.e., the COVID-19 pandemic, the Ukrainian conflict and the significant depreciation of the Peso, which not only posed a challenge to Maynilad's operations but have also highlighted the need to ensure that the Concession Agreements are future-proof and to guarantee the continuity of service to its customers.

On May 10, 2023, MWSS and Maynilad signed the Amendments to the RCA. Among the Amendments to the RCA include the following:

1. Adjustment in the CPI factor or "C" from 2/3 to ¾ of the percentage change in the CPI for the Philippines;

2. Reinstatement of the FCDA, but only with respect to the (a) MWSS loans that are being and will be serviced by Maynilad, and (b) principal payments for drawn and undrawn amounts of Maynilad's foreign currency denominated loans existing as of June 29, 2022;

3. Introduction of a modified FCDA for Maynilad loans contracted after June 29, 2022, but which mechanism may be availed of only when there is an "extraordinary inflation" or "extraordinary deflation" of the Philippine Peso (i.e., more than 20% change in the base exchange rate), and the amount that may be recovered is capped;

4. Exclusion of certain events from what may not be considered as Material Adverse Government Action such as the amendment of existing rules, regulations, and other issuances resulting from acts of the legislative and judicial branches of government and delay or inaction by the Regulatory Office ("RO") on applications relating to rate adjustments filed by the Concessionaire; and

5. Deletion of the composition and decisions of the RO from what may not be subject to arbitration.

The Amendments to the RCA took effect retroactively on June 29, 2022, the date of effectivity of the RCA.

Along with the Amendments to the RCA, the RoP issued on May 10, 2023 the Republic Undertaking in the form agreed on by the Parties. The Republic Undertaking's effectivity retroacts to July 1, 2022.

Pursuant to the requirement for a public hearing, Maynilad and the MWSS RO conducted a public hearing/consultation on December 4, 2023 at the World Trade Center in Pasay City. Maynilad understands that both the MWSS RO and the MWSS BOT have approved Maynilad's 10-year extension application. However, the RCA requires that any amendment to any of its provisions be acknowledged by the RoP acting through the Secretary of Finance. As at February 27, 2024, the acknowledgment is still pending.

Fourth Rate Rebasing (2013-2017)

- *2013-2017 Rate Rebasing - Domestic Arbitration.* MWSS released BOT Resolution No. 2013-100-RO dated September 12, 2013 and RO Resolution No. 13-010-CA dated September 10, 2013, reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cu.m. or ₱0.29 per cu.m. for the rate rebasing period 2013 to 2017 (Fourth Rate Rebasing Period).

On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel for Major Disputes challenging RO's determination of the Rebasing Adjustment as embodied in Resolution No. 13-010-CA.

On December 17, 2013, the RO released Resolution No. 13-011-CA implementing a status quo for Maynilad's Standard Rates and FCDA pending the Appeals Panel's issuance of the arbitral award.

On January 5, 2015, the Appeals Panel in an award dated December 29, 2014, upheld Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. ("First Award"). This increase has effectively been reduced to ₱3.06 per cu.m, following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge.

The First Award, being final and binding on the parties, Maynilad asked the MWSS to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.

However, the MWSS and the RO chose to defer the implementation of the First Award despite it being final and binding on the parties, and informed Maynilad that they have decided to await the final outcome of their arbitration with the other concessionaire, Manila Water, before making any official pronouncements on the applicable resulting water rates for the two Concessionaires.

- *2013-2017 Rate Rebasing - International Arbitration.*

In a decision dated July 24, 2017, the Arbitral Tribunal ("Tribunal") unanimously upheld the validity of Maynilad's claim against the Republic Undertaking to compensate Maynilad for the delayed implementation of its relevant tariffs for the rebasing period 2013 to 2017 ("Second Award").

The Tribunal ordered the RoP to reimburse Maynilad the amount of ₱3,424.7 million for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the RoP its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination.

Subsequently, Maynilad agreed with the corrected computation by the RoP of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016).

On February 11, 2019, Maynilad wrote the DOF about the amount of its updated claim for compensation by the RoP, which was ₱6,655.5 million ("Actual Losses"), with a request that the DOF order the MWSS and the RO to meet with Maynilad to agree and discuss a proposed settlement of the updated claim. The DOF never responded to this letter.

On December 10, 2019, during a joint hearing of the Congressional Committees on Public Accounts and Good Government and Public Accountability, Maynilad made an oral offer to waive its claims against RoP for the Actual Losses representing Maynilad's foregone revenues for the period March 11, 2015 to December 31, 2017.

On January 2, 2020, Maynilad executed the Release Form and Waiver of Claim on Arbitral Award ("Waiver") in favor of the RoP. In the Waiver, Maynilad, particularly its shareholders MPIC and DMCI Holdings, Inc., unconditionally waived its claim against the RoP for the payment of the Actual Losses, and released and discharged the RoP, including the MWSS, from any liability or obligation with respect thereto. Maynilad emphasized that the Waiver does not constitute an admission of any unlawful act or liability of any kind on the part of Maynilad and the RoP, and may not be used as evidence in any legal proceeding except to enforce or challenge its terms.

Fifth Rate Rebasing (2018-2022) and the Supreme Court Decision on the Consolidated Cases
On March 31, 2017, Maynilad submitted a five-year business plan to the RO for the new rate rebasing covering the years 2018 to 2022 with its proposed rate adjustments.

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting Maynilad a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still did not include the CIT component to which Maynilad is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Maynilad's tariff is subject to the SC's resolution of MWSS's Petition for Review.

To preserve its right to the CIT which has already been adjudged in its favor in the First Award, and pursuant to Article 12 of the Concession Agreement, Maynilad, on October 12, 2018, filed a Dispute Notice, signaling the start of another arbitration. However, on November 9, 2018, MWSS and Maynilad filed a joint application with the Appeals Panel to suspend proceedings to give the parties time to try to settle their differences amicably.

As stated previously, on January 2020, President Duterte ordered the review of the OCA on the ground that the same allegedly contained onerous provisions that were unfavorable to the National Government and the consuming public. Because of the review of the OCA, the rate adjustments for 2020 and 2021 were both suspended. Maynilad was able to implement only the first tranche of the Rebased Tariff on October 1, 2018, its first tariff adjustment since Maynilad filed an arbitration case against MWSS in 2013.

Following the RevCom's review of the OCA, Maynilad and the MWSS signed the RCA on May 18, 2021. One of the conditions precedent to the effectivity of the RCA was Maynilad's execution of a Release, Waiver and Quitclaim, expressly forfeiting the First Award in favor of the MWSS.

The RCA also stipulates that there shall be no rate adjustment until December 31, 2022.

In a decision promulgated by the Supreme Court on December 7, 2021, which was received by Maynilad on May 17, 2023, the Supreme Court, in the consolidated petitions filed by civil society groups[1], declared the OCA and its term extension valid but also declared Maynilad a public utility and consequently forbade it from recovering corporate income tax, in accordance with the Supreme Court's ruling in the Meralco case. This ruling, together with Maynilad's legislative franchise, have finally put to rest all of Maynilad's claims for inclusion of the corporate income tax as a recoverable expense pursuant to the First Award.

[1] Maynilad v. National Water Resources Board, et.al., G.R. No.181764; Waterwatch Coalition Inc. v. MWSS, et.al, G.R. No. 207444; Water for All Refund Movement v. MWSS, et.al., G.R. No. 208207; Virginia Javier, et.al. v. MWSS, et.al., G.R. No. 210147; Abakada-Guro Party List v. MWSS, et. al., G.R. No. 213227; Bayan Muna v. MWSS, et.al. G.R. No. 219362.

Sixth Rate Rebasing (2023-2027)
On October 24, 2022, Maynilad completed its public consultations for the 2023-2027 Rate Rebasing exercise. The results of the exercise, including updated targets for key Service Obligations (Water and Wastewater Coverage, Water Service Level and Non-Revenue Water) as well as the undertaking of more than ₱160 billion worth of capital expenditure projects over the period 2023-2027 have been shared via public consultations.

The proposed Business Plan for the 2023-2027 Rate Rebasing also involves the "catch-up" implementation in 2023 of inflation adjustments for 2020-2022, followed by a phased implementation of further tariff increases between 2024-2027.

On November 10, 2022, the MWSS BOT approved Maynilad's Rate Rebasing Adjustment for the 6th Rate Rebasing Period on a staggered basis as follows: (i) ₱3.29/cu.m. effective January 1, 2023; (ii) ₱6.26/cu.m. effective January 1, 2024; (iii) ₱2.12/cu.m. effective January 1, 2025; (iv) ₱0.84 to ₱1.01/cu.m. effective January 1, 2026; and (v) ₱0.80 to ₱1.01/cu.m. effective January 1, 2027. The environmental charge will increase from 20% to 25% starting January 1, 2025, subject to Maynilad's attainment of sewer coverage of 25% by the end of 2024.

The implementation of the staggered tariff beginning 2024 is subject to Maynilad's being able to attain its targets for water supply, continuity and coverage provided in the 2022 Approved Business Plan, as determined by the RO. On December 15, 2022, Maynilad caused the publication of its Tariff Table, with the tariff adjustments to take effect on January 1, 2023.

On November 29, 2023, the MWSS BOT, through Resolution No. 2023-146-RO, approved Maynilad's new standard rates table with a Rate Adjustment Limit ("RAL") of ₱19.83%, composed of ₱3.53% "C" factor and 16.30% "R" factor. The RAL as applied to the 2023 basic charge of 39.70/cu.m. resulted in an average adjustment of 7.87/cu.m. to the basic charge. On December 15, 2023, Maynilad caused the publication of its Tariff Table, with the tariff adjustments to take effect on January 1, 2024.

RA 11600 – Maynilad's Legislative Franchise
RA 11600 grants Maynilad, a 25-year franchise to "establish, operate and maintain a waterworks system and sewerage and sanitation services in the West Zone Service Area of Metro Manila and Province of Cavite." RA 11600 affirms Maynilad's authority to provide waterworks system and sewerage and sanitation services in the West Zone Service Area of Metro Manila and the Province of Cavite. RA 11600 took effect on January 22, 2022, 15 days after its publication in the Official Gazette on January 7, 2022. The 25-year term will end on January 21, 2047.

Aside from the grant of a 25-year franchise to Maynilad, the other highlights of RA 11600 include the following:

i. The grant of authority to the MWSS, when public interest for affordable water security so requires and upon application by Maynilad, to amend Maynilad's RCA to extend its term (i.e., 2037) to coincide with the term of the franchise. In addition, the RCA shall also act as the Certificate of Public Convenience and Necessity of Maynilad for the operation of its waterworks and sewerage system. It also provides that in the event the waterworks and sewerage system assets of MWSS pertaining to the Franchise Area are privatized by law, Maynilad shall have the right to match the highest compliant bid after a public bidding. The RCA between MWSS and Maynilad shall remain valid unless otherwise terminated pursuant to the terms of the RCA, or invalidated when national security, national emergency or public interest so requires;

ii. The prohibition on the passing on of corporate income tax to customers.

iii. The requirement to publicly list at least 30% of Maynilad's outstanding capital stock within five years from the grant of the franchise;

iv. The completion of Maynilad's water and sewerage projects to attain 100% coverage by 2037, which shall include periodic five-year completion targets; and

v. The grant to Maynilad of the right of eminent domain insofar as it is may be reasonably necessary for the efficient establishment, improvement, upgrading, rehabilitation, maintenance and operation of the services, subject to the limitations and procedures under the law.

RA 11600 also provides for an equality clause, which grants Maynilad, upon review and approval of Congress, any advantage, favor, privilege, exemption or immunity granted under existing franchises or which may be granted subsequently to water distribution utilities.

On March 21, 2022, the MWSS BOT passed Resolution No. 2022-025-RO, Series of 2022 (the "Resolution") which deals with the tax implications following the effectivity of the legislative franchise granted to the Concessionaires.

The Resolution confirmed that beginning March 21, 2022, which was when the Concessionaires formally accepted the terms of their respective legislative franchises, the charges for water and wastewater services will no longer be subject to the 12% VAT, but will be subject to Other Percentage Tax ("OPT").

The OPT, which shall be reflected as "Government Taxes" in the customers' statement of account, consist of (i) the 2% national franchise tax, and (ii) the local franchise tax implemented by the respective local government units ("LGUs") where the Business Area offices of the Concessionaires are located.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's and all of its subsidiaries' (collectively referred to as the "Group") functional and presentation currency, and all amounts are rounded to the nearest thousand (₱000), except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS include statements named PFRS and Philippine Accounting Standards (PAS), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) and Philippine Interpretations Committee (PIC).

Basis of Consolidation
The accompanying consolidated financial statements comprise the financial statements of the Company, which include the financial statements of the Parent Company and those entities that it controls.

Control is achieved when the Parent Company 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 Parent Company controls an investee, if and only if, the Parent Company 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.

The financial statements of Maynilad and the following subsidiaries that it controls comprise the consolidated financial statements.

Subsidiaries	Nature of Business
Philippine Hydro, Inc. (Phil Hydro)	Bulk water supply and water distribution (outside the West Service Area)
Amayi Water Solutions Inc. (Amayi)	Water distribution (outside the West Service Area)

All subsidiaries are wholly-owned and incorporated in the Philippines.

Phil Hydro. On August 3, 2012, the Parent Company through a Share Purchase Agreement with a third party acquired 100% ownership interest in Phil Hydro.

Phil Hydro is engaged in waterworks construction, engineering and engineering consulting services. Phil Hydro is currently undertaking water supply projects outside Metro Manila in line with the thrusts of the government under Presidential Decree No. 198, also known as the Provincial Water Utilities Act of 1973, which mandates the local government units to create and operate local water utilities and provide potable water to the public.

Phil Hydro has existing 25-year Bulk Water Supply Agreements (BWSAs) with various provincial municipalities outside the West Service Area and a Memorandum of Agreement with certain provincial municipality for the construction and operation of water treatment facilities for water distribution services.

Amayi. Amayi is incorporated for the purpose of operating, managing, maintaining and rehabilitating waterworks, wastewater and sanitation system and services outside the Concession Area.

On February 19, 2019, Amayi entered into a concession agreement with the Municipality of Boac, Marinduque. The concession agreement shall be effective for a period of 25 years beginning on the commencement date.

On January 23, 2020, the Office of the Boac Waterworks Operation of the Municipality of Boac, Marinduque notified Amayi of the order of their newly elected Municipal Mayor calling for the review and further study of the concession agreement. On February 20, 2020, Amayi was informed through a letter from the Municipal Mayor that a joint legislative-executive panel has been created to review and re-examine the concession agreement, thus deferring the commencement date.

On January 23, 2024, operation of the Boac Waterworks has been turned over to Amayi.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies. All significant intercompany balances, transactions, income and expense and profits and losses from intercompany transactions are eliminated in full upon consolidation.

New Standards, Interpretations and Amendments
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The adoption of the new standards did not have an impact on the consolidated financial statements of the Group, except for the adoption of this amendment.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments to PAS 1 and PFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

Standards, Amendments and Interpretations Issued but Not Yet Effective
There are new pronouncements issued but not yet effective as at reporting date. Whenever applicable, the Group intends to adopt these pronouncements as they become effective, but these pronouncements are expected to not have significant impact Group's financial statements upon adoption.

Fair Value Measurement
The Group measures financial instruments at fair value at each 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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset 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 consolidated 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; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Group's management determines the policies and procedures for both recurring and nonrecurring fair value measurements.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Fair value measurement disclosures are presented in Note 25.

Financial Instruments

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost;
- financial assets measured at fair value through profit or loss (FVPL);
- financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss; and
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

The Group has no financial assets at FVPL and FVOCI where cumulative gains or losses previously recognized are reclassified to profit or loss as at December 31, 2023 and 2022.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) 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. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "provision for expected credit losses" account in the consolidated statement of income.

This category includes cash and cash equivalents (excluding cash on-hand), trade and other receivables, restricted cash and deposits, which are presented under “Other current assets” and “Other noncurrent assets” in the consolidated statements of financial position.

Financial assets at FVOCI
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit losses model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Group’s right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Parent Company; and
- the amount of the dividend can be measured reliably.

The Group’s financial assets at FVOCI is their unquoted equity investments that are included in Note 9 as at December 31, 2023 and 2022.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

This category includes trade and other payables (excluding statutory payables), interest-bearing loans, service concession obligation payable to MWSS, customers’ deposits, lease liabilities and other noncurrent liabilities.

The Group has no financial liabilities at FVPL as at December 31, 2023 and 2022.

Derecognition of Financial Assets and Liabilities

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

- the contractual rights to the cash flows from the financial asset expire, or
- the Group transfers the contractual rights to receive the cash flows of the financial asset in a transaction in which it either (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and the Group has not retained control.

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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

Impairment of Financial Assets
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes expected credit losses (ECL) for the following financial assets that are not measured at FVPL:

- debt instruments that are measured at amortized cost;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

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.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade", or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each 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.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to "Trade and other receivables".

Service Concession Assets

Parent Company. The Parent Company accounts for its concession arrangement with MWSS in accordance with IFRIC 12, *Service Concession Arrangement*, under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Concession Agreement, the Parent Company 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 vest in MWSS at the end of the concession period.

Phil Hydro. Phil Hydro accounts for its Bulk Water Supply Agreements in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service.

Service concession assets are recognized to the extent that the Group receives a license or right to charge the users of the public service. The service concession assets pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group. The Parent Company's service concession assets are amortized using unit of production (UOP) method over the projected total billable water volume during the remaining term of the service concession arrangement. Phil Hydro amortizes its service concession assets using straight-line method over the terms of the Bulk Water Supply Agreements and Memorandum of Agreement.

the Group has not started amortization of service concession assets under on-going rehabilitation or construction. The amortization period for the service concession assets will begin when the assets are ready for their intended use.

the Group recognizes and measures revenue from rehabilitation works using the percentage-of-completion method. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally based on the estimated physical completion of the contract work.

Cost of rehabilitation works, which includes all direct materials, labor costs, and those indirect costs related to contract performance, is recognized consistent with the revenue recognition method applied. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability including those arising from contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the revisions are determined.

Subsequent costs and expenditures related to the concession agreement are recognized as additions to service concession assets at fair value of obligations at drawdown date and cost of rehabilitation works.

Service Concession Assets not yet available for use
Under IFRIC 12, if the operator provides construction or upgrade services the consideration received or receivable by the operator shall be recognized in accordance with PFRS 15. The consideration may be rights to; (a) a financial asset, or (b) an intangible asset. The operator shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. However, both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with PFRS 15.

Under the concession agreement with MWSS, the Parent Company is obligated to render rehabilitation projects. Revenue from the rehabilitation works is recognized as revenue as the service is being performed using the percentage-of-completion method based on the estimated physical completion of the contract work.

For service concession assets not yet available for use as of reporting date, this is to be recognized as part of contract assets. These contract assets are tested for impairment similar with other non-financial assets under PAS 36, *Impairment of Assets*. These contract assets will form part of the service concession assets once completed.

Leases
A lease arrangement is established by a contract (the lease) that conveys to the user (the lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. A portion of an asset is an identified asset if it is physically distinct. If it is not physically distinct, the portion of an asset is not an identified asset, unless the lessee has the right to use substantially all of the capacity of the asset during the lease term.

If a contract contains more than one lease component, or a combination of leasing and selling transactions, the consideration is allocated to each of the lease and non-lease components on conclusion and on each subsequent measurement of the contract on the basis of their stand-alone selling prices.

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 machinery and equipment (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 (i.e., ₱250,000). 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.

Property and Equipment
The Group's property and equipment consist of land and land improvements, instrumentation tools and other equipment, office furniture fixtures and equipment, transportation equipment and right-of-use (ROU) assets that do not qualify as investment properties.

Property and equipment, except land, are stated at cost less accumulated depreciation and any impairment in value (see policy on "Impairment of Nonfinancial Assets"). Land is stated at cost.

ROU 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 ROU 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 ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. ROU assets are subject to impairment.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land improvements	5 to 25 years
Instrumentation, tools and other equipment	5 years
Office furniture, fixtures and equipment	5 years
Transportation equipment	5 years
ROU assets – land and building	2 to 17.5 years
ROU assets – transportation equipment	2 to 5 years

The Group computes for depreciation charges based on the significant component of the asset.

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the item is derecognized.

Impairment of Nonfinancial Assets
An assessment is made at each reporting date to determine whether there is any indication of impairment of any nonfinancial assets (i.e., property and equipment and service concession assets), or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the Group estimates the asset's or CGU's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Foreign Currency-Denominated Transactions
Foreign exchange differentials arising from foreign currency transactions are credited or charged to operations. As approved by the MWSS BOT under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

- Restatement of foreign currency-denominated loans;
- Excess of actual concession fee payments over the amounts of concession fee translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise;
- Excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at drawdown date rates; and
- 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 drawdown date rates.

Under the Amendments to the RCA, FCDA will be based on the following: forex gains/losses arising from (a) principal and interest payments on all MWSS loans that are being and will be serviced by Maynilad, and (b) principal payments for drawn and undrawn amount of Maynilad's foreign currency denominated loans existing as of June 29, 2022. For Maynilad loans contracted after June 29, 2022, a modified FCDA will apply but may be availed of only when there is an "extraordinary inflation" or "extraordinary deflation" of the Philippine Peso (i.e., more than 20% change in the base exchange rate), and the amount that may be recovered is capped.

In view of the automatic reimbursement mechanism, the Parent Company recognizes deferred FCDA (included as part of "Other noncurrent assets" or "Deferred credits" accounts in the consolidated statements of financial position) with a corresponding credit (debit) to FCDA revenues for the unrealized foreign exchange losses (gains) which have not been billed or which will be refunded to the customers. The write-off of the deferred FCDA or reversal of deferred credits pertaining to concession fees will be made upon determination of the new base foreign exchange rate, which is assumed in the business plan approved by the RO during the latest Rate Rebasing exercise, unless indication of impairment of deferred FCDA would be evident at an earlier date. Deferred FCDA and deferred credits are calculated as the difference between the drawdown or rebased rate and the closing rate. These are presented as part of "Other noncurrent assets" and "Deferred credits" accounts in the consolidated statements of financial position, respectively.

Customers' Deposits

Customers' deposits are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest method. Accretion of customers' deposits is included under "Interest expense and other financing charges" account in the consolidated statements of income. The discount is recognized as deferred credits and amortized over the remaining concession period using the effective interest method. Amortization of deferred credits is included as part of "Other income" account in the consolidated statements of income.

Revenue from Contracts with Customers

The Group is in the business of providing water services to its customers within its concession area. Revenue from contracts with customers is recognized when services are transferred to the customer at the 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 because it typically controls the services before transferring them to the customer.

Water and Wastewater Services

Revenue from water and wastewater services is recognized upon the supply of water to the customers and when the related services are rendered. Billings to customers consist of the following:

a. Water charges

   - Basic charges represent the basic tariff charged to consumers for the provision of water services.
   - FCDA, which is the tariff mechanism that allows the Parent Company to recover foreign exchange losses or to compensate foreign exchange gains on a current basis beginning January 1, 2002 until the Expiration Date.
   - Maintenance service charge represents a fixed monthly charge per connection. The charge varies depending on the meter size.

b. Wastewater charges

   - Environmental charge represents 20% of the water charges, except for maintenance service charge.

   - Sewerage charge represents 20% of the water charges, excluding maintenance service charge, for all consumers connected to the Parent Company's sewer lines. Effective January 1, 2012, pursuant to RO Resolution No. 11-007-CA, sewerage charge applies only to commercial and industrial customers connected to sewer lines.

c. Government taxes consist of (i) the 2% national franchise tax, and (ii) the local franchise tax implemented by the respective LGUs where the Business Area offices of the Concessionaires are located (see Note 1).

   - National franchise tax is 2% of total water and wastewater charges.

   - Local franchise tax is based on the total water and wastewater charges using the applicable local franchise tax rate.

The performance obligations are satisfied over time and payment is generally due seven days from invoicing.

- *Connection and installation fees*

  The connection and installation fees are non-refundable upfront fees which do not provide a separate service. The connection and installation fees, along with the water and wastewater services are treated as one performance obligation. The Group determines the amortization period for deferred connection and installation revenues and costs based on the expected relationship with its customers. In the absence of other reliable information, the Company determined that the customers are expected to maintain their water and wastewater connection throughout the concession period. Therefore, the Company amortizes its deferred connection and installation revenues and related costs over the remaining concession period.

- *Contract costs*

  The Group recognizes costs incurred in fulfilling contracts with customers that are directly associated with the contract as an asset if those costs are expected to be recoverable and record them in “Other current assets and “Other noncurrent assets” accounts in the consolidated statements of financial position.

  Costs incurred in fulfilling contracts with customers comprise of costs for connection and installation of the customers to the Group’s water system. These costs are recognized as an asset to the extent they are considered recoverable to the extent of the actual costs incurred. The related asset is amortized over the remaining concession period during the satisfaction of performance obligations of the water and wastewater services.

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identifying performance obligations*

  The Group provides water and wastewater services to its customers. Water and wastewater services are composed of water service, wastewater service connection and installation, maintenance, and sanitation services. The Group has determined that the services are to be bundled and is considered as one performance obligation since the services are highly interrelated and highly interdependent with one another.

- *Determining the transaction price*

  The Group determined that the transaction price is the total consideration in the contract.

- *Determining the timing of satisfaction of connection and installation services*

  The Group concluded that the revenue from water and wastewater services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group. As another entity would not need to re-perform the services that the Group has provided to date, this demonstrates that the customer simultaneously receives and consumes the benefits of the Group’s performance as it performs. The services are on-going and is completed when the customer is disconnected from the Group’s water system.

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Group accounts for revenue and costs relating to operation services based on the percentage of completion (shown as "Revenue from rehabilitation works" and "Cost of rehabilitation works" accounts in the consolidated statements of income).

Contract Balances

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

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to 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.

Cost and Expense Recognition
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 decrease in equity, other than those relating to distributions to equity participants. Expenses are recognized in the consolidated statements of income as incurred.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of 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 all the activities necessary to prepare the asset for its intended use or sale are substantially complete. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Equity

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and fair value of consideration received in excess of par value are recognized as additional paid-in capital.

Treasury shares, which represent own equity instruments that are reacquired, are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or the cancellation of the Parent Company's own equity instruments.

Retained earnings represent the Group's accumulated earnings less dividends declared and any adjustment arising from application of new accounting standards, policies or correction of errors applied retroactively. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by subsidiaries. Appropriated retained earnings are those that are restricted to fund capital expenditures. Unappropriated retained earnings are those that can be allocated for specific purposes and can be distributed as dividend (Note 13).

Income Taxes

- *Current Income Tax*

  Current income 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 tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

- *Deferred Income Tax*

  Deferred income tax is provided, using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred tax liabilities are recognized for all taxable temporary differences, except in certain instances as provided by the relevant standards.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused tax losses from net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of MCIT and NOLCO can be utilized, except in certain instances as provided by the relevant standard.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rate that is expected to apply to the period when the assets are realized or the liabilities are settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Deferred tax relating to items recognized in other comprehensive income account is included in the consolidated statements of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only 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 the same taxation authority.

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 obligations, and a reliable estimate can be made of the amount of the obligation. When the Group expects a provision to be reimbursed, such as under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income, 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 an interest expense.

Pension Cost

Defined Benefit Pension Plan

The Parent Company has a funded, noncontributory defined benefit plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

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

Defined benefit costs comprise the following: (1) service cost; (2) net interest on the net defined benefit liability or asset; and (3) 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 part of "Salaries, wages and benefits" account in the consolidated statements of income. 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, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. 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.

Defined Contribution Plan

The Parent Company established a supplementary benefit plan to the existing retirement plan to provide through a welfare fund, a savings conduit, credit facility, and a facility for the payment of supplementary benefit to its members upon retirement or separation from the Parent Company, subject to the terms and conditions set forth in the plan.

The funding of the plan and payment of the benefits shall be provided through the welfare fund held, managed, and maintained by the trustee. The welfare plan is comprised of the contributions of the Parent Company, the contributions of the members, and the general reserve fund. The Parent Company shall match the member’s contribution by contributing an amount equal to five percent (5%) of the member’s basic salary and recognizing an expense under Salaries, wages, and benefits.

When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which employees rendered the related service, they shall be discounted using the discount rate. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on undiscounted basis, except when these are not expected to be settled before twelve months after the end of annual reporting period in which the employees render the related service.

<u>Long-term Employee Benefits</u>
The Long-Term Incentive Plan (LTIP) of the Parent Company grants cash incentives to eligible employees of the Parent Company. Liability under the LTIP is determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and losses, and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long-term employee benefit liability is determined based on the present value of the defined benefit obligation (using discount rate based on government bonds) vested at the end of the reporting period.

Share-based Payments
Employees of the Parent Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions) under the Employee Stock Option Plan (ESOP).

The cost of equity-settled transactions is determined as the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in other equity adjustments, over the period in which the performance and/or service conditions are fulfilled, and is shown as part of "Salaries, wages and benefits" account in the consolidated statements of income.

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of modification.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They 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. Contingent assets are not recognized unless virtually certain.

Earnings per Share (EPS)
Basic EPS is computed based on the weighted average number of outstanding shares and adjusted to give retroactive effect to any stock split during the year. The dilutive effect of outstanding ESOP shares is reflected as additional share dilution in the computation of diluted EPS.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. In preparing the Group's consolidated financial statements, management has made its best estimates and judgments 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 at the date of the consolidated financial statements. The uncertainties inherent in these estimates and assumptions could result in outcomes that could require material adjustments to the carrying amounts of the assets or liabilities affected in future years. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Amortization of Service Concession Assets. The Parent Company accounts for its concession arrangement with MWSS in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service. Phil Hydro accounts for its Bulk Water Supply Agreements in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service.

The Parent Company amortizes its service concession assets using UOP method, given that the economic benefit of these assets is more closely aligned with billed volume, which the Parent Company can reliably estimate. Phil Hydro amortizes its service concession assets using the straight-line method over the terms of each Bulk Water Supply Agreements and Memorandum of Agreement.

In 2022, the Parent Company, due to the legislative franchise effectivity, extended the useful life of its service concession assets until January 2047. The financial impact of this change decreased the amortization of service concession assets by ₱2.1 billion in 2022 and has revised the amortization of the remaining useful life of the service concession assets (see Note 7). There have been no changes in the useful life of the service concession assets in 2023.

Service concession assets, net of accumulated amortization of ₱42,542.8 million and ₱39,810.9 million, amounted to ₱140,919.5 million and ₱121,187.9 million as at December 31, 2023 and 2022, respectively (see Note 7).

Disputes with MWSS. Pending resolution of the dispute between the Parent Company and MWSS on certain claims of MWSS, the disputed amount of ₱5.0 billion and ₱5.1 billion as at December 31, 2023 and 2022, respectively, is considered as contingent liability. The outstanding provision amounted to ₱607.2 million as at December 31, 2023 and 2022 (see Notes 7, 10 and 20).

Provisions and Contingencies. The Group is currently involved in various legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 20).

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. The estimates and assumptions are based on the parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions as they occur.

Allowance for ECL. The following information explains the inputs, assumptions and techniques used by the Group in estimating ECL:

- General approach for cash in banks and cash equivalents, non-trade receivables and deposits

  The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Group considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized, forward-looking estimates, and time value of money.

- Simplified approach for trade and other receivables (excluding non-trade receivables), contract assets, deposits and restricted cash, which are presented under “Other current assets”.

  The Group uses a simplified approach for calculating ECL on trade and other receivables (excluding non-trade receivables), contract assets and deposits and restricted cash using provision matrix to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type and rating).

  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. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the Group’s operating segments, 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.

- Incorporation of forward-looking information

  The Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. A broad range of forward-looking information are considered as economic inputs such as the consumer price index, gross domestic product, inflation rate, unemployment rates and other economic indicators.

  The macroeconomic factors are aligned with information used by the Group for other purposes such as strategic planning and budgeting.

  The Group identifies and documents key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

  Predicted relationship between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 to 9 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

- Grouping of instruments for losses measured on collective basis

  For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed based on shared risk characteristics, such that risk exposures within a segmentation are homogeneous. The Group segmented its trade receivables based on their billing class as shown below:

  a. Domestic

     i. Residential – pertains to receivables arising from water and wastewater service use for domestic purposes only.
     ii. Semi-business – pertains to receivables arising from water and wastewater service use for small businesses.

  b. Non-domestic

     i. Commercial – pertains to receivables arising from water and wastewater service use for commercial purposes.
     ii. Industrial – pertains to receivables arising from water and wastewater service use for industrial and manufacturing purposes.

  The following credit exposures are assessed individually:

  a. All stage 3 assets, which are considered to be specifically impaired, regardless of the class of financial assets; and

  b. Cash in banks and cash equivalents, deposits and restricted cash, non-trade receivables, and deposits

  There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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

In 2023, the Parent Company made an assessment of its trade receivables without billing and collection beginning July 1, 2022. Outstanding receivables incurred in 2015 and prior years amounting to ₱820.9 million were written off as at December 31, 2023 (see Note 5).

Provision for ECL amounted to ₱600.5 million, ₱82.9 million and ₱6.3 million in 2023, 2022 and 2021, respectively. Trade and other receivables, net of allowance for expected credit losses of ₱1,441.5 million and ₱1,662.2 million in 2023 and 2022, respectively amounted to ₱2,418.1 million and ₱2,831.4 million as at December 31, 2023 and 2022, respectively (see Note 5).

Fair Value of Financial Assets and Financial Liabilities. PFRS requires that certain financial assets and financial liabilities be carried at fair value, which requires the use of accounting estimates and judgments. The determination of the cost of service concession payable requires management to make estimates and assumptions to determine the extent to which the Group receives a right of license to charge users of the public service. In making those estimates, management is required to determine a suitable discount rate to calculate for the present value of these cash flows. While significant components of fair value measurement are determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and financial liabilities would directly affect income and equity.

The fair values of financial assets and financial liabilities are set out in Note 25.

Estimated Billable Water Volume. The Parent Company estimated the billable water volume, where the amortization of service concession assets is derived from, based on the period over which the Parent Company's concession agreement with MWSS is in force. The Parent Company reviews annually the billable water volume based on factors that include market conditions such as population growth and consumption, and the status of the Parent Company's projects and their impact on non-revenue water. It is possible that future results of operations could be materially affected by changes in the Parent Company's estimates brought about by changes in the aforementioned factors. A reduction in the projected billable water volume would increase amortization and decrease noncurrent assets.

In 2021, the Parent Company commissioned the Diliman Integrative Technical Consultancy, Inc. ("DITCI") to conduct a water demand study within its concession area. The result of this study was used to determine short-term and long-term water demand requirements. As such, DITCI prepared annual medium term (2022-2026) and long-term (through 2050) demand forecasts. The results of this study were used to forecast the latest billed volume that was included in the recently approved Business Plan and the same was also used for the new amortization of the Parent Company.

Service concession assets, net of accumulated amortization of ₱42,542.8 million and ₱39,810.9 million, amounted to ₱140,919.5 million and ₱121,187.9 million as at December 31, 2023 and 2022, respectively (see Note 7). Amortization of service concession assets amounted to ₱2,744.8 million, ₱2,459.2 million and ₱3,981.8 million in 2023, 2022 and 2021, respectively (see Note 7).

Estimated Useful Lives of Property and Equipment. The useful life of each item of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation, and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above.
A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expense and decrease property and equipment.

There was no change in estimated useful lives of property and equipment in 2023 and 2022.

Property and equipment, net of accumulated depreciation and amortization of ₱4,743.0 million and ₱4,404.8 million, amounted to ₱1,889.8 million and ₱1,574.0 million as at December 31, 2023 and 2022, respectively (see Note 8). Depreciation and amortization of property and equipment amounted to ₱524.3 million, ₱485.9 million and ₱598.1 million in 2023, 2022 and 2021, respectively. (see Note 8).

Leases - Estimating the incremental borrowing rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Group's lease liabilities amounted to ₱436.4 million and ₱281.5 million as of December 31, 2023 and 2022, respectively. Interest accretion on lease liability amounted to ₱35.4 million, ₱19.8 million and ₱25.7 million in 2023, 2022 and 2021 respectively (see Notes 18 and 22).

Recognition of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized.

The Group used Regular Corporate Income Tax (RCIT or itemized deduction) in computing its taxable income in 2023, 2022 and 2021 (see Note 16). The method of deduction to be availed by the Parent Company is assessed every taxable year. Accordingly, deferred tax assets and liabilities are measured based on OSD or itemized deduction method depending on the forecasted gross and taxable income, and which method of deduction is more beneficial to the Parent Company.

The Group recognized deferred tax assets amounted to ₱362.3 million and ₱481.2 million as at December 31, 2023 and 2022, respectively. (see Note 16).

The Group did not recognize deferred tax assets on deductible temporary differences where doubt exists as to the tax benefits these deferred tax assets will bring in the future.

Deferred FCDA and Deferred Credits. Under Amendment No. 1 of the Concession Agreement, the Parent Company is entitled to recover (refund) foreign exchange losses (gains) arising from MWSS loans and any concessionaire loans. For the unrealized foreign exchange losses, the Parent Company recognized deferred FCDA as an asset since this is a resource controlled by the Parent Company as a result of past events and from which future economic benefits are expected to flow to the Parent Company. Unrealized foreign exchange gains, however, are presented as deferred credits and will be refunded to the customers.

Based on the 2022 Approved Business Plan, the Parent Company used a new base foreign exchange rate from ₱53.16 to ₱53.51 for United States Dollar, applicable to concession fee payments starting January 1, 2023 (see Note 7).

Deferred FCDA representing the net effect of unrealized foreign exchange losses on service concession obligation payable to MWSS, and restatement of foreign currency-denominated interest-bearing loans and related interest that are recoverable from the customers amounting to nil and ₱583.9 million as at December 31, 2023 and 2022, respectively, were presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

Deferred Credits representing the net effect of unrealized foreign exchange gains on service concession obligation payable to MWSS, and restatement of foreign currency-denominated interest-bearing loans and related interest that will be refunded to the customers amounting to ₱462.9 million and nil as at December 31, 2023 and 2022, respectively, were presented as part of "Deferred credits" account in the consolidated statements of financial position. The effect of change in rebased rate amounting ₱841.7 million was accounted for as an adjustment of "Service concession assets" and "Deferred credits" accounts to adjust their carrying values based on the newly determined and approved rebased rate as at December 31, 2023 (see Note 7).

Asset Impairment. The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include but not limited to the following:

- Significant under performance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use (VIU) approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the results of operations.

Noncurrent nonfinancial assets carried at cost and subjected to impairment test when certain impairment indicators are present are as follows:

	2023	2022
Service concession assets (see Note 7)	**₱140,919,477**	₱121,187,932
Property and equipment (see Note 8)	**1,889,754**	1,573,960
	₱142,809,231	₱122,761,892

In 2022, Maynilad has tested for impairment and assessed the recoverability of its SCA and property and equipment to consider the newly approved business plans and tariff adjustments as a result of the recently concluded rate rebasing exercise (see Note 1). In 2021, due to deferment of the effectivity of the RCA, pending completion of a substantive condition precedent as discussed in Note 1, and the continuing impact of the COVID-19 pandemic, management likewise performed an impairment testing of these assets. The assumptions in the impairment test include, among others, the concession period, tariff, service obligations, the discount rate which considers the risks surrounding the concession agreement, and the potential impact of the COVID-19 pandemic.

Based on the testing, it was determined that as at December 31, 2022 and 2021, the recoverable amount of these nonfinancial assets are higher than their carrying values. Therefore, the Group did not recognize any impairment loss in those years. In 2023, there have been no substantive impairment indicators that necessitated further impairment assessment on these assets.

Computation of Pension Cost and Other Post-employment Benefits.

a. The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rate, turnover rate, mortality rate, and salary increase rate. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Turnover rate is based on a 3-year historical information of voluntary separation and resignation by plan members.

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

Net pension cost related to non-contributory fund presented as part of "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱102.8 million, ₱140.7 million and ₱194.5 million in 2023, 2022 and 2021, respectively. Pension liability amounted to ₱285.7 million and ₱151.8 million as at December 31, 2023 and 2022, respectively (see Note 17).

b. Pension cost related to contributory fund presented as part of "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱22.9 million, nil and ₱24.4 million in 2023, 2022 and 2021, respectively (see Note 17).

Determination of Other Long-term Incentive Benefits.

LTIP for cycle 2019, 2021, and 2022 was approved by the Maynilad BOD on February 24, 2022. Management proposed, and the BOD accepted, the exclusion of 2020 results from the LTIP standards due to the highly unusual circumstances (pandemic, severe quarantine lockdowns) affecting financial performance for that year. It is also for this reason that the LTIP cycle was extended to include 2022 instead.

In keeping with Maynilad's practice over previous years, management intends to obtain approval for LTIP cycle covering the period 2023-2025.

The cost of LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While management's assumptions are believed to be reasonable and appropriate, significant differences in actual results or changes in assumptions may materially affect the Company's other long-term incentive benefits.

Accrued LTIP which was included as part of "Other noncurrent liabilities" and "Trade and other payables" accounts in the consolidated statements of financial position amounted to ₱166.0 million and ₱496.5 million as at December 31, 2023 and 2022. The total cost of the LTIP recognized by the Company presented as part of "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱166.0 million, ₱5.2 million and nil in 2023, 2022 and 2021, respectively (see Note 17).

4. Cash and Cash Equivalents

Cash and cash equivalents account consists of:

	2023	2022
Cash on hand and in banks	**₱3,102,857**	₱3,128,965
Cash equivalents	**1,799,699**	7,309,699
	₱4,902,556	₱10,438,664

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods between one day and three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and cash equivalents, net of applicable final tax, amounted to ₱221.7 million, ₱30.1 million and ₱45.8 million in 2023, 2022 and 2021, respectively.

5. Trade and Other Receivables

This account consists of receivables from:

	2023	2022
Customers:		
Residential	**₱2,165,337**	₱2,549,614
Semi-business	**249,202**	291,761
Commercial	**693,567**	856,586
Industrial	**182,829**	207,221
Bulk water supply	**101,806**	84,558
	3,392,741	3,989,740
Employees	**46,994**	57,035
Others	**419,823**	446,778
	3,859,558	4,493,553
Less allowance for ECL	**1,441,488**	1,662,193
	₱2,418,070	₱2,831,360

The classes of the Company's receivables from customers are as follows:

- Residential – pertains to receivables arising from water and wastewater service use for domestic purposes only.
- Semi-business – pertains to receivables arising from water and wastewater service use for small businesses.
- Commercial – pertains to receivables arising from water and wastewater service use for commercial purposes.
- Industrial – pertains to receivables arising from water and wastewater service use for industrial and manufacturing purposes.
- Bulk water supply – pertains to receivables arising from water service to water districts outside the West Service Area.

Receivables from customers and bulk water supply are non-interest bearing and generally have 60-day term.

Other receivables consist mainly of receivables from collecting agents normally received within 30 days, and advances for construction and installation of water reticulation systems for subdivisions in the West Service Area payable on installment basis over a period of 3 to 5 years. Portion of advances for water reticulation systems expected to be collected beyond one year amounting to ₱1.6 million as at December 31, 2023 and 2022, is presented as part of "Others" in "Other noncurrent assets" account in the consolidated statements of financial position.

The movements in the Company's allowance for ECL which was determined individually and collectively are as follows:

	2023					
	Receivables from Customers				**Other**	
	Residential	**Semi-Business**	**Commercial**	**Industrial**	**Receivables**	**Total**
At January 1	**₱1,042,950**	**₱141,959**	**₱379,998**	**₱88,079**	**₱9,207**	**₱1,662,193**
Provisions	**397,708**	**45,939**	**126,526**	**30,351**	**–**	**600,524**
Write-off	**(587,050)**	**(49,713)**	**(149,694)**	**(34,438)**	**–**	**(820,895)**
Reversal	**–**	**–**	**–**	**–**	**(334)**	**(334)**
At December 31	**₱853,608**	**₱138,185**	**₱356,830**	**₱83,992**	**₱8,873**	**₱1,441,488**

	2022					
	Receivables from Customers				Other	
	Residential	Semi-Business	Commercial	Industrial	Receivables	Total
At January 1	₱989,064	₱135,345	₱362,054	₱83,724	₱16,758	₱1,586,945
Provisions	53,990	6,614	17,960	4,355	2	82,921
Reversal	(104)	–	(16)	–	(7,553)	(7,673)
At December 31	₱1,042,950	₱141,959	₱379,998	₱88,079	₱9,207	₱1,662,193

6. Other Current Assets and Other Noncurrent Assets

Other Current Assets

This account consists of:

	2023	2022
Advances to supplier/contractors	**₱561,163**	₱217,280
Input VAT	**537,222**	515,957
Prepayments (see Note 22)	**198,441**	71,681
Deposits	**237,990**	223,788
Restricted cash	**–**	295,995
Others (see Note 14)	**327,682**	494,468
	₱1,862,498	₱1,819,169

Advances to suppliers pertains to purchase of raw water while advances to contractors are normally applied within a year against billings.

Input VAT is an indirect tax on the purchased goods and services which the Company uses in its operations. Before March 21, 2022, the Company recovers its input VAT by offsetting it against the output VAT. Upon acceptance of the legislative franchise on March 21, 2022, the Company shifted from 12% VAT to Other Percentage Tax. The remaining input VAT refers to the unutilized input VAT from the purchase of capital goods to be amortized over the assets' remaining useful life and the input VAT associated with the retention payable from contractors' billings which will be either capitalized or expensed upon actual release of the retention money, subsequent to the final acceptance or turn-over of the completed project.

Prepayments mainly pertain to, insurance, performance bond, and local taxes (see Note 22).

Deposits mainly consist of bill deposits to Meralco.

As at December 31, 2023 and 2022, Others consist mainly of materials and supplies amounting to ₱265.2 million and ₱129.2 million, respectively, and cost of new water service connections amounting to ₱20.8 million and ₱17.0 million as at December 31, 2023 and 2022, respectively, that were capitalized since these costs are recoverable and directly associated with the contract with customers (see Note 14).

Other Noncurrent Assets

This account consists of:

	2023	2022
Mobilization fund	**₱9,474,660**	₱2,975,606
Cost of new water service connection (Note 14)	**457,154**	387,402
Deposits	**375,365**	382,871
Deferred FCDA	–	583,874
Others (see Note 14)	**74,126**	71,354
	₱10,381,305	₱4,401,107

Mobilization fund pertains to advance payments to contractors for services purchased but not yet received and is normally applied within a year against progress billings.

Cost of new water connections pertains to costs attributable to installation of water connections to customers. These costs are recoverable and is directly associated with the contract with customers.

Deposits consists mainly of payments to LGUs as restoration deposits which are refunded upon completion of the project.

Deferred FCDA represents the net effect of unrealized foreign exchange losses on service concession obligation payable to MWSS, and restatement of foreign currency-denominated interest-bearing loans and related interest that are recoverable from the customers (see Note 3).

As at December 31, 2023 and 2022, Others pertains to Parent Company's deferred employee benefits amounting to ₱71.5 million and ₱68.7 million, net of accumulated amortization of ₱37.4 million and ₱26.9 million, respectively, and Amayi's deferred charges pertaining to cost of service concession assets, which are not yet in operation amounting to ₱2.6 million.

7. Service Concession Assets

The movements in this account are as follows:

	2023	2022
Cost:		
Balance at beginning of year	**₱160,998,874**	₱144,823,363
Additions	**21,621,715**	16,175,511
Effect of change in rebase rate	**841,675**	–
Balance at end of year	**183,462,264**	160,998,874
Accumulated amortization:		
Balance at beginning of year	**39,810,942**	37,351,786
Amortization	**2,744,831**	2,459,156
Reclassification	**(12,986)**	–
Balance at end of year	**42,542,787**	39,810,942
	₱140,919,477	₱121,187,932

Service concession assets consist of the present value of total estimated concession fee payments pursuant to the Concession Agreement, and the costs of rehabilitation works incurred.

The aggregate Concession Fees pursuant to the Concession Agreement is equal to the sum of the following:

a. 90% 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 raw water conveyance component of the Umiray-Angat Transbasin Project (UATP), on the relevant payment date set forth on the pertinent schedule of the Concession Agreement;

b. 90% 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 relevant payment date set forth on the pertinent schedule of the Concession Agreement;

c. 90% of the local component costs and cost overruns related to the UATP in accordance with the pertinent schedule of the Concession Agreement;

d. 100% of the aggregate peso equivalent due under any MWSS loan designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or been elected by the Parent Company for continuation in accordance with the pertinent sections of the Concession Agreement;

e. 100% of the local component costs and cost overruns related to the existing projects in accordance with relevant schedule of the Concession Agreement; and

f. Maintenance and operating expenditure (MOE) representing one-half of the annual budget for MWSS for that year, provided that such annual budget shall not exceed ₱200.0 million (as at 1997), subject to annual CPI adjustment (see Note 22).

Service concession assets also include Tranche B Concession Fees, which pertain to additional concession fees charged by MWSS to the Parent Company representing the cost of borrowings by MWSS as at December 2004. In 2005, pursuant to the Debt and Capital Restructuring Agreement (DCRA), the Parent Company had recognized and fully paid Tranche B Concession Fees amounting to US$36.9 million and the related accrued interest thereon (see Note 10).

Pursuant to the recommendation of the Receiver under the DCRA, the disputed amount being claimed by MWSS of additional Tranche B Concession Fees of US$18.1 million is considered as contingent liability of the Parent Company (see Notes 3, 10 and 20).

The Parent Company recognized additional concession fees amounting to ₱1,102.8 million and ₱466.7 million in 2023 and 2022, respectively, mainly pertaining to various rehabilitation projects and UATP-related local component costs (see Note 10).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱1,300.8 million, ₱603.3 million and ₱506.1 million in 2023, 2022, and 2021, respectively, while general borrowing cost capitalized as part of service concession assets amounted to ₱55.8 million and ₱111.3 million in 2023 and 2022, respectively (see Note 11). The rate used to determine the amount of general borrowing costs eligible for capitalization were 5.5% and 5.9% in 2023 and 2022, respectively.

On March 11, 2015, the MWSS Board of Trustees approved and confirmed the recommendation of the MWSS-RO to set aside the status quo of the FCDA and resume its normal operation starting first quarter of 2015. Under MWSS-RO Resolution No. 2014-002-CA, the MWSS-RO approved an FCDA equivalent to 1.12% of the 2015 basic charge of ₱33.97 per cu.m. or ₱0.38 per cu.m., effective January 1, 2015. The said FCDA adjustment was determined using the new rebased rate of ₱41.19 approved by the MWSS-RO, applicable to concession fee payments starting January 1, 2013 (see Note 3).

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting the Parent Company a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the CIT component to which the Parent Company is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Parent Company's tariff is subject to the SC's resolution of MWSS's Petition for Review.

On December 6, 2018, pursuant to MWSS-RO Resolution No. 2018-13-CA, the Parent Company used a new base foreign exchange rate from ₱41.19 to ₱53.16 effective January 1, 2018. The said FCDA adjustment was determined using the new rebased rate of ₱53.16 and ₱0.475 for United States Dollar and Japanese Yen, respectively, applicable to concession fee payments starting January 1, 2018.

Based on the 2022 Approved Business Plan, the Parent Company used a new base foreign exchange rate from ₱53.16 to ₱53.51 for United States Dollar, applicable to concession fee payments starting January 1, 2023.

The effect of change in rebased rate amounting ₱841.7 million was accounted for as an adjustment of "Service concession assets" and "Deferred credits" accounts to adjust their carrying values based on the newly determined and approved rebased rate as at December 31, 2023. These foreign exchange differences, which may no longer be recovered through the FCDA mechanism under the Concession Agreement, pertain to actual concession fee payments by Maynilad to MWSS, hence, formed part of the service concession assets.

Phil Hydro accounts for each of its BWSAs (except the BWSA with New Era University) and MOA with Municipal Government of Rizal, Nueva Ecija (MGRNE) in accordance with IFRIC 12, *Service Concession Arrangements* under the Intangible Asset model as it receives the right (license) to charge users of public service. In 2019, the Company recognized impairment loss on service concession assets of Phil Hydro amounting to ₱93.2 million and was recognized as part of the accumulated amortization. Service concession assets that are not yet available for use are subjected to impairment testing under PAS 36.

Service concession assets still under on-going construction and rehabilitation amounting to ₱53.9 billion and ₱38.4 billion as at December 31, 2023 and 2022, respectively, are considered as contract assets under PFRS 15.

8. Property and Equipment

The roll forward analysis of this account follows:

	2023						
	Land and Land Improvements	**Instrumentation, Tools and Other Equipment**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**ROU Assets - Land and Building**	**ROU Assets - Transportation Equipment**	**Total**
Cost							
At January 1	**₱51,601**	**₱2,109,313**	**₱2,112,528**	**₱901,558**	**₱513,190**	**₱290,618**	**₱5,978,808**
Additions	**–**	**153,105**	**254,707**	**116,178**	**292**	**328,452**	**852,734**
Disposals	**(6,984)**	**(76,990)**	**(98,225)**	**(16,569)**	**–**	**–**	**(198,768)**
At December 31	**44,617**	**2,185,428**	**2,269,010**	**1,001,167**	**513,482**	**619,070**	**6,632,774**
Accumulated Depreciation and Amortization							
At January 1	**3,589**	**1,301,676**	**1,877,731**	**660,816**	**271,651**	**289,385**	**4,404,848**
Depreciation and amortization	**252**	**65,456**	**162,713**	**119,295**	**79,533**	**97,077**	**524,326**
Reclassification	**–**	**–**	**–**	**–**	**(569)**	**–**	**(569)**
Disposals	**–**	**(76,991)**	**(98,225)**	**(10,369)**	**–**	**–**	**(185,585)**
At December 31	**3,841**	**1,290,141**	**1,942,219**	**769,742**	**350,615**	**386,462**	**4,743,020**
Net Book Value at December 31	**₱40,776**	**₱895,287**	**₱326,791**	**₱231,425**	**₱162,867**	**₱232,608**	**₱1,889,754**

	2022						
	Land and Land Improvements	Instrumentation, Tools and Other Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets - Land and Building	ROU Assets - Transportation Equipment	Total
Cost							
At January 1	₱51,601	₱2,005,822	₱2,092,341	₱895,929	₱517,146	₱283,933	₱5,846,772
Additions	–	166,162	103,506	58,933	–	6,685	335,286
Reclassification	–	(22,372)	22,372	–	(10)	–	(10)
Disposals	–	(40,299)	(105,691)	(53,304)	(3,946)	–	(203,240)
At December 31	51,601	2,109,313	2,112,528	901,558	513,190	290,618	5,978,808
Accumulated Depreciation and Amortization							
At January 1	3,337	1,273,446	1,806,667	560,795	190,042	240,822	4,075,109
Depreciation and amortization	252	68,537	176,754	109,915	81,856	48,563	485,877
Reclassification	–	(8)	2	39,662	(9)	–	39,647
Disposals	–	(40,299)	(105,692)	(49,556)	(238)	–	(195,785)
At December 31	3,589	1,301,676	1,877,731	660,816	271,651	289,385	4,404,848
Net Book Value at December 31	₱48,012	₱807,637	₱234,797	₱240,742	₱241,539	₱1,233	₱1,573,960

Net gain on disposals of property and equipment amounting to ₱2.0 million, ₱0.9 million, and ₱0.5 million, in 2023, 2022 and 2021, respectively, is presented as part of "Others - net" account under "Other income (expenses)" in the consolidated statements of income. The Company sold items of property and equipment for a total consideration of ₱15.2 million, ₱4.6 million and ₱3.2 million in 2023, 2022 and 2021, respectively.

No property and equipment as at December 31, 2023 and 2022 have been pledged as security or collateral.

9. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

The financial assets at FVOCI amounted to ₱124.9 million as of December 31, 2023 and 2022 which pertains to the Company's investments in unquoted equity shares in a local water distribution company. Dividend income on financial assets at FVOCI presented as part of "Others – net" account under "Other income (expenses)" in the consolidated statements of income amounted to ₱16.0 million, ₱15.0 million and ₱15.0 million in 2023, 2022 and 2021, respectively.

10. Service Concession Obligation Payable to MWSS

This account consists of:

	2023	2022
Concession fees payable (see Note 7)	**₱6,756,380**	₱6,402,862
Accrued interest	**607,217**	607,217
	7,363,597	7,010,079
Less current portion	**874,561**	940,917
	₱6,489,036	₱6,069,162

Interest accretion on service concession obligation amounted to ₱640.2 million, ₱562.7 million and ₱518.5 million in 2023, 2022 and 2021, respectively (see Note 18).

<u>Disputes with MWSS</u>
The Parent Company has been contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties. Consequently, the Parent Company has not provided for these additional charges. These disputed charges were effectively reflected and recognized by the Parent Company as Tranche B Concession Fees amounting to US$30.1 million by virtue of the DCRA entered into in 2005. The Parent Company also paid US$6.8 million in 2005 as an additional amount of Tranche B Concession Fees determined by the Receiver (see Note 7).

The Parent Company reconciled its liability to MWSS with the confirmation and billings from MWSS. The difference between the amount confirmed by MWSS and the amount recognized by the Parent Company amounted to ₱5.0 billion and ₱5.1 billion as at December 31, 2023 and 2022, respectively. The difference mainly pertains to disputed claims of MWSS consisting of additional Tranche B Concession Fees, borrowing cost and interest penalty under the Concession Agreement (prior to the DCRA). The Parent Company's position on these charges is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court (see Notes 3, 7 and 20).

Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of the Parent Company's rehabilitation proceedings, the Parent Company and MWSS sought to resolve the matter in accordance with the dispute resolution requirements of the transitional and clarificatory agreement (TCA).

Prior to the DCRA, the Parent Company has accrued interest on its payable to MWSS based on the terms of the Concession Agreement, which was disputed by the Parent Company before the Rehabilitation Court. These already amounted to ₱985.3 million as at December 31, 2011 and have been charged to interest expense in prior years. The Parent Company maintains that the accrued interest on its payable to MWSS has been adequately replaced by the Tranche B Concession Fees discussed above. The Parent Company's position is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court (see Notes 7 and 20). With the prescription of the TCA and in light of the Parent Company's current negotiation and outstanding offer of US$14.0 million to fully settle the claim of MWSS, the Parent Company reversed the amount of accrued interest in excess of the US$14.0 million settlement offer amounting to ₱378.1 million in 2012. The remaining balance of ₱607.2 million as at December 31, 2023 and 2022, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

The schedule of undiscounted estimated future concession fee payments, based on the term of the Concession Agreement, is as follows:

	In Original Currency		
Year	Foreign Currency Loans (Translated to US$)*	Peso Loans/ Project Local Support	Total Peso Equivalent
		(In Millions)	
2024	$10.3	₱797.9	₱1,370.0
2025	9.7	778.0	1,316.9
2026	9.4	803.5	1,321.2
2027	10.6	828.9	1,417.9
2028-2037	74.3	9,779.3	13,890.7
	$114.3	₱12,987.6	₱19,316.7

**Translated using the December 31, 2023 exchange rate of ₱55.37:US$1.*

Additional concession fee liability relating to the extension of the Concession Agreement (see Note 1) is only determinable upon loan drawdown of MWSS and the actual construction of the related concession projects.

11. Interest-bearing Loans

This account consists of:

	2023	2022
₱18.5 billion Corporate Notes	**₱17,665,650**	₱17,817,350
₱10.0 billion Term Loan Facility (BPI)	**10,000,000**	–
₱6.0 billion Term Loan Facility (BDO)	**6,000,000**	6,000,000
₱6.0 billion Term Loan Facility (LBP)	**5,700,000**	6,000,000
₱5.0 billion Term Loan Facility (LBP)	**5,000,000**	–
¥13.1 billion Facility Loan (JICA)	**4,999,070**	1,212,395
₱4.0 billion Term Loan Facility (LBP)	**4,000,000**	4,000,000
₱4.8 billion Corporate Notes (DBP)	**3,657,000**	3,975,000
₱5.0 billion Term Loan Facility (BDO)	**3,333,333**	3,888,889
¥7.9 billion Facility Loan (JCB)	**1,448,860**	1,978,476
₱1.4 billion Facility Loan (JICA)	**409,712**	819,424
Peso-denominated Bank Loan (LBP)	**47,813**	79,688
₱1.9 billion Short-term Loan Facility (CTBC, RCBC, UB)	**–**	1,500,000
US$137.5 million loan	**–**	–
	62,261,438	47,271,222
Less unamortized debt issuance costs	**459,540**	357,126
	61,801,898	46,914,096
Less current portion	**2,587,660**	3,806,311
	₱59,214,238	₱43,107,785

₱18.5 billion Corporate Notes (Various Lenders)
On February 22, 2018, the Parent Company entered into several loan agreements for the refinancing of all its existing loans under the ₱21.2 billion Term Loan and ₱5.0 billion Corporate Notes, whereby the Parent Company was granted a Term Loan Facility ("the Notes Facility") in the aggregate amount of ₱18.5 billion. Under the new terms, the loan shall be drawn in three tenors; 7Y, 10Y and 15Y Fixed Corporate Notes, payable in semi-annual installments within fifteen years to commence at the end of the 6th month after the initial issue date and bears interest rate per annum equal to the applicable benchmark rate plus 0.60%, 0.70% and 0.60% per annum for the 7Y, 10Y and 15Y Fixed Corporate Notes, respectively. The Notes Facility is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱199.7 million were capitalized in 2018. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱14.2 million, ₱13.5 million and ₱12.8 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱10.0 billion Term Loan Facility (Bank of the Philippine Islands)
On May 10, 2023, the Parent Company entered into a Loan Agreement with Bank of the Philippine Islands. The first and second drawdowns amounting to ₱5.0 billion each were drawn on May 11, 2023 and October 3, 2023, respectively. The loan shall be payable in semi-annual installments within ten years to commence on November 11, 2024, and bears fixed interest rates of 6.41% and 7.00% per annum for the first and second drawdown, respectively, for the first five years. Interest rate applicable for the remaining five years will be based on benchmark rate plus spread. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱75.2 million were capitalized in 2023.

Specific borrowing costs capitalized as part of service concession assets amounted to ₱299.4 million in 2023 (see Note 7).

₱6.0 billion Term Loan Facility (BDO Unibank Inc.)
On November 15, 2022, the Parent Company entered into a Loan Agreement with BDO Unibank, Inc. to: (i) partially fund capital expenditure requirements; (ii) refinance existing obligations; and (iii) fund other general corporate requirements. The drawdown from this facility was made on November 17, 2022.

The loan shall be payable in semi-annual installments within ten years to commence at the end of the 18^{th} month reckoned from the drawdown date which bears a fixed-rate loan structured as 3+3+4, each tenor will be based on Bloomberg Valuation Service reference rate plus 65 basis points credit spread with interest rate floor as follows: (i) 3Y – 5.75% per annum and (ii) 4Y – 5.90% per annum. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱45.2 million were capitalized in 2022. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to nil and ₱0.6 million in 2023 and 2022, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱443.3 million and ₱54.8 million in 2023 and 2022, respectively (see Note 7).

₱6.0 billion Term Loan Facility (Land Bank of the Philippines)
On August 10, 2022, the Parent Company entered into a Loan Agreement with Land Bank of the Philippines for the refinancing of its existing loan under the US$137.5 million MWMP Loan. The drawdown from this facility was made on August 12, 2022.

The loan shall be payable in semi-annual installments within fifteen years to commence at the end of the 6^{th} month reckoned from the drawdown date which bears a fixed-rate loan structured as 3+5+5+2, each tenor will be based on Bloomberg Valuation Service reference rate plus 50 basis points credit spread with interest rate floor as follows: (i) 3Y – 4.50% per annum, (ii) 5Y – 5.25% per annum and (iii) 2Y – 4.25% per annum. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱60.2 million were capitalized in 2022. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱5.2 million and ₱2.2 million in 2023 and 2022, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱5.0 billion Term Loan Facility (Land Bank of the Philippines)
On December 11, 2023, the Parent Company entered into a Loan Agreement with Land Bank of the Philippines. Drawdown from this facility was made on December 13, 2023. The loan shall be payable in semi-annual installments within ten years to commence on June 14, 2025, and bears fixed interest rate of 6.60% per annum for the first three years. Interest rate on the re-pricing date will be based on applicable benchmark rate plus spread. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱37.6 million were capitalized in 2023.

Specific borrowing costs capitalized as part of service concession assets amounted to ₱16.7 million in 2023 (see Note 7).

Total general borrowing costs amounted to ₱55.9 million and ₱111.3 million in 2023 and 2022, respectively (see Note 7).

Covenants
The loan agreements contain, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio. As at December 31, 2023 and 2022, the Parent Company has complied with these covenants.

¥13.1 billion Facility Loan (Japan International Cooperation Agency)
On June 7, 2017, the Parent Company entered into a credit agreement with the JICA whereby the Parent Company was granted a Japanese yen-denominated Facility Loan, amounting to ¥13.1 billion. The loan shall be payable in semi-annual installments within seventeen years to commence on October 10, 2022. Drawdowns amounting to ¥0.7 billion, ¥0.5 billion, ¥0.8 billion, and ¥0.9 billion were made on April 2, 2019, June 28, 2019, August 30, 2019 and December 6, 2019, respectively. The final drawdown amounting to ¥10.2 billion was made on June 23, 2023. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱54.3 million and ₱7.3 million were capitalized in 2019 and 2018, respectively. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱5.0 million, ₱2.5 million and ₱2.8 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱4.0 billion Term Loan Facility (Land Bank of the Philippines)
On November 7, 2022, the Parent Company entered into a Loan Agreement with Land Bank of the Philippines to partially fund the general corporate requirements of the Company. The drawdown from this facility was made on November 10, 2022.

The loan shall be payable in semi-annual installments within ten years to commence at the end of the 18th month reckoned from the drawdown date which bears a fixed-rate loan structured as 3+5+2, each tenor will be based on Bloomberg Valuation Service reference rate plus 50 basis points credit spread with interest rate floor as follows: (i) 3Y – 4.50% per annum, (ii) 5Y – 5.25% per annum and (iii) 2Y – 4.25% per annum. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱40.2 million were capitalized in 2022. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to nil and ₱0.5 million in 2023 and 2022, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱290.0 million ₱41.4 million in 2023 and 2022, respectively (see Note 7).

₱4.8 billion Corporate Notes (Development Bank of the Philippines)
On February 24, 2014, the Parent Company entered into a Loan Agreement (Corporate Notes) with the Development Bank of the Philippines. The loan proceeds shall be used to finance the first stage of the Parañaque-Las Piñas STP and associated wastewater conveyance system.

The loan shall be payable in semi-annual payments within twenty years to commence at the end of the fifth year, which bears a fixed rate per annum equal to 6.0%. The first, second, third and fourth drawdowns amounting to ₱1.0 billion, ₱2.0 billion, ₱1.0 billion and ₱0.8 billion were made on March 2, 2015, October 4, 2016, August 1, 2017 and March 5, 2018, respectively. The ₱4.8 billion Corporate Notes is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱46.1 million were capitalized in 2015. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to nil, ₱3.2 million and ₱3.3 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱235.9 million and ₱255.5 million in 2023 and 2022, respectively (see Note 7).

Under the terms of the loan agreements, the Parent Company may, at its option and without premium and penalty, redeem the Corporate Notes in whole or in part, subject to the conditions stipulated in the agreements. The embedded early redemption and prepayment options are clearly and closely related to the host debt contract, and thus, do not require to be bifurcated and accounted for separately from the host contract.

₱5.0 billion Term Loan Facility (BDO Unibank Inc.)
On November 26, 2019, the Parent Company entered into a Loan Agreement with BDO Unibank, Inc. The loan shall be payable in semi-annual installments within ten years to commence on May 29, 2021 and bears a fixed rate per annum of 4.9505% for the first five years. The interest rate for the remaining five years will be based on the applicable benchmark rate plus 0.60% per annum. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱37.8 million were capitalized in 2019. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱4.9 million, ₱5.5 million and ₱6.1 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

¥7.9 billion Facility Loan (Japanese Commercial Bank)
On June 7, 2017, the Parent Company entered into a credit agreement (Facility Agreement) with foreign banks, namely The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank Ltd., and Sumitomo Mitsui Banking Corporation (collectively referred to as "the Lenders"). The first and second drawdowns amounting to ¥4.9 billion and ¥3.0 billion were made on August 20, 2018 and November 28, 2018, respectively. The loan shall be payable in semi-annual installments within ten years to commence at the end of the 36th month from the date of the Facility Agreement. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱70.6 million were capitalized in 2018. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱7.7 million, ₱9.4 million and ₱11.2 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱1.4 billion Facility Loan (Japan International Cooperation Agency)
On June 7, 2017, the Parent Company entered into a credit agreement with the Japan International Cooperation Agency (JICA) whereby the Parent Company was granted a peso-denominated Facility Loan, amounting to ₱1.4 billion. The loan shall be payable in semi-annual installments within seven years to commence on October 15, 2021. Drawdowns amounting to ₱0.5 billion, ₱0.5 billion and ₱0.4 billion were made on May 18, 2018, September 25, 2018 and December 21, 2018, respectively. The loan is secured by a negative pledge.

255.0 million Peso-denominated Loan of Phil Hydro (Land Bank of the Philippines)
On May 4, 2015, Phil Hydro entered into a Loan Agreement with the Land Bank of the Philippines. The loan shall be payable in quarterly installments within eight years to commence after the end of the 8^{th} quarter and bears an interest rate per annum equal to the higher of (i) the applicable benchmark rate plus 1.0% per annum, or (ii) 5.5% per annum. The benchmark rate shall be determined by reference to the Philippine Dealing System Treasury Reference Rates (PDST-R2) rate. The peso-denominated loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱1.3 million were capitalized in 2015. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱0.1 million in 2023, 2022 and 2021, is presented as part of “Interest expense and other financing charges” account in the consolidated statements of income (see Note 18).

Covenants
The loan agreement contains, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio. As at December 31, 2023 and 2022, Phil Hydro has complied with these covenants.

₱1.9 billion Short-term Loan (CTBC, RCBC and UB)
On March 30, 2022, the Parent Company availed a 360-day short-term loan from local banks namely CTBC Bank (Philippines) Corp., Rizal Commercial Banking Corporation, and Union Bank of the Philippines, Inc. (“UB”) with interest rates of 3.50%, 3.40% and 3.57%, respectively. On September 26, 2022, the ₱0.4 billion loan from UB was prepaid and the ₱1.5 billion outstanding balance was paid on March 24, 2023. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱12.5 million were capitalized in 2022. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to nil and ₱9.8 million in 2023 and 2022, respectively, is presented as part of “Interest expense and other financing charges” account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱15.4 million and ₱58.6 million in 2023 and 2022, respectively (see Note 7).

US$137.5 million Loan (Land Bank of the Philippines)
The World Bank (WB), through the Metro Manila Wastewater Management Project (MWMP), provided a US$275.0 million loan to the Land Bank of the Philippines (LBP) for relending at an equal share to the two Concessionaires of the MWSS namely, Maynilad and Manila Water.

The MWMP is expected to finance investments in wastewater collection and treatment, and septage management in Metro Manila.

The loan will fund the following projects:

1. Rehabilitation of Ayala Alabang Sewage Treatment Plant (STP)
2. Talayan STP (part of the San Juan River Basin Project)
3. Valenzuela STP and associated wastewater conveyance system
4. Pasay STP and associated wastewater conveyance system
5. Muntinlupa STP and associated wastewater conveyance system
6. South Septage Treatment Plant

The WB and the LBP signed the Loan Agreement on May 31, 2012 while the Subsidiary Loan Agreement between LBP and Maynilad was executed on October 25, 2012.

The loan shall be payable in semi-annual installments within 25 years, inclusive of seven years grace period. The interest shall be paid semi-annually based on the same rate of interest payable by LBP under the WB Loan Agreement, plus fixed spread of 1.25% per annum. The loan is secured by a negative pledge.

The proceeds of the World Bank loan have been expended in accordance with the intended purposes as specified in the Loan Agreement.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱42.8 million were capitalized in 2013. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to nil, ₱20.3 million and ₱2.5 million in 2023, 2022 and 2021, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to nil and ₱193.0 million in 2023 and 2022, respectively (see Note 7).

On August 15, 2022, the Parent Company prepaid the US$114.7 million outstanding balance of the MWMP loan. As a result of the prepayment, the unamortized debt issue cost amounting to ₱18.9 million and prepayment cost of ₱118.8 million were charged to expense and were presented as part of "Interest expense and other financing charges" account in the consolidated statements of income.

Unamortized Debt Issuance Cost
The movements in the balance of unamortized debt issuance costs related to all interest-bearing loans are as follows:

	2023	2022
Balance at beginning of year:		
Peso loans	**₱328,951**	₱207,447
Japanese Yen-denominated	**28,175**	38,817
US Dollar-denominated	**–**	20,286
	357,126	266,550
Additions during the year:		
Peso Loans	**97,284**	158,098
Japanese Yen-denominated	**42,215**	–
	139,499	158,098

(Forward)

	2023	2022
Amortization during the year (see Note 18):		
Peso Loans	**₱25,152**	(₱36,594)
Japanese Yen-denominated	**11,933**	(10,642)
US Dollar-denominated	**–**	(20,286)
	37,085	(67,522)
Balance at ending of year:		
Peso Loans	**401,083**	328,951
Japanese Yen-denominated	**58,457**	28,175
	₱459,540	₱357,126

The repayments of loans based on existing terms are scheduled as follows:

	In Original Currency		
Year	Japanese Yen-Denominated*	Peso Loans	Total Peso Equivalent
2024	¥ 633.5	₱ 1,954.2	₱ 2,587.7
2025	891.9	3,290.2	4,182.1
2026	891.9	1,609.3	2,501.2
2027	684.9	1,608.0	2,292.9
2028 onwards	3,345.7	47,351.8	50,697.5
	¥6,447.9	₱55,813.5	₱62,261.4

**Translated using the December 31, 2023 exchange rate of 0.393:JPY1.*

12. Trade and Other Payables

This account consists of:

	2023	2022
Accrued expenses (see Note 17)	**₱9,473,171**	₱10,763,937
Accrued construction costs (see Note 15)	**5,757,553**	6,564,043
Trade and other payables	**4,891,638**	4,629,356
Due to a related party (see Note 15)	**397,335**	118,834
Contract liabilities (see Note 14)	**47,958**	40,013
	₱20,567,655	₱22,116,183

Accrued expenses mainly consist of provisions, salaries, wages and benefits, contracted services, and interest payable to the banks. Details of provisions required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* are not disclosed as these may prejudice the Company's positions in relation to the cases pending before the courts or quasi-judicial bodies.

Accrued construction costs represent unbilled construction costs from contractors and are normally settled upon receipt of billings.

Trade and other payables are non-interest bearing and are normally settled within one year.

Trade payables include liabilities relating to assets held in trust (see Note 23) used in the Company's operations amounting to ₱97.3 million as at December 31, 2023 and 2022.

13. **Equity**

a. The Parent Company's authorized and issued shares as at December 31, 2023 and 2022 are presented below:

	Number of Shares
Authorized and issued – ₱1,000 par value	
Common shares	
Class A	4,222,482
Class B	236,000
ESOP	88,500
	4,546,982

Total outstanding shares as of December 31, 2023 and 2022 are 4,512,375 and 4,513,038, respectively.

b. ESOP and Treasury Shares

The employees of the Parent Company are allowed equity participation of up to six percent (6%) of the issued and outstanding capital stock of the Parent Company upon the effective date of the increase in authorized capital stock of the Parent Company pursuant to and in accordance with the provisions of Clause 2.6 of the DCRA. For this purpose, a series of 88,500,000 nonvoting convertible redeemable shares (ESOP Shares) was created from common Class A shares as reflected in the Parent Company's amended Articles of Incorporation. In 2008, the ESOP shares were effectively reduced to 88,500 shares due to change in par value from ₱1 to ₱1,000. The ESOP shares have no voting rights, except for those provided under Section 6 of the Corporation Code and have no pre-emptive rights to purchase or subscribe to future or additional issuances or disposition of shares of the Parent Company.

Within thirty (30) days after the earlier of (i) the end of the fifth year from the creation of the ESOP Shares, and (ii) the listing date for common shares in a recognized Philippine Stock Exchange, the Parent Company may redeem the ESOP shares at a redemption ratio equal to one common share for every ESOP share held and such common shares so exchanged shall have the same rights and privileges as all other common shares.

Each ESOP Share will be convertible, at the option of the holder thereof, at any time during the period commencing the earlier of (i) the end of the fifth year from the creation of the ESOP Shares; or (ii) the listing date for common shares in a recognized Philippine Stock Exchange into one fully paid and non-assessable common share. Such common share shall have the same rights and privileges as all other common shares. Conversion of the ESOP Share may be effected by surrendering the certificates representing such shares to be converted to the Parent Company common shares at the Parent Company's principal office or at such other office or offices as the BOD may designate, and a duly signed and completed notice of conversion in such form as may from time to time be specified by the Parent Company (a "Conversion Notice"), together with such evidence as the Parent Company may reasonably require to prove the title of the person exercising such right. A Conversion Notice once given may not be withdrawn without the consent in writing of the Parent Company.

In 2012, the Board and shareholders of the Parent Company approved the amendment of its Articles of Incorporation to allow for the reissuance of ESOP shares that have been bought back by the Parent Company from separated employees. Upon approval by the SEC of the amendment on January 31, 2013, ESOP shares reacquired by the Parent Company from its resigned employees were subsequently reissued to all qualified employees.

ESOP shares reacquired by the Parent Company from resigned and retired employees equivalent to 34,607 shares and 33,944 shares, and amounting to ₱391.9 million and ₱349.1 million as of December 31, 2023 and 2022, respectively, were presented as treasury shares.

c. Dividends

On June 28, 2021, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱662.33 per common share amounting to ₱3.0 billion to all shareholders of record as at June 30, 2021. Payments were made on July 22, 2021.

On February 24, 2022, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱663.19 per common share amounting to ₱3.0 billion to all shareholders of record as at February 28, 2022. Payments were made on April 15, 2022.

On February 20, 2023, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱797.69 per common share amounting to ₱3.6 billion to all shareholders of record as at February 28, 2023. Payments were made on April 14, 2023.

On February 27, 2024, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends amounting to ₱4.5 billion to all shareholders of record as at February 29, 2024. Expected payment is on April 15, 2024.

d. Appropriation of Retained Earnings

On February 26, 2018 and October 29, 2018, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱15.0 billion and ₱5.0 billion for various water and wastewater projects. The appropriation is intended to fund the Parent Company's capital expenditures for (1) water sources and treatment; (2) operations support programs to sustain, enhance and expand the water facilities and operations in the following areas: (i) service level at 24 hours water availability at a minimum of 16 psi water pressure, (ii) water coverage, (iii) reliability, flexibility and adaptation to climate change, and (iv) right-of-way and lot acquisition for water facilities; (3) pipelaying of secondary and tertiary pipelines; (4) sanitation programs; and (5) customer service and information capex. These projects are expected to be implemented in the next two to three years.

On November 26, 2019, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱7.0 billion to fund the Parent Company's capital expenditures for the following projects: (1) upgrading of Dagat-Dagatan sewage treatment plan to 205MLD South Caloocan-Malabon-Navotas (CAMANA) Water Reclamation Facility, and (2) the design and build of the 140 MLD Water Reclamation Facility for the Central Manila Sewerage System. These projects are expected to be implemented in the next five years. As of December 31, 2023, these projects are still ongoing.

On December 7, 2020, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱1.75 billion to fund capital expenditures for pipelaying projects expected to be implemented in the next two years. As of December 31, 2023, these projects are still ongoing.

e. Equity Adjustments

Redemption of Preferred Shares

The Parent Company issued and redeemed preferred shares in 2008. Foreign exchange fluctuation from date of issuance of the preferred shares to the date of issuance of notice of redemption, amounting to ₱309.2 million, is recognized as part of "Other equity adjustments" account shown under the equity section of the consolidated statements of financial position.

Maynilad Share-based Payment

On December 1, 2023, the BOD approved the awarding of 6,514 ESOP shares to all qualified Maynilad employees to be paid through stock purchase bonus (equity-settled transaction). The ESOP covers employees who have met the following eligibility criteria:

a. The employee has completed a full year's service, either as a regular or probationary employee, from December 1, 2022 to November 30, 2023 (the "Period");

b. The employee has obtained at least a satisfactory rating in the previous performance appraisal immediately preceding December 1, 2023;

c. The employee has not been suspended at any time during the Period;

d. The employee has not exceeded 10 days of absences without official leave during the Period; and

e. The employee has not exceeded 20 days of leave without pay during the Period.

Communication to eligible employees was made on December 18, 2023.

The fair value of ESOP shares amounting to ₱14,001.74 per share was determined based on the Parent Company's equity value at the date of grant using the discounted cash flows (DCF) method.

The grant of shares under the ESOP does not require an exercise to be paid by the employees nor are there cash alternatives. All ESOP shares will be held in treasury until issuance.

Equity-based compensation expense recognized by the Parent Company under "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱116.7 million in 2023.

14. Revenue from Contracts with Customers

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	2023	2022	2021
Geographical areas:			
West zone	**₱27,067,974**	₱22,635,836	₱21,745,160
Outside west zone	**255,291**	238,897	204,854
	₱27,323,265	₱22,874,733	₱21,950,014

Contract balances:

	2023	2022
Trade receivables		
(gross of allowance for ECL) Note 5	**₱3,392,741**	₱3,989,740
Contract assets	**1,205,041**	1,000,925
Cost of new water service connections	**477,993**	404,445
	₱5,075,775	₱5,395,110
Contract liabilities	**₱1,099,368**	₱958,374

Trade receivables are non-interest bearing and are generally on terms of 60 days.

Contract assets are initially recognized for revenue earned from water and wastewater services as receipt of consideration is conditional on the performance of service. Upon completion of the performance obligation the amounts recognized as contract assets are reclassified to trade receivables. Contract assets as at December 31, 2023 and 2022 consist of the following:

	2023	2022
Customers:		
Residential	**₱572,689**	₱489,555
Semi-business	**85,557**	71,743
Commercial	**390,216**	307,426
Industrial	**156,579**	132,201
	₱1,205,041	₱1,000,925

Contract liabilities are initially recognized from the collection of the connection and installation fees and is recognized over the remaining concession period as the Company provides water and wastewater services to customers. The Company recognized contract liabilities under "Trade and other payables" account amounting to ₱48.0 million and ₱40.0 million for the current portion and ₱1,051.4 million and ₱918.4 million for the noncurrent portion under the "Other noncurrent liabilities" account in the consolidated statements of financial position as of December 31, 2023 and 2022, respectively. Cost of new water service connections recognized amounted to ₱20.8 million and ₱17.0 million under "Other current assets" and ₱457.2 million and ₱387.4 million under "Other noncurrent asset" account in the consolidated statements of financial position as of December 31, 2023 and 2022, since these costs are recoverable and is directly associated with the contract with customers.

15. 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 influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence.

Category	Year	Amount/ Volume of Transactions	Outstanding Receivable (Payable)	Terms	Conditions
Subsidiary of a significant influence investor					
DM Consunji, Inc.					
Revenue from trade and non-trade services	**2023** 2022	**₱74.0 million** ₱74.2 million	**₱4.0 million** ₱5.3 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Construction costs (see Note 12)	**2023** 2022	**3,168.9 million** 1,725.9 million	**890.1 million** 403.2 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Training fees	**2023** 2022	**–** 117.0 thousand	**–** –	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Rental	**2023** 2022	**–** –	**(1.9 million)** (1.9 million)	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Significant influence investees of FPC					
Manila Electric Company					
Revenue from trade and non-trade services	**2023** 2022	**8.6 million** 7.6 million	**0.3 million** (2.4 million)	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Electricity costs	**2023** 2022	**1,668.4 million** 1,347.3 million	**335.1 million** 362.6 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Meralco Industrial Engineering Services Corporation					
Construction costs (see Note 12)	**2023** 2022	**2.3 million** 1.4 million	**0.9 million** (7.3 million)	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Revenue from trade and non-trade services	**2023** 2022	**–** 1.0 thousand	**1.0 thousand** 37.5 thousand	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Miescor Logistics, Inc.					
Repairs and maintenance	**2023** 2022	**–** 5.1 million	**(1.8 million)** (1.8 million)	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Indra Philippines, Inc.					
Revenue from trade and non-trade services	**2023** 2022	**–** –	**72.0 thousand** 40.0 thousand	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Commercial outsourcing of information technology and system services	**2023** 2022	**229.1 million** 190.4 million	**(21.0 thousand)** –	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
PLDT, Inc.					
Revenue from trade and non-trade services	**2023** 2022	**9.4 million** 9.1 million	**48.1 thousand** 12.4 thousand	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Ecosystem Technologies International, Inc.					
Revenue from trade and non-trade services	**2023** 2022	**0.1 million** 0.1 million	**0.3 million** 0.5 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
Construction costs (see Note 12)	**2023** 2022	**83.2 million** 10.8 million	**67.3 million** 78.2 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
Others					
Revenue from trade and non-trade services	**2023** 2022	**34.8 million** 32.2 million	**24.6 million** 26.7 million	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired

(Forward)

Category	Year	Amount/ Volume of Transactions	Outstanding Receivable (Payable)	Terms	Conditions
Management fees	**2023**	**₱–**	**₱5.9 million**	Noninterest-bearing,	Unsecured
	2022	₱173.4 thousand	₱5.7 million	settlement in cash and payable on demand	
Communication expenses	**2023**	**51.4 million**	**(8.7 million)**	Noninterest-bearing,	Unsecured
	2022	37.4 million	(6.8 million)	settlement in cash and payable on demand	
Insurance	**2023**	**–**	**(14.2 thousand)**	Noninterest-bearing,	Unsecured
	2022	–	(14.2 thousand)	settlement in cash and payable on demand	
Sponsorship fees	**2023**	**–**	**(43.0 thousand)**	Noninterest-bearing,	Unsecured
	2022	–	(43.0 thousand)	settlement in cash and payable on demand	
Donations	**2023**	**149.3 million**	**–**	Noninterest-bearing,	Unsecured
	2022	51.2 million	–	settlement in cash and payable on demand	
Dividends	**2023**	**188.3 million**	**–**	Noninterest-bearing,	Unsecured
	2022	156.5 million	(192.5 thousand)	settlement in cash and payable on demand	
Advertising and promotions	**2023**	**3.9 thousand**	**–**	Noninterest-bearing,	Unsecured
	2022	828.2 thousand	–	settlement in cash and payable on demand	
Professional fees	**2023**	**1.8 million**	**(103.5 thousand)**	Noninterest-bearing,	Unsecured
	2022	4.2 million	(773.2 thousand)	settlement in cash and payable on demand	
Supplies and materials	**2023**	**873.5 thousand**	**–**	Noninterest-bearing,	Unsecured
	2022	–	–	settlement in cash and payable on demand	
Outsourced services	**2023**	**84.4 million**	**(3.8 million)**	Noninterest-bearing,	Unsecured
	2022	81.5 million	(4.5 million)	settlement in cash and payable on demand	
Transportation equipment	**2023**	**14.1 million**	**(7.1 thousand)**	Noninterest-bearing,	Unsecured
	2022	6.3 million	(7.1 thousand)	settlement in cash and payable on demand	
Training fees	**2023**	**3.9 million**	**–**	Noninterest-bearing,	Unsecured
	2022	4.1 million	–	settlement in cash and payable on demand	
Repairs and maintenance	**2023**	**–**	**(14.2 thousand)**	Noninterest-bearing,	Unsecured
	2022	9.4 thousand	(3.3 million)	settlement in cash and payable on demand	

Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured, interest-free, settlement occurs in cash and payable on demand. The Group did not make any provision for impairment loss relating to amounts owed by related parties.

Total compensation and benefits of key management personnel of the Company consist of:

	2023	2022	2021
Compensation	**₱317,759**	₱216,360	₱274,063
Pension costs	**14,325**	13,939	16,347
Short-term benefits	**18,296**	13,221	9,336
	₱350,380	₱243,520	₱299,746

16. **Income Taxes**

Provision for current income tax represents the total regular corporate income tax for Group in 2023, 2022 and 2021.

The components of the Group's net deferred tax liabilities as at December 31, 2023 and 2022, respectively shown in the consolidated statements of financial position are as follows:

	2023	2022
Deferred tax assets:		
Allowance for ECL	**₱164,627**	₱164,627
Revenue from contracts with customers – net	**104,125**	94,756
Pension liability and unamortized past service cost	**49,455**	54,140
Allowance for inventory obsolescence	**20,739**	26,109
Accrued expenses	**13,023**	130,541
Lease liabilities	**10,335**	10,293
Unrealized foreign exchange loss	**–**	715
	362,304	481,181
Deferred tax liabilities:		
Service concession assets	**(1,870,536)**	(1,488,920)
Unamortized debt issuance costs	**(16,353)**	(26,609)
ROU assets	**(105)**	(106)
Unrealized foreign exchange gain	**–**	(2,498)
Others	**(105)**	(97)
	(1,887,099)	(1,518,230)
Deferred tax liabilities – net	**(₱1,524,795)**	(₱1,037,049)

In 2023, deferred tax assets on pension liability recognized in other comprehensive income amounted to ₱14.8 million. In 2022 and 2021, deferred tax liabilities on pension liability recognized in other comprehensive income amounted to ₱38.4 million and ₱77.8 million, respectively.

Service concession assets consist of concession fees and property, plant and equipment. For income tax purposes, concession fees are amortized using UOP method while property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives or remaining concession period, whichever is shorter.

The reconciliation of provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the consolidated statements of income is summarized as follows:

	2023	2022	2021
Income tax at statutory tax rate of 25%	**₱2,988,700**	₱1,998,659	₱1,997,377
Add (deduct) the tax effects of:			
Interest income already subjected to final tax	**(55,409)**	(9,368)	(11,438)
Tax impact on change of method of deduction	**(12,414)**	(207,443)	(110,358)
CREATE impact	**–**	–	(212,320)
Non-deductible expenses and others	**(9,017)**	324,955	182,947
Provision for income tax	**₱2,911,860**	₱2,106,803	₱1,846,208

17. **Employee Benefits**

LTIP

LTIP for its managers and executives, based on profit targets, for the cycle 2019, 2021, and 2022 was approved by the Maynilad BOD on February 24, 2022. Management proposed, and the BOD accepted, the exclusion of 2020 results from the LTIP standards due to the highly unusual circumstances (pandemic, severe quarantine lockdowns) affecting financial performance for that year. It is also for this reason that the LTIP cycle was extended to include 2022 instead.

In keeping with Maynilad's practice over previous years, management intends to obtain approval for the LTIP cycle covering the period 2023-2025.

As at December 31, 2023 and 2022, the LTIP payable is as follows:

	2023	2022
Balance at beginning of year	**₱496,500**	₱383,611
Addition for the year	**166,000**	5,197
Reclassification	**(62,456)**	107,692
Payment	**(434,044)**	–
	166,000	496,500
Less current portion	–	496,500
Noncurrent portion	**₱166,000**	₱–

The total costs of the LTIP amounted to ₱166.0 million, ₱5.2 million and nil in 2023, 2022 and 2021, respectively, presented as part of "Salaries, wages and benefits" account in the consolidated statements of comprehensive income. Accrued LTIP which was included as part of "Trade and other payables" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position amounted to ₱166.0 million and ₱496.5 million as at December 31, 2023 and 2022.

Pension Plan

The pension liabilities for the noncontributory pension plan of the Group as at December 31 are as follows:

	2023	2022
Maynilad Water Services, Inc.	**₱284,632**	₱150,362
Philippine Hydro, Inc.	**1,044**	1,374
Amayi Water Services, Inc.	**55**	55
	₱285,731	₱151,791

Maynilad -Defined Benefit Plan

The Parent Company has a funded, noncontributory and actuarially computed pension plan covering all regular and permanent employees. The benefits are based on years of service and compensation during the last year of employment.

Changes in the funded pension liability in 2023 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Liability**
At December 31, 2022	**₱1,232,586**	**₱1,082,224**	**₱150,362**
Pension cost in the consolidated statements of income:			
Current service cost	**96,736**	**–**	**96,736**
Net interest cost/income	**81,292**	**74,989**	**6,303**
Total	**178,028**	**74,989**	**103,039**
Remeasurements in other comprehensive loss:			
Loss on return on plan assets	**–**	**(36,178)**	**36,178**
Actuarial changes due to experience adjustment	**(15,807)**	**–**	**(15,807)**
Actuarial changes arising from changes in financial assumptions	**138,663**	**–**	**138,663**
Total	**122,856**	**(36,178)**	**159,034**
Benefits paid	**(151,431)**	**(151,431)**	**–**
Actual contributions	**–**	**127,803**	**(127,803)**
At December 31, 2023	**₱1,382,039**	**₱1,097,407**	**₱284,632**

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At December 31, 2021	₱1,537,567	₱1,142,606	₱394,961
Pension cost in the consolidated statements of income:			
Current service cost	124,440	–	124,440
Net interest cost	73,698	57,587	16,111
	198,138	57,587	140,551
Remeasurements in other comprehensive income:			
Loss on return on plan assets	–	(76,429)	76,429
Actuarial changes due to experience adjustment	(32,378)	–	(32,378)
Actuarial changes arising from changes in financial assumptions	(268,615)	–	(268,615)
Total	(300,993)	(76,429)	(224,564)
Benefits paid	(202,126)	(202,126)	–
Actual contributions	–	160,586	(160,586)
At December 31, 2022	₱1,232,586	₱1,082,224	₱150,362

The components of net pension cost included under "Salaries, wages and benefits" account in the consolidated statements of income for 2023, 2022 and 2021 are as follows:

	2023	2022	2021
Current service cost	**₱96,736**	₱124,440	₱166,047
Net interest cost	**6,303**	16,111	28,446
	₱103,039	₱140,551	₱194,493

The Company recognized remeasurement gain (loss) arising on pension plan in other comprehensive income (loss). The movements in the remeasurement gain (loss) are as follows:

	2023	2022	2021
Remeasurement gain (loss) on defined benefit obligation:			
Actuarial gain (loss) due to:			
Changes in financial assumptions	**(₱138,663)**	₱268,615	₱377,680
Changes in demographic assumptions	**–**	–	–
Experience adjustments	**15,807**	32,378	53,791
Loss on return on plan assets	**(36,178)**	(76,429)	(7,203)
Remeasurement gain (loss) on retirement plan	**(₱159,034)**	₱224,564	₱424,268

Actual return on plan assets amounted to ₱38.8 million in 2023, actual loss on plan assets amounted to ₱18.8 million in 2022 and actual return on plan assets amounted to ₱36.3 million in 2021, respectively.

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2023	2022
Investments in:		
Government securities	**₱495,409**	₱–
Equity securities	**429,889**	1,040,959
Bonds	**137,403**	–
Unit trust funds	**2,002**	12,935
Cash and cash equivalents	**25,458**	23,108
Receivables and others	**7,246**	5,222
	₱1,097,407	₱1,082,224

The plan assets' carrying amount approximates its fair value since the plan assets are short-term in nature or marked-to-market. Investments held have quoted prices in active market. The remaining plan assets which are short term in nature, do not have quoted market prices in an active market. The plan assets have diverse investments and do not have any concentration risk.

As at December 31, 2023 and 2022, the plan assets consist of the following:

- Investments in equity securities are composed of investment in shares of various listed entities. The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market.
- Unit trust funds include mutual funds invested in quoted shares.
- Cash and cash equivalents include regular savings and time deposits.
- Receivables and others include interest and dividends.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension cost and present value of defined benefit obligation are shown below:

	2023	2022
Discount rate	**6.13%**	7.29%
Salary increase rate	**5.00%**	5.00%
Turnover rate	**8.33%**	8.33%

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

	2023	
	Increase (Decrease) in Basis Points	**Increase (Decrease) in Amount**
Discount rate	**100**	**(₱120,742)**
	(100)	**143,348**
Salary increase rate	**100**	**150,376**
	(100)	**(128,706)**
Turnover rate	**100**	**2,871**
	(100)	**(3,111)**

	2022	
	Increase (Decrease) in Basis Points	Increase (Decrease) in Amount
Discount rate	100	(₱94,013)
	(100)	110,883
Salary increase rate	100	118,409
	(100)	(101,908)
Turnover rate	100	6,166
	(100)	(6,571)

Shown below are the maturity analyses of the undiscounted benefit payments:

		2023	
	Normal Retirement	**Other than Normal Retirement**	**Total**
Less than one year	**₱158,895**	**₱49,309**	**₱208,204**
More than one year to five years	**335,506**	**168,949**	**504,455**
More than 5 years to 10 years	**154,646**	**279,580**	**434,226**
More than 10 years to 15 years	**346,926**	**473,689**	**820,615**
More than 15 years to 20 years	**775,286**	**619,453**	**1,394,739**
More than 20 years	**3,390,179**	**1,211,589**	**4,601,768**
	₱5,161,438	**₱2,802,569**	**₱7,964,007**

	2022		
	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱172,466	₱54,884	₱227,350
More than one year to five years	354,327	172,022	526,349
More than 5 years to 10 years	188,930	248,899	437,829
More than 10 years to 15 years	294,502	420,354	714,856
More than 15 years to 20 years	677,752	573,666	1,251,418
More than 20 years	3,153,387	1,134,717	4,288,104
	₱4,841,364	₱2,604,542	₱7,445,906

Actual contributions to the defined benefit pension plan amounted to ₱127.8 million and ₱160.6 million in 2023 and 2022, respectively.

The Parent Company expects to contribute ₱118.8 million to the defined benefit pension plan in 2024.

Maynilad Defined Contributory Plan
In 2021, the Parent Company established a General Reserve Fund ("GRF) within the welfare fund managed by BDO Unibank, Inc. ("BDO"). Upon separation of employees, the non-vested employer share in the welfare fund were transferred to the GRF and serves as a reserve to fund the employer share in welfare fund. Once the balance of the GRF is not sufficient to cover the employer share, the Parent Company shall remit its corresponding share to BDO. The life of the GRF is expected to be until June 30, 2023.

The pension cost related to contributory fund presented as part of "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱22.9 million, nil and ₱24.4 million in 2023, 2022 and 2021, respectively.

Phil Hydro and Amayi
Phil Hydro recognized pension liability amounting to ₱1.0 million and ₱1.4 million, while Amayi recognized pension liability amounting to ₱0.05 million and ₱0.06 million as at December 31, 2023 and 2022, respectively, in the consolidated statements of financial position determined in accordance with Republic Act (R.A.) No. 7641, *The Philippine Retirement Pay Law*, which provides for its qualified employees under a defined minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of monthly salary payable to an employee at a normal retirement age with the required credited years of service based on the provisions of R.A. No. 7641. Pension income amounting to ₱0.2 million in 2023, pension cost amounting to ₱0.2 million in 2022 and pension income amounting to ₱0.3 million in 2021, respectively were included under "Salaries, wages and benefits" account in the consolidated statements of income.

18. **Interest Expense and Other Financing Charges**

	2023	2022	2021
Interest-bearing loans (see Note 11)	**₱1,760,415**	₱1,647,212	₱1,557,417
Accretion on service concession obligation payable to MWSS (see Note 10)	**640,220**	562,698	518,507
Amortization of debt issuance costs (see Note 11)	**37,085**	67,522	38,864
Accretion of customers' deposits	**30,312**	27,418	24,785
Accretion on lease liability (see Note 22)	**35,356**	19,751	25,717
Reversal of accretion on lease liability	–	(2,929)	(29,427)
	₱2,503,388	₱2,321,672	₱2,135,863

19. **Basic/Diluted Earnings Per Share**

	2023	2022	2021
Net income (a)	**₱9,011,179**	₱5,874,924	₱6,143,299
Weighted average number of shares at end of year for basic earnings per share (b)*	**4,510,599**	4,458,482	4,458,482
Effect of dilution from ESOP shares	**36,383**	60,181	70,238
Weighted average number of shares at end of year for diluted earnings per share (c)	**4,546,982**	4,518,663	4,528,720
Basic earnings per share (a/b)	**₱1,997.78**	₱1,317.70	₱1,377.89
Diluted earnings per share (a/c)	**₱1,981.79**	₱1,300.15	₱1,356.52

**The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.*

20. **Provisions and Contingencies**

Following are the significant contingencies of the Company as at December 31, 2023 and 2022:

a. Additional Tranche B Concession Fees and interest penalty are being claimed by MWSS in excess of the amount recommended by the Receiver. Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounted to ₱5.0 billion and ₱5.1 billion as at December 31, 2023 and 2022, respectively. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter. Following the termination of the Parent Company's rehabilitation proceedings, the Parent Company and MWSS sought to resolve this matter in accordance with the dispute requirements of the TCA (see Notes 3, 7 and 10). A joint committee, with members from Maynilad and MWSS, was formed in June 2016 to prepare a report containing a stipulation of facts, issues, and recommendations on the Disputed Claims. On July 4, 2016, Maynilad submitted to MWSS a Statement of Facts. MWSS has yet to provide Maynilad with its comments.

b. On October 13, 2005, the Parent Company and Manila Water (the "Concessionaires") were jointly assessed by the Municipality of Norzagaray, Bulacan for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that it is the RoP that owns these properties, and is therefore, exempt from real property taxes.

   On September 5, 2022, the CBAA ruled that the Water Concessionaires and MWSS are not liable for real property tax on the land and common purpose facilities. On October 11, 2022, the Province of Bulacan and Municipality of Norzagaray appealed the CBAA Decision by way of a Petition for Review to the CTA. On May 26, 2023, the CTA En Banc dismissed the Petition without prejudice due to the petitioners' repeated failure to comply with the Rules of Civil Procedure and the lawful orders of the CTA.

c. On September 17, 2019, Maynilad, through its external counsel, received a copy of the Supreme Court En Banc decision, dated August 6, 2019, in the case of Maynilad vs The Secretary of the Department of Environment and Natural Resources, et al (the "Decision").

   The Supreme Court affirmed, with modifications, the decisions of the Court of Appeals finding the Concessionaires and MWSS guilty of violating Section 8 of Republic Act (RA) No. 9275, otherwise known as the ''Philippine Clean Water Act of 2004'' (the "CWA").

   For violating Section 8, the Supreme Court upheld the decision of the Pollution Adjudication Board ("PAB") holding each of the Concessionaires jointly and severally liable with the MWSS for a daily penalty of ₱200,000.00 starting May 7, 2009 (the day following the lapse of the five-year period provided in Section 8), or a total of ₱921.5 million for the period May 7, 2009 to August 6, 2019, the date of the Decision's promulgation. The fine is to be paid within 15 days from the time the Decision becomes final. In addition, MWSS and the Concessionaires will be liable for the initial amount of ₱322,102.00/day, subject to a further 10% increase every two years, pursuant to Section 28 of the CWA, until full compliance with the mandate of Section 8. A 6% interest will be imposed on the total amount of the fines should there be a delay in its payment.

   On October 2, 2019, Maynilad filed a Motion for Reconsideration of the Decision ("MR") with the Supreme Court.

   In the meantime, Maynilad was granted a legislative franchise under Republic Act No. 11600 ("RA 11600") in December 2021 to establish, operate, and maintain a waterworks system and sewerage and sanitation services in the West Zone Service Area of Metro Manila, including some parts of the Province of Cavite. RA 11600 became effective on January 22, 2022.

   On March 10, 2022, Maynilad filed a Manifestation with Motion before the Supreme Court to (i) inform the Supreme Court about RA 11600 which provides, among others, for the achievement of 100% sewerage coverage only in 2037; and (ii) pray for the reversal of the CWA fines, or at the very least, of the fines accruing following the effectivity of RA 11600.

   The Supreme Court promulgated the Resolution dated July 19, 2022, which granted, in part, the MR and modified the Decision. While the Supreme Court still found Maynilad (along with Manila Water) and MWSS liable for fines for violating Section 8 of the CWA, the Supreme Court reduced the base amount of the daily penalty to ₱30,000.00, starting from May 7, 2009, and subject to a 10% increase every two years, until January 21, 2022. The total fine amounted to approximately ₱202 million and must be paid within 15 days from receipt of the Resolution so that the same will not earn a 6% interest per annum.

Maynilad attempted twice in November 2022 to settle the fine of approximately ₱202 million with the Environmental Management Bureau ("EMB") but the latter refused to accept the same. Maynilad later learned that EMB's refusal to accept the payment is due to the filing by PAB of a Motion for Partial Reconsideration of the Decision with the Supreme Court. The PAB prayed for the reinstatement of the daily penalty to ₱200,000.00.

In the meantime, to ensure that Maynilad will not be held liable for interest charges for not paying the fine within 15 days from its receipt of the Resolution, Maynilad informed the Supreme Court on December 5, 2022, by way of a Manifestation, of its tender of payment which the EMB refused. On February 3, 2023, Maynilad received a notice from the Supreme Court (dated January 17, 2023) of a resolution ("Final Resolution"). The Final Resolution (i) affirmed the Resolution, (ii) denied, with finality, the PAB's Motion for Partial Reconsideration, (iii) informed the parties that the Supreme Court will no longer entertain any further pleadings or motions, and (iv) ordered the entry of judgment immediately. In compliance with the Final Resolution, Maynilad paid EMB on February 15, 2023 the total amount of ₱202.3 million.

d. In 2016, the DENR issued Administrative Order No. 2016-08 ("DAO No. 2016-08") which sets new wastewater guidelines for each type of body of water and also specifies significant effluent quality parameters for each industry based on the most probable pollutant that a type of industry will discharge into the environment. It also sets new significant parameters that have to be complied with before treated wastewater is discharged to receiving bodies of water.

   DAO No. 2016-08 provides a grace period for compliance of not more than five years, provided that the establishment submits a Compliance Action Plan ("CAP") and periodic status reports of implementation to the DENR on the steps taken for the establishment's compliance schedule within the prescribed grace period.

   Maynilad has 22 wastewater reclamation facilities ("WRF") treating effluents compliant with the previous standards under DAO 35-s.1990. With the effectivity of DAO No. 2016-08 that imposes more stringent standards (biological nutrient removal and fecal coliform), Maynilad would have to incur higher capital and operational expenditures to make its existing WRFs compliant with the new effluent standards. In March 2017, Maynilad submitted to the DENR its CAP to comply with DAO No. 2016-08 and requested, among others, that it be granted the five-year grace period (or until 2021) provided in DAO No. 2016-08 within which to comply with the new effluent standards.

   On April 23, 2021, Maynilad wrote the DENR to request for an extension to comply with the approved CAP until 2028. The request for extension is to give Maynilad sufficient time to implement and complete the upgrade of its facilities to comply with DAO No. 2016-08. On June 30, 2021, the DENR issued DAO No. 2021-19 which relaxed certain standards in DAO No. 2016-08.

   On July 6, 2021, Maynilad received DENR's letter dated July 1, 2021 advising Maynilad of EMB Memorandum Circular No. 2021-01, which clarified that the grace period began when DAO No. 2016- 08 went into effect. In its letter, the DENR explained that the moratorium or grace period will end on June 18, 2021. However, Maynilad may continue to use its approved CAP since the objective is to ensure compliance with all environmental laws.

On June 30, 2021, the DENR issued DAO 2021-19 updating the water quality guidelines for selected parameters based on current classification of water bodies and its beneficial use, and the effluent standards for selected parameters based on perceived impact to the activities in the area and to the environment. It also provided that any person or establishment requesting for modification of significant effluent quality parameters shall submit to the EMB Central Office the methodology and technical report with justifications containing the required details. A particular parameter, as indicated in Table 8 of DAO 2016-08, may also be excluded in succeeding monitoring periods provided, there is a request for exclusion and certain conditions are met.

On September 1, 2021, Maynilad submitted the updated CAPs for its 21 WRFs and requested for the extension of the respective grace periods for the implementation of the new standards. The Laguna Lake Development Authority ("LLDA") approved Maynilad's updated CAPs and granted additional grace periods for the WRFs to be modified to be able to fully comply with the applicable general effluent standards. The previously granted grace period until December 31, 2022 has been extended for each WRF, consistent with the effectivity of its discharge permit.

During the prescribed grace period, a moratorium is in effect which includes issuance of cease and desist and/or closure order, fine, and other penalties against the establishment's operations. However, the establishments are not exempt from compliance monitoring and inspections by LLDA. DAO 1990-35 shall apply during the grace period, and each establishment must still comply with all the conditions in its discharge permit.

Maynilad, through its Wastewater Management Division, regularly submits the quarterly CAP update reports to the LLDA.

e. Water for All Reform Movement ("WARM") filed a Petition before the Court of Appeals praying for the issuance of a Writ of Kalikasan to enjoin Maynilad and Manila Water from implementing a combined drainage and sewerage system as it supposedly violates Sections 27 (a) and (e) of the Clean Water Act ("CWA"), which prohibit the direct deposit and transport of sewage into water bodies. WARM additionally claims that the (i) Sanitation Code has already been repealed by the CWA, and (ii) the Concessionaires are in continuing violation of the Writ of Continuing Mandamus issued by the Supreme Court in the Manila Bay Case.

   It is the position of the Water Concessionaires that (i) the Writ of Continuing Mandamus is not a law, (ii) there are no grounds for the issuance of the Writ of Kalikasan, and (iii) the Sanitation Code (which expressly allows the installation of a combined system) has not been repealed by the CWA.

   The Court of Appeals dismissed the Petition filed by WARM, citing that the installation of a combined drainage and sewerage system is allowed under the Sanitation Code. WARM elevated the Court of Appeal's decision via Certiorari to the Supreme Court in 2014. On July 19, 2023, the Parent Company received a copy of the Decision of the Supreme Court denying the petition and affirming the resolutions of the CA.

f. The Parent Company is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others. Other disclosures required by PAS 37 were not provided as it may prejudice Maynilad's position in on-going claims, litigations, and assessments.

21. **Significant Contracts with Manila Water (East Concessionaire)**

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

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

b. Common Purpose Facilities Agreement that provides for the operation, maintenance, renewal, and, as appropriate, decommissioning of the Common Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the Concession (and the Concession of the East Concessionaire) as the Parent Company and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS.

c. On January 25, 2022, Maynilad and Manila Water 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). On February 17, 2022, Maynilad and Manila Water entered into a contract with Dohwa Engineering, Co. Ltd. for the construction management of the proposed Angat Water Transmission Project (Tunnel 5). 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.

d. On October 28, 2022, Maynilad and Manila Water entered into a Memorandum of Agreement for the purchase of raw bulk water by the former from the latter at ₱21/cu.m. and treated bulk water at ₱26/cu.m.

22. **Commitments**

<u>Concession Agreement</u>
Significant commitments under the Concession Agreement follow:

a. To pay Concession Fees (see Note 7)

b. To post Performance Bond (see Note 6)

Under Section 6.10 of the RCA, as amended, the Parent Company is required to post and maintain, throughout the concession period, a performance bond in favor of MWSS to secure the Parent Company's performance of its obligations under certain provisions of the Concession Agreement. The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below.

Rate Rebasing Period	Aggregate Amount Drawable Under Performance Bond
	(In Millions)
First (August 1, 1997 – December 31, 2002)	US$120.0
Second (January 1, 2003 – December 31, 2007)	120.0
Third (January 1, 2008 – December 31, 2012)	90.0
Fourth (January 1, 2013 – December 31, 2017)	80.0
Fifth (January 1, 2018 – December 31, 2022)	60.0
Sixth (January 1, 2023 – December 31, 2027)	₱21,953.0

The Parent Company shall ensure that the performance bond is maintained in the amount equal to at least the performance bond amount at all times during the performance bond validity period. In the event that MWSS draws against the performance bond, the Parent Company shall replenish the same to restore the value of the performance bond to its original amount within fifteen (15) days from the date MWSS shall have drawn thereon without need of demand.

c. To pay half of MWSS and MWSS-RO's budgeted expenditures for the subsequent years, provided the aggregate annual budgeted expenditures do not exceed ₱200.0 million, subject to CPI adjustments. As a result of the extension of the life of the Concession Agreement, the annual budgeted expenditures shall increase by 100%, subject to CPI adjustments, effective January 2010 (see Notes 1 and 7).

d. To meet certain specific commitments in respect to the provision of water and wastewater services in the West Service Area, unless modified by the MWSS-RO due to unforeseen circumstances.

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

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

g. To ensure that at all times the Parent Company has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.

h. To prevent incurrence of debt or liability that would mature beyond the Expiration Date.

Failure of the Parent Company to perform any of its obligations under the Concession Agreement of a kind or to a degree which, in a reasonable opinion of the MWSS-RO, amounts to an effective abandonment of the Concession Agreement and which failure continues for at least 7days after written notice from the MWSS-RO, may cause the Concession Agreement to be terminated.

MWSS JBIC Loan (Concession Fee)
The Loan Agreement between the Government and JBIC (formerly OECF) was signed on February 9, 1990. The proceeds of the Loan were used to fund the implementation of the Angat Water Supply Optimization Project (AWSOP), with MWSS as the implementing agency. Prior to privatization, actual drawdowns from the Loan were recorded by MWSS as equity from the Government while the draws during privatization were assumed and paid by the Concessionaires. The sharing is 61.83% and 38.17% for Maynilad and Manila Water, respectively.

On June 6, 2019, Maynilad received a letter from the MWSS requesting to pay ₱821.0 million ("Invoiced Amount"). Accordingly, Maynilad learned that the drawdowns made on the JBIC Loan prior to the privatization of MWSS's operations are considered loans and not equity as formerly advised. MWSS's request for the Concessionaires to pay was triggered by an instruction from the DOF to the Bureau of Treasury, to have the Concessionaires reimburse the Government for the latter's payments on the JBIC Loan.

Maynilad replied to MWSS on July 1, 2019 and clarified the Invoiced Amount. Maynilad's position is to pay only ₱677.0 million because (ii) Maynilad remitted to the MWSS ₱113.0 million representing Guarantee Fees based on MWSS's invoice. However, the JBIC Loan makes no reference to and does not include the payment of Guarantee Fees, the borrower being the Government itself. This being the case, the Guarantee Fees that Maynilad remitted to MWSS must be set off or applied against the Invoiced Amount; and (2) while Maynilad always pays the foreign exchange shortfall in the debt servicing of MWSS-contracted loans, there is no need for Maynilad to pay the Forex Shortfall of ₱31.0 million in the JBIC Loan catch-up payment. The difference in the foreign exchange rate (from Japanese Yen to Philippine Peso) has already been captured and reflected in the total peso amount billed by the Bureau of Treasury.

Further, Maynilad also requested to pay ₱677.0 million in eight monthly instalments of ₱84.6 million to commence in July 2019 until February 2020, to coincide with the full payment/ maturity of the JBIC Loan.

As communicated by MWSS-Finance on July 17, 2019, Maynilad can pay based on the requested amount and schedule while waiting for the response of the Bureau of Treasury concerning the guarantee fee and shortfall. Maynilad paid the first installment on July 30, 2019.

The last installment for JBIC Loan was paid on February 18, 2020. As at February 27, 2024, Bureau of Treasury has yet to respond to the Company's letter concerning the guarantee fee and shortfall.

Leases
Company as a lessee
The Group leases the right of way, office space and branches where service outlets are located, several equipment and service vehicles, renewable under certain terms and conditions to be agreed upon by the parties. The Group also has certain leases with lease terms of 12 months or less and leases of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The following are the amounts recognized in the consolidated statements of comprehensive income:

	2023	2022
Depreciation expense of ROU assets	**₱176,610**	₱130,419
Interest expense on lease liabilities	**35,356**	19,751
Expense relating to short-term leases	**79,685**	21,030
Expense relating to low-value assets	**9,432**	26,350
	₱301,083	₱197,550

Lease liabilities represent payments to be made over the remaining lease term. Movements of the lease liabilities during the year are as follows:

	2023	2022
Balance at the beginning of the period	**₱281,529**	₱408,759
Additions during the period	**329,361**	2,653
Payments	**(209,808)**	(146,705)
Accretion of interest	**35,356**	16,822
Balance at end of the period	**436,438**	281,529
Less current lease liabilities	**155,865**	86,909
Noncurrent lease liabilities (Note 24)	**₱280,573**	₱194,620

As at December 31, 2023 and 2022, the current portion of lease liabilities are presented under "Trade and other payables" and the noncurrent portion of lease liabilities are presented under "Other noncurrent liabilities" in the consolidated statements of the financial position.

Most of the contracts of leased by the Group have stipulations stating that renewal of lease is subject to mutual agreement of both the lessor and the lessee. As such, it is not reasonably certain that the Company will exercise the option to extend the lease since the extension is considered unenforceable.

The approximate annual future minimum lease payable of the Company under its existing non-cancellable lease agreements as a lessor as at December 31 are as follows:

	2023	2022
	(In Millions)	
1 year	**₱177.1**	₱102.3
more than 1 years to 2 years	**90.4**	105.5
more than 2 years to 3 years	**83.5**	18.7
more than 3 years to 4 years	**67.1**	11.7
more than 4 years to 5 years	**11.7**	11.7
more than 5 years	**72.6**	84.2

23. **Assets Held in Trust**

Assets which are owned by MWSS but are used in the operations of the Parent Company under the Concession Agreement are not reflected in the consolidated statements of financial position but carried as Assets Held in Trust, except for certain assets transferred to the Parent Company.

Materials and Supplies

The Parent Company has the right to use any items of inventory owned by MWSS in carrying out its responsibility under the Concession Agreement, subject to the obligation to return the same at the end of the concession period, in kind or in value at its current rate, subject to CPI adjustments.

Facilities
The Parent Company has been granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and wastewater services under the Concession Agreement. MWSS shall retain legal title to all movable property in existence at the Commencement Date. However, upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company (see Note 7).

The Concession Agreement also provides the Parent Company and the East Concessionaire to have equal access to MWSS facilities involved in the provision of water supply and wastewater services in both West and East Service Areas including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Parent Company on Commencement Date based on MWSS' closing audit report amounted to ₱7.3 billion with a sound value of ₱13.8 billion.

Beginning at the Commencement Date, MWSS' corporate headquarters were made available for a one-year lease to the Parent Company and the East Concessionaire, subject to renewal with the consent of the parties concerned. The current lease covers up to December 31, 2024. Lease payments amounted to ₱77.8 million, ₱106.2 million and ₱43.7 million in 2023, 2022 and 2021, respectively (see Note 22). .

24. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments are its debts to the local banks and concession fees payable to MWSS per Concession Agreement. Other financial instruments of the Company are cash and cash equivalents, and trade and other receivables. The main purpose of those financial instruments is to finance the Company's operations.

The main risks arising from the Company's principal financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

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

Interest Rate Risk
Interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of the changes in market interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing loans.

The following table shows the Company's significant financial liabilities that are exposed to cash flow interest rate risk:

₱4.8 billion Corporate Notes (1st drawdown)	Fixed rate benchmark (6.00%, March 2, 2015 to March 2, 2035)
₱4.8 billion Corporate Notes (2nd drawdown)	Fixed rate benchmark (6.00%, October 4, 2016 to March 2, 2035)
₱4.8 billion Corporate Notes (3rd drawdown)	Fixed rate benchmark (6.00%, August 1, 2017 to March 2, 2035)

(Forward)

₱4.8 billion Corporate Notes (4th drawdown)	Fixed rate benchmark (6.00%, March 5, 2018 to March 2, 2035)
₱18.5 billion Fixed Corporate Notes - 7Y (1st drawdown)	Fixed rate benchmark+0.60% (6.3836%, March 23, 2018 to March 23, 2025)
₱18.5 billion Fixed Corporate Notes - 10Y (1st drawdown)	Fixed rate benchmark+0.70% (6.8229%, March 23, 2018 to March 23, 2028)
₱18.5 billion Fixed Corporate Notes - 15Y (1st drawdown)	Fixed rate benchmark+0.60% (6.4920%, March 23, 2018 to March 23, 2026)
₱18.5 billion Fixed Corporate Notes - 7Y (2nd drawdown)	Fixed rate benchmark+0.60% (6.5083%, April 27, 2018 to March 23, 2025)
₱18.5 billion Fixed Corporate Notes - 10Y (2nd drawdown)	Fixed rate benchmark+0.70% (6.8388%, April 27, 2018 to March 23, 2028)
₱18.5 billion Fixed Corporate Notes - 15Y (2nd drawdown)	Fixed rate benchmark+0.60% (6.5489%, April 27, 2018 to March 23, 2026)
¥7.9 billion Facility Loan (1st drawdown)	Fixed rate benchmark+0.90% (August 20, 2018 to June 7, 2027)
¥7.9 billion Facility Loan (2nd drawdown)	Fixed rate benchmark+0.90% (November 28, 2018 to June 7, 2027)
₱1.4 billion Facility Loan (1st drawdown)	Fixed rate benchmark (May 18, 2018 to October 15, 2024)
₱1.4 billion Facility Loan (2nd drawdown)	Fixed rate benchmark (September 25, 2018 to October 15, 2024)
₱1.4 billion Facility Loan (3rd drawdown)	Fixed rate benchmark (December 21, 2018 to October 15, 2024)
¥13.1 billion Facility Loan (¥2.9 billion drawdown)	Fixed rate benchmark (April 2, 2019 to October 10, 2034)
¥13.1 billion Facility Loan (¥10.2 billion drawdown)	Fixed rate benchmark (June 23, 2023 to October 10, 2034)
₱5.0 billion Term Loan Facility	Fixed rate benchmark (4.95%, November 29, 2019 to November 29, 2024)
₱6.0 billion Term Loan Facility	Fixed rate benchmark+0.50% (5.4992%, August 12, 2022 to August 12, 2025)
₱4.0 billion Term Loan Facility	Fixed rate benchmark+0.50% (7.0036%, November 10, 2022 to November 10, 2025)
₱6.0 billion Term Loan Facility	Fixed rate benchmark+0.65% (7.1581%, November 17, 2022 to November 17, 2025)
₱10.0 billion Term Loan Facility (1st drawdown)	Fixed rate benchmark (6.4059%, May 11, 2023 to May 11, 2028)
₱10.0 billion Term Loan Facility (2nd drawdown)	Fixed rate benchmark (7.0006%, October 3, 2023 to May 11, 2028)
₱5.0 billion Term Loan Facility	Fixed rate benchmark (6.5963%, December 14, 2023 to December 14, 2026)
Peso-denominated Bank Loan	Fixed rate benchmark (5.50%, June 29, 2015 to June 29, 2025)

Interest on financial liabilities classified as fixed rate is fixed until the maturity of the instrument.

The following tables show information about the Company's financial assets and financial liabilities that are exposed to cash flow and fair value interest rate risks.

	2023	
	Within 1 Year	**Total**
Short-term cash investments –		
Cash and cash equivalents (1-90 days)*	**₱4,898,828**	**₱4,898,828**

**Excludes cash on hand amounting to ₱3,728.*

	2022	
	Within 1 Year	Total
Short-term cash investments –		
Cash and cash equivalents (1-90 days)*	₱10,434,063	₱10,434,063

**Excludes cash on hand amounting to ₱4,601.*

			2023		
	Within 1 Year	**More than 1 Year**	**Total (In US$)**	**Total (In ¥)**	**Total (In ₱)**
Liabilities:					
Interest–bearing loans:					
Interest rate	**6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 4.95%, 5.50%, 7.00%, 7.16%, 6.41%, 7.00%, 6.60% and 5.50%**	**6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 4.95%, 5.50%, 7.00%, 7.16%, 6.41%, 7.00%, 6.60% and 5.50%**			
Current – foreign	**¥1,611,965**	**–**	**–**	**¥1,611,965**	**₱633,502**
Current – local	**₱1,954,158**	**–**	**–**	**–**	**1,954,158**
Noncurrent – foreign	**–**	**¥14,794,981**	**–**	**14,794,981**	**5,814,428**
Noncurrent – local	**–**	**₱53,399,810**	**–**	**–**	**53,399,810**
					61,801,898
Service concession obligation payable to MWSS:					
Interest rate	**9.48%**				
Current – foreign	**$3,266**	**–**	**$3,266**	**–**	**₱180,836**
Current – local	**₱693,725**	**–**	**–**	**–**	**693,725**
Noncurrent – foreign	**–**	**$70,738**	**$70,738**	**–**	**3,916,744**
Noncurrent – local	**–**	**₱2,572,292**	**–**	**–**	**2,572,292**
					7,363,597
					₱69,165,495

The spot exchange rates used were ₱55.37:US$1 and ₱0.393: JPY1 as at December 31, 2023.

	2022				
	Within 1 Year	More than 1 Year	Total (In US$)	Total (In ¥)	Total (In ₱)
Liabilities:					
Interest–bearing loans:					
Interest rate	6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 4.95%, 3.50%, 3.40%, 5.50%, 7.00%, 7.16% and 5.50%	6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 4.95%, 5.50%, 7.00%, 7.16% and 5.50%			
Current – foreign	¥1,292,450	–	–	¥1,292,450	₱539,468
Current – local	₱3,266,843	–	–	–	3,266,843
Noncurrent – foreign	–	¥6,352,187	–	¥6,352,187	2,651,403
Noncurrent – local	–	₱40,456,382	–	–	40,456,382
					₱46,914,096
Service concession obligation payable to MWSS:					
Interest rate	8.79%				
Current – foreign	$4,434		$4,434	–	₱247,193
Current – local	₱693,724		–	–	693,724
Noncurrent – foreign	–	$61,167	$61,167	–	3,410,362
Noncurrent – local	–	₱2,658,800	–	–	2,658,800
					₱7,010,079
					₱53,924,175

The spot exchange rates used were ₱55.76:US$1 and ₱0.4174: JPY1 as at December 31, 2022.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future value of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's foreign currency risk arises primarily from movements of the Philippine Peso against the United States Dollar and Japanese Yen. The servicing of foreign currency denominated loans of MWSS is among the requirements of the Concession Agreement. Revenues are generated in Philippine Peso. However, there is a mechanism in place as part of the Concession Agreement wherein the Company (or the end consumers) can recover currency fluctuations through the FCDA that is approved by the RO.

Information on the Company's foreign currency-denominated monetary assets and liabilities and the Philippine Peso equivalent of each as at December 31, 2023 and 2022 is presented as follows:

	2023		
	US Dollar	**JPY**	**Total Peso Equivalent**
Asset			
Cash and cash equivalents and restricted cash	**$2,962**	**¥11,461**	**₱168,530**
Liabilities			
Interest–bearing loans	**$–**	**¥16,406,947**	**₱6,447,930**
Service concession obligation payable to MWSS	**74,004**	**–**	**4,097,580**
	74,004	**16,406,947**	**10,545,510**
Net foreign currency denominated liabilities	**($71,042)**	**(¥16,395,486)**	**(₱10,376,980)**

The spot exchange rates used were ₱55.37:US$1 and ₱0.393: JPY1 as at December 31, 2023.

	2022		
	US Dollar	JPY	Total Peso Equivalent
Asset			
Cash and cash equivalents and restricted cash	$5,071	¥2	₱282,717
Liabilities			
Interest-bearing loans	–	(7,644,637)	(3,190,871)
Service concession obligation payable to MWSS	(65,601)	–	(3,657,555)
	(65,601)	(7,644,637)	(₱6,848,426)
Net foreign currency denominated liabilities	($60,530)	(¥7,644,635)	(6,565,709)

The spot exchange rates used were ₱55.76:US$1 and ₱0.4174: JPY1 as at December 31, 2022.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity as at December 31, 2023 and 2022. The estimates in the movement of the foreign exchange rates were based on the management's annual financial forecast.

	Increase (Decrease) in Peso, U.S Dollar and JPY Exchange Rates	**Foreign Exchange Rate**	**Effect on Income Before Income Tax**
2023			
U.S Dollar	**+1%**	**55.37**	**(₱39,336)**
JPY	**-1%**	**0.39**	**(64,434)**
U.S Dollar	**+1%**	**55.37**	**39,336**
JPY	**-1%**	**0.39**	**64,434**

	Increase (Decrease) in Peso, U.S Dollar and JPY Exchange Rates	Foreign Exchange Rate	Effect on Income Before Income Tax
2022			
U.S Dollar	+1%	55.76	(₱33,748)
JPY	-1%	0.42	(31,909)
U.S Dollar	+1%	55.76	33,748
JPY	-1%	0.42	31,909

The Company recognized net foreign exchange loss and gain of ₱1.2 billion and ₱1.8 billion in 2023 and 2022, respectively, mainly arising from the translation of the Company's cash and cash equivalents, deposits, interest-bearing loans and service concession obligation payable to MWSS. However, the net foreign exchange gain or loss on interest-bearing loans and service concession obligation payable to MWSS is subject to foreign exchange recovery mechanisms under the Concession Agreement (see Note 2).

<u>Credit Risk</u>
Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Company trades only with recognized, creditworthy third parties. Because of the basic need service, it provides, historical collections of the Company are relatively high. Credit exposure is widely dispersed. Receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Company, consisting of cash and cash equivalents, deposits and restricted cash and deposits, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company transacts only with institutions or banks which have demonstrated financial soundness for the past five years.

Maximum exposure to credit risk of financial assets not subject to impairment
The Company has unquoted equity shares measured at fair value through other comprehensive income amounting to ₱124.9 million as at December 31, 2023 and 2022 (see Note 9).

Maximum exposure to credit risk of financial assets subject to impairment
The table below shows the maximum exposure to credit risk for the Company's financial instruments (amounts in thousands):

	2023	2022
Cash and cash equivalents* (see Note 4)	**₱4,898,828**	₱10,434,063
Trade and other receivables - net (see Note 5)	**2,418,070**	2,831,360
Contract assets (see Note 14)	**1,205,041**	1,000,925
Deposits and restricted cash (see Note 6)	**237,990**	519,783
Deposits**	**373,785**	381,291
Total credit risk exposure	**₱9,133,714**	₱15,167,422

**Excludes cash on hand amounting to ₱3,728 and ₱4,601 as at December 31, 2023 and 2022, respectively.*
***Included as part of "Other noncurrent assets" in the consolidated statements of financial position.*

The table below shows the maximum exposure to credit risk for the Company's financial instruments by credit rating grades (amounts in thousands).

	2023				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Lifetime ECL Simplified Approach**	**Total**
High grade	**₱5,136,818**	**₱–**	**₱821,084**	**₱3,656,944**	**₱9,614,846**
Standard grade	**814,900**	**26,602**	**115,194**	**3,660**	**960,356**
Gross carrying amount	**5,951,718**	**26,602**	**936,278**	**3,660,604**	**10,575,202**
Loss allowance	**(9,723)**	**–**	**(936,278)**	**(495,487)**	**(1,441,488)**
Carrying amount	**₱5,941,995**	**₱26,602**	**₱–**	**₱3,165,117**	**₱9,133,714**

	2022				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
High grade	₱10,953,847	₱–	₱–	₱4,884,607	₱15,838,454
Standard grade	834,042	26,602	115,384	15,133	991,161
Gross carrying amount	11,787,889	26,602	115,384	4,899,740	16,829,615
Loss allowance	(9,723)	–	(115,384)	(1,537,086)	(1,662,193)
Carrying amount	₱11,778,166	₱26,602	₱–	₱3,362,654	₱15,167,422

Aging analysis of past due but not impaired financial assets per class
As at December 31, 2023 and 2022, the credit quality per class of trade and other receivables and contract assets using a provision matrix (amounts in thousands):

	2023				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Customers	**₱1,882,593**	**₱1,408,342**	**₱–**	**₱–**	**₱3,290,935**
Bulk	**16,649**	**85,157**	**–**	**–**	**101,806**
Contract assets	**–**	**1,205,041**	**–**	**–**	**1,205,041**
Employees	**–**	**46,994**	**–**	**–**	**46,994**
Others	**265,616**	**154,207**	**–**	**–**	**419,823**
Total	**₱2,164,858**	**₱2,899,741**	**₱–**	**₱–**	**₱5,064,599**

	2022				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Customers	₱3,778,791	₱126,391	₱–	₱–	₱3,905,182
Bulk	39,271	45,287	–	–	84,558
Contract assets	–	1,000,925	–	–	1,000,925
Employees	–	57,035	–	–	57,035
Others	286,786	159,992	–	–	446,778
Total	₱4,104,848	₱1,389,630	₱–	₱–	₱5,494,478

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

Cash and cash equivalents, deposits and restricted cash are placed in various banks. These are held by large prime financial institutions that have good reputation and low probability of insolvency. Management assesses the quality of these financial assets as high grade.

For trade and other receivables and contract assets, high grade relates to those which are consistently collected before the maturity date, normally seven days from bill delivery. Standard grade includes receivables from customers that are collectible beyond seven days from bill delivery even without an effort from the Company to follow them up, or those advances from officers and employees that are collected through salary deduction. For deposits, standard grade consists of meter and security deposits that are normally refundable upon termination of service.

Excessive risk concentration
Given the Company's diverse base of counterparties in its financial assets, it is not exposed to large or excessive concentrations of credit risk in any geographical region or industry.

<u>Write-off policy</u>
The Company writes off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Company writes off an account when any of the following conditions is met:

- unpaid bill(s) of former owner/tenant who can no longer be found. The amount to be written off shall be net of any customer deposit posted by the previous owner/tenant;
- the customer is deceased and left no estate, or the heir is not financially capable of settling the account;
- the unpaid bill(s) of a customer who has been declared bankrupt by the court;

- the filing of legal action to collect the unpaid bill(s) does not seem prudent under the circumstances, as determined by the Legal and Regulatory Affairs ("LRA");
- a final judgment favoring the customer was issued in a case filed against the customer for collection of money. In this case, the amount to be written off shall be equal to the amount recommended by the court;
- any unpaid bills(s), more than three years old, of disconnected services and which remain uncollected after exerting all diligent efforts, as supported by the disconnection letter and/or demand letter; and
- the water service connection no longer exists and the customer has no other account with Maynilad.

The Company also monitors loans written-off and any recoveries made. There are no written- off receivables during the current year.

Liquidity Risk

Liquidity risk is the potential for not meeting the obligations as they become due because of an inability to liquidate assets or obtain adequate funding.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning. Cash planning considers the maturity of both its financial investments and financial assets (e.g., trade and other receivables, other financial assets) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank drafts, bank loans and debentures.

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31, 2023 and 2022 based on contractual undiscounted payments.

	2023				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Interest-bearing loans*	**₱–**	**₱861,486**	**₱2,434,914**	**₱59,214,238**	**₱62,510,638**
Trade and other payables**	**703,913**	**4,418,038**	**7,188,584**	**7,126,096**	**19,436,631**
Service concession obligation payable to MWSS	**607,217**	**267,344**	**–**	**6,489,036**	**7,363,597**
Customers' deposits	**–**	**–**	**–**	**548,618**	**548,618**
Lease liabilities***	**–**	**44,961**	**110,904**	**280,573**	**436,438**
	₱1,311,130	**₱5,591,829**	**₱9,734,402**	**₱73,658,561**	**₱90,295,922**

**Principal plus interest payment*
***Excludes taxes payable, interest payable and current portion of lease liability.*
****Current portion is presented under "Trade and other payables" account and noncurrent portion is presented under "Other noncurrent liabilities" account.*

	2022				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Interest-bearing loans*	₱–	₱2,424,567	₱1,997,620	₱43,107,785	₱47,529,972
Trade and other payables**	685,748	4,113,631	8,451,680	8,024,681	21,275,740
Service concession obligation payable to MWSS	607,217	333,700	–	6,069,162	7,010,079
Customers' deposits	–	–	–	529,363	529,363
Lease liabilities***	–	27,045	59,863	194,621	281,529
	₱1,292,965	₱6,898,943	₱10,509,163	₱57,925,612	₱76,626,683

**Principal plus interest payment*
***Excludes taxes payable, interest payable and current portion of lease liability*
****Current portion is presented under "Trade and other payables" account and noncurrent portion is presented under "Other noncurrent liabilities" account*

The table below shows the maturity profile of the Company's financial assets based on contractual undiscounted cash flows as at December 31, 2023 and 2022:

	2023				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Cash and cash equivalents	**₱3,102,857**	**₱1,799,699**	**₱–**	**₱–**	**₱4,902,556**
Trade and other receivables	**843,524**	**1,574,546**	**–**	**–**	**2,418,070**
Contract assets	**–**	**1,205,041**	**–**	**–**	**1,205,041**
Deposits and restricted cash	**–**	**–**	**237,990**	**–**	**237,990**
Financial assets at FVOCI	**124,864**	**–**	**–**	**–**	**124,864**
Deposits	**–**	**–**	**–**	**373,785**	**373,785**
	₱4,071,245	**₱4,579,286**	**₱237,990**	**₱373,785**	**₱9,262,306**

	2022				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Cash and cash equivalents	₱3,128,965	₱7,309,699	₱–	₱–	₱10,438,664
Trade and other receivables	2,463,230	368,130	–	–	2,831,360
Contract assets	–	1,000,925	–	–	1,000,925
Deposits and restricted cash	–	–	519,783	–	519,783
Financial assets at FVOCI	124,864	–	–	–	124,864
Deposits	–	–	–	381,291	381,291
	₱5,717,059	₱8,678,754	₱519,783	₱381,291	₱15,296,887

Capital Management

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

The Company closely manages its capital structure vis-a-vis a certain target gearing ratio, which is net debt divided by total capital plus net debt. The Company's target gearing ratio is not to exceed 75%. This target is to be maintained over the next five years by managing the Company's level of borrowings and dividend payments to shareholders.

For purposes of computing its net debt, the Company includes the outstanding balance of its long-term interest-bearing loans, service concession obligation payable to MWSS and trade and other payables, less the outstanding cash and cash equivalents, deposits and restricted cash. To compute its capital, the Company uses net equity.

	2023	2022
Interest-bearing loans and service concession obligation payable to MWSS (see Notes 10 and 11)	**₱69,165,495**	₱53,924,175
Trade and other payables (see Note 12)	**21,098,407**	22,747,625
Less cash and cash equivalents, deposits and restricted cash (see Notes 4 and 6)	**(5,140,546)**	(10,965,139)
Net debt (a)	**85,123,356**	65,706,661
Net equity	**68,170,300**	62,937,445
Net equity and debt (b)	**₱153,293,656**	₱128,644,106
Gearing ratio (a/b)	**56%**	51%

For purposes of monitoring debt ratio covenants, the Company computes using both interest-bearing debt and total liabilities. The Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

25. Fair Value of Financial Assets and Financial Liabilities

The following table summarizes the carrying values and fair values of the Company's financial assets and financial liabilities as at December 31, 2023 and 2022:

	2023			
	Carrying value	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level2)**	**Significant unobservable inputs (Level 3)**
Financial Assets				
At fair value through other comprehensive income	**₱124,864**	**₱–**	₱–	**₱124,864**
At amortized cost -				
Deposits (included under "Other noncurrent assets" account)	**373,785**	–	–	**307,536**
	₱498,649	**₱–**	₱–	**₱432,400**
Financial Liabilities				
Other financial liabilities:				
Interest-bearing loans	**₱61,801,898**	**₱–**	₱–	**₱63,888,017**
Service concession obligation payable to MWSS	**7,363,597**	–	–	**9,582,116**
Customers' deposits	**548,618**	–	–	**329,360**
Lease liabilities	**436,438**	–	–	**436,722**
	₱70,150,551	**₱–**	₱–	**74,236₱,215**

	2022			
	Carrying Value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level 3)
Financial Assets				
At fair value through other comprehensive income	₱124,864	₱–	₱–	₱124,864
At amortized cost -				
Deposits (included under "Other noncurrent assets" account)	381,291	–	–	322,073
	₱506,155	₱–	₱–	₱446,937
Financial Liabilities				
Other financial liabilities:				
Interest-bearing loans	₱46,914,096	₱–	₱–	₱45,779,780
Service concession obligation payable to MWSS	7,010,079	–	–	7,846,846
Customers' deposits	529,363	–	–	495,573
Lease liabilities	281,529	–	–	279,476
	₱54,735,067	₱–	₱–	₱54,401,675

The following methods and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Deposits and Restricted Cash, and Trade and Other Payables. Due to the short-term nature of these transactions, the carrying values approximate the fair values as at the reporting date. These are carried at amortized cost.

Financial Assets at FVOCI. Fair value is equivalent to the carrying value because the Company's financial assets at FVOCI pertain to unquoted equity investments.

Interest-bearing Loans. For floating rate loans, the carrying value approximates the estimated fair value as at the reporting date due to quarterly repricing of interest rates. For fixed rate loans, the estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

Deposits, Service Concession Obligation Payable to MWSS, Customers' Deposits and Lease Liabilities. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair values of fixed rate interest-bearing loans, deposits, service concession obligation payable to MWSS, customers' deposits and lease liabilities are determined using Fair Value Hierarchy Level 3.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used are as follows:

	2023	2022
Deposits	**5.87%-6.11%**	5.21%-7.09%
Interest bearing loans	**5.15%-6.03%**	3.79%-7.10%
Service concession obligation payable to MWSS	**2.5%-18.78%**	2.5%-26.55%
Customers' deposits	**6.11%**	7.09%
Lease liabilities	**5.12%-6.01%**	3.92%-7.03%

26. Supplemental Disclosure of Cash Flow Information

The noncash operating activities pertain to MWSS loan drawdowns for Angat Water Transmission Improvement Project (AWTIP) and Kaliwa Dam Project amounting to ₱713.5 million and ₱146.9 million in 2023 and 2022, respectively. Borrowing costs capitalized as part of service concession assets amounted to ₱1,356.6 million and ₱714.6 million in 2023 and 2022, respectively (see Note 7).

27. **Changes in Liabilities Arising from Financing Activities**

	January 1, 2023	**Cash Flows**	**Foreign Exchange Movement**	**Other***	**December 31, 2023**
Short-term and current portion of interest-bearing loans (Note 11)	**₱3,806,311**	**(₱3,804,755)**	**₱–**	**₱2,586,104**	**₱2,587,660**
Noncurrent portion of interest-bearing loans (Note 11)	**43,107,785**	**18,829,316**	**(147,129)**	**(2,575,734)**	**59,214,238**
Current portion of service concession obligation payable to MWSS (Note 10)	**940,917**	**(927,222)**	**161,557**	**699,309**	**874,561**
Noncurrent portion of service concession obligation payable to MWSS (Note 10)	**6,069,162**	**–**	**(82,138)**	**502,012**	**6,489,036**
Interest payable	**615,876**	**(2,805,164)**	**(203,532)**	**3,101,560**	**708,740**
Lease liabilities (Notes 2 and 22)	**281,529**	**(209,808)**	**–**	**364,717**	**436,438**
Dividends payable (Note 13)	**3,185**	**(3,599,723)**	**–**	**3,600,000**	**3,462**
Total liabilities from financing activities	**₱54,824,765**	**₱7,482,644**	**(₱271,242)**	**₱8,277,968**	**₱70,314,135**

**Other includes the effect of reclassification of non-current portion of interest-bearing loans and service concession obligation payable to current due to passage of time, accrual of dividends, amortization of debt issue cost, accretion on service concession obligation payable and addition to lease liabilities.*

	January 1, 2022	Cash Flows	Foreign Exchange Movement	Other*	December 31, 2022
Short-term and current portion of interest-bearing loans (Note 11)	₱2,356,687	(₱811,346)	(₱263)	₱2,261,233	₱3,806,311
Noncurrent portion of interest-bearing loans (Note 11)	35,304,963	9,650,324	346,208	(2,193,710)	43,107,785
Current portion of service concession obligation payable to MWSS (Note 10)	751,642	(747,639)	376,872	560,042	940,917
Noncurrent portion of service concession obligation payable to MWSS (Note 10)	5,987,197	–	(67,606)	149,571	6,069,162
Interest payable	428,835	(1,742,578)	(432,193)	2,361,812	615,876
Lease liabilities (Notes 2 and 22)	408,759	(146,705)	–	19,475	281,529
Dividends payable (Note 13)	2,967	(2,999,782)	–	3,000,000	3,185
Total liabilities from financing activities	₱45,241,050	₱3,202,274	₱223,018	₱6,158,423	₱54,824,765

**Other includes the effect of reclassification of non-current portion of interest-bearing loans and service concession obligation payable to current due to passage of time, accrual of dividends, amortization of debt issue cost, accretion on service concession obligation payable and addition to lease liabilities.*