# COVER SHEET

SEC Registration Number

C S 2 0 0 9 0 1 2 6 9

**COMPANY NAME**

PHILIPPINE H2O VENTURES CORP.

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

4/F 20 LANSBERGH PLACE BUILDING, 170 TOMAS MORATO AVENUE, QUEZON CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 2 0 I S | | N A |

**PRELIMINARY (Date of Meeting: 03/15/18)**

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| claire.depasion@joh.ph | 373-3038 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 32 | 3rd Wednesday of June | DECEMBER 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Ortrud T. Yao | ortrud_ting@joh.ph | 373-3038 | N/A |

**CONTACT PERSON'S ADDRESS**

4/F 20 Lansbergh Place Bldg, 170 Tomas Morato, Quezon City

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

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

PHILIPPINE H2O VENTURES CORP.

# NOTICE OF SPECIAL STOCKHOLDERS' MEETING

**TO: ALL SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the special stockholders' meeting of Philippine H2O Ventures Corp. (the "Corporation") will be held on 15 March 2018, Thursday, at 3:00 o'clock in the afternoon, at the 4th Floor, 20 Lansbergh Place, 170 Tomas Morato Avenue corner Scout Castor Street, Quezon City, for the purpose of taking up the following:

## AGENDA

1. Call to Order;
2. Proof of Notice of Meeting;
3. Certification of Quorum;
4. Approval of the sale of all the existing business, non-cash assets and liabilities of the Corporation, including all its shares and interests in Calapan Waterworks Corporation;
5. Other Matters; and
6. Adjournment.

In accordance with the rules of the Philippine Stock Exchange, only stockholders of record as of **08 February 2018** are entitled to notice of and to vote as such in the special shareholders' meeting and any adjournment thereof.

Registration for those who are personally attending the meeting will start at **2:00 pm** and end promptly at **2:45 pm.** All stockholders who will not, are unable, or do not expect to attend the meeting in person are encouraged to fill out, date, sign and send a proxy to the Corporation. All proxies should be received by the Corporation at least four (4) business days before the meeting, or on or before **08 March 2018**. Proxies submitted will be validated by a Committee of Inspectors on **10 March 2018** at 10:00 in the morning at 4th Floor, 20 Lansbergh Place, 170 Tomas Morato Avenue corner Scout Castor Street, Quezon City. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, you or your proxy is requested to bring identification paper(s) containing a photograph and signature, e.g. passport, driver's license, or credit card. Attendees unable to present identification document upon registration shall not be admitted to the meeting.

City of Quezon, 31 January 2018.

**ORTRUD T. YAO**
**Corporate Secretary**

**PHILIPPINE H2O VENTURES CORP.**
**SPECIAL STOCKHOLDERS' MEETING**
March 15, 2018 at 3:00 P.M.
4th Floor 20 Lansbergh Place, 170 Tomas Morato Avenue, Quezon City

# PROXY

I/WE, the undersigned shareholder of H2O, hereby appoint, name, and constitute:

_______________________________________,
or in his absence,

the Chairman of the Board, or in the latter's absence, the Secretary of the Meeting, as my attorney-in-fact and proxy, to represent me at the special stockholders' meeting of the Company on Thursday, 15 March 2018 at 3:00 p.m. and any adjournment(s) thereof, as fully and to all intents and purposes as I might or could if present and voting in a person, hereby ratifying and confirming any and all actions taken on matters which may properly come before such meeting or adjournment(s) thereof.

In particular, I/We hereby direct my/our said proxy to vote all my/our shares on the agenda items set forth below as I/We have expressly indicated by marking the same with an "X":

| **Items** | **Action** | | |
|---|---|---|---|
| | **For** | **Against** | **Abstain** |
| Approval of the sale of all the existing business, non-cash assets and liabilities of the Corporation, including all its shares and interests in Calapan Waterworks Corporation. | | | |

_________________ Printed Name of Stockholder

_________________ Authorized Signatory

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE 08 MARCH 2018. THIS PROXY WILL BE VALIDATED BY A COMMITTEE OF INSPECTORS ON 10 MARCH 2018 AT 10:00 O'CLOCK IN THE MORNING AT THE PRINCIPAL OFFICE OF THE COMPANY LOCATED AT 4TH FLOOR, 20 LANSBERGH PLACE, 170 TOMAS MORATO AVENUE COR. SCOUT CASTOR STREET, QUEZON CITY. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON. THIS PROXY DOES NOT NEED TO BE NOTARIZED. (Partnerships, Corporations and Associations must attach certified resolutions designating their proxies/representatives and authorized signatories.)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   [ √ ] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter: **PHILIPPINE H2O VENTURES CORP.**

3. Country of incorporation: **PHILIPPINES**

4. SEC Identification Number: **CS200901269**

5. BIR Tax Identification Code: **007-236-853-000**

6. Address of principal office:

   **4/F 20 Lansbergh Place, 170 Tomas Morato Ave., corner Scout Castor St., Quezon City** Postal Code: **1103**

7. Registrant's telephone number, including area code **(632) 373-3038**

8. Date, time and place of the meeting of security holders:

   **15 March 2018 (Thursday), 3:00 PM;**
   **Philippine H2O Ventures Corp., 4/F 20 Lansbergh Place,**
   **170 Tomas Morato Ave. cor. Scout Castor St., Quezon City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders **15 February, 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| **Common Stock, ₱1 par value** | **243,241,504 shares** |

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes _√_ No _____

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein: **Philippine Stock Exchange — common shares**

**PART I.**
**INFORMATION REQUIRED IN THE INFORMATION STATEMENT**

## A. GENERAL INFORMATION

### Item 1. Date, Time, and Place of Meeting of Security Holders

| | |
|---|---|
| Date : | 15 March 2018 |
| Time : | 3:00 P.M. |
| Place : | 4th Floor 20 Lansbergh Place<br>170 Tomas Morato Ave. cor. Scout Castor St.,<br>Quezon City |
| Principal:<br>Office | 4th Floor 20 Lansbergh Place<br>170 Tomas Morato Ave. cor. Scout Castor St.,<br>Quezon City |

The approximate date on which the information statement and proxy form will be sent to all shareholders is on 15 February 2018.

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

### Item 2. Dissenter's Right of Appraisal

The stockholders of the Company may exercise the right of appraisal with respect to the actions to be taken up at the meeting pursuant to Title X on Section 81 governing the exercise of Appraisal Rights under the Corporation Code of the Philippines which states that:

"Any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence.

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this code; and

3. In case of merger or consolidation.

An appraisal right is also available to dissenting shareholders in case the corporation decides to invest its funds in another corporation or business as provided for in Section 42 of the Corporation Code.

On 19 December 2017 Philippine H2O Ventures Corp. ("H2O") was notified by its parent company, Jolliville Holdings Corporation ("JOH"), that the latter, along with its subsidiaries and related parties (collectively, the "Sellers"), will be selling all their shareholding in H2O, representing 62.006% of the issued and outstanding capital of H2O, to Udenna Development Corp. ("UDEVCO"), or to any of the latter's subsidiaries or affiliates (the "H2O Sale").

One of the conditions to the H2O Sale is the implementation and completion by H2O of a spin-off by selling all of its existing business and assets, including shares and interests in Calapan Waterworks Corporation ("CWWC") and all other interests in other corporations. H2O shall also collect all receivables, settle all its obligations, assign its contractual interests, transfer or reassign all of its employees and settle and dissolve its retirement fund (the "Clean-up Exercise").

Since the Clean-Up Exercise will involve the sale of all or substantially all of the assets of H20, the stockholders may opt to exercise appraisal rights due the contemplated transaction described above.

## Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

JOH, along with its subsidiaries and related parties, namely, KGT Ventures, Inc., Melan Properties Corp., NGTO Resources Corp., OTY Development Corp., Nanette T. Ongcarranceja, Ortud T. Yao, Kenrick G. Ting, Jolly L. Ting, Lourdes G. Ting (the "Sellers"), who collectively own 62.006% of H20 have a substantial interest in the matter to be acted upon during the Special Stockholders' Meeting.

The completion of the Clean-up Exercise is one of the closing conditions for the sale by the Sellers of their shareholding in H20, representing 62.006% of the issued and outstanding capital of H2O to UDEVCO, or to any of the latter's subsidiaries or affiliates, as stated in the Memorandum of Agreement entered into by the Sellers and UDEVCO on 21 December 2017.

There is also a possibility that the buyer of all the existing business and assets of H20, including its shares and interest in CWWC and all other interest in other corporations, will be JOH or any of its subsidiaries or affiliates.

None of the directors of H2O has informed the Corporation of his/her intention to oppose any of the corporate actions to be acted upon at the special meeting of the stockholders.

# B. CONTROL AND COMPENSATION INFORMATION

## Item 4. Voting Securities and Principal Holders Thereof

As of 31 January 2018, there were 243,241,504 shares of Philippine H2O Ventures Corp. common stock outstanding and entitled to vote at the Annual Stockholders' Meeting. Each common share shall be entitled to one (1) vote. Only holders of the Company's stock of record at the close of business on 8 February, 2018, acting in person or by proxy on the day of the meeting, are entitled to notice and to vote at the Special Stockholders' Meeting to be held on 15 March, 2018. The record date was set ten (10) business days from the date of the Company's disclosure of the notice to the Philippine Stock Exchange (PSE).

Cumulative voting is allowed for election of the members of the Board of Directors. Each stockholder may vote the number of shares of stock outstanding in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected and provided, however, that no delinquent stock shall be voted.

*a. Security Ownership of Certain Record and Beneficial Owners*

The following table presents the record/beneficial owners known to the Company who in person or as group own more than five percent (5%) of the issued and outstanding capital stock of the Company as of 31 January 2018.

| Title of Class of Shares Held | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent Held |
|---|---|---|---|---|---|
| Common | JOH, 4th Floor 20 Lansbergh Place, 170 Tomas Morato Avenue, Quezon City, Stockholder | Various/Public, Stockholders | Filipino | 89,338,805 | 36.73% |
| Common | Lucky Securities Inc., Unit 1402-B, PSE Center, Exchange Road, Ortigas Centre, Pasig, no relationship | Various, No relationship | Filipino | 20,420,000 | 8.40% |
| Common | OTY Development Corp*, 4th Floor Lansbergh Place, 170 Tomas Morato Avenue, Quezon City, Stockholder | JOH, Parent | Filipino | 15,000,000 | 6.17% |
| Common | NGTO Resources Corp.*, 4th Floor Lansbergh Place, 170 Tomas Morato Avenue, Quezon City, Stockholder | JOH, Parent | Filipino | 15,000,000 | 6.17% |
| Common | Melan Properties Corp*, 4thFloor Lansbergh Place, 170 Tomas Morato Avenue, Quezon City, Stockholder | JOH, Parent | Filipino | 15,000,000 | 6.17% |
| Common | KGT Ventures, Inc.*, 4thFloor Lansbergh Place, 170 Tomas Morato Avenue, Quezon City, Stockholder | JOH, Parent | Filipino | 15,000,000 | 6.17% |

* These Corporations are 100% owned by Ormin Holdings Corporation, which are in turn 100% owned by JOH.

Lucky Securities Inc., a participant in the Philippine Central Depository Inc. (PCD), holds the shares on behalf of its clients. PCD is a private institution established in March 1995 and was organized to provide an automated book entry system of handling securities transactions in the Philippines.

*b. Security Ownership of Management*

As of 31 January 2018, the shares owned of record or beneficially by the directors and the executive officers are as follows:

| Title of Class | Name of Beneficial Owner of Common Stock | Nature of Beneficial Ownership (D) Direct / (I) Indirect | Citizenship | No. Of Shares | Percent of Class |
|---|---|---|---|---|---|
| Common | Jolly L. Ting | D | Filipino | 414,720 | 0.17% |
| Common | Jolly L. Ting | I | Filipino | 19,958,316* | 8.21% |
| Common | Nanette T. Ongcarranceja | D | Filipino | 1,866,002 | 0.77% |
| Common | Nanette T. Ongcarranceja | I | Filipino | 3,576,060* | 1.47% |
| Common | Melody T. Lancaster | D | Filipino | 1,500,000 | 0.62% |
| Common | Melody T. Lancaster | I | Filipino | 3,576,060* | 1.47% |
| Common | Ortrud T. Yao | D | Filipino | 1,932,002 | 0.79% |
| Common | Ortrud T. Yao | I | Filipino | 3,576,060* | 1.47% |
| Common | Rodolfo L. See | I | Filipino | 1,795,693* | 1.24% |
| Common | Rodolfo L. See | D | Filipino | 3,489,410 | 1.44% |
| Common | Sergio R. Ortiz-Luis Jr. | D | Filipino | 1,500 | 0.00% |
| Common | Ernesto S. Isla | D | Filipino | 2 | 0.00% |

*Indirect beneficial ownership thru H2O's parent company, Jolliville Holdings Corporation, and other corporations.

Directors and officers as a group hold a total of 41,685,825 shares equivalent to 17.14% of Philippine H2O Ventures Corp.'s issued and outstanding capital stock. Mr. Jolly L. Ting owns indirectly more than 5% shares of the Company's total outstanding capital stock.

*c. Voting Trust Holders of 5% or more*

None.

*d. Changes in Control*

On 19 December 2017 Philippine H2O Ventures Corp. ("H2O") was notified by its parent company, Jolliville Holdings Corporation ("JOH"), that the latter, along with its subsidiaries and related parties (collectively, the "Sellers"), will be selling all their shareholding in H2O, representing 62.006% of the issued and outstanding capital of H2O, to Udenna Development Corp. ("UDEVCO"), or to any of the latter's subsidiaries or affiliates (the "H2O Sale").

One of the conditions to the H2O Sale is the implementation and completion by H2O of a spin-off by selling all of its existing business and assets, including shares and interests in Calapan Waterworks Corporation ("CWWC") and all other interests in other corporations. H2O shall also collect all receivables, settle all its obligations, assign its contractual interests, transfer or reassign all of its employees and settle and dissolve its retirement fund (the "Clean-up Exercise").

H2O was notified that UDEVCO shall launch a mandatory tender offer for the H2O shares pursuant to the Securities Regulation Code.

The closing of the above transaction will result in a Change in Control in the Company.

## Item 5. Directors and Executive Officers

*a. Directors and Senior Officers*

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly on a monthly basis, or as often as required, to review and monitor the Company's financial position and operations.

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

None of the members of the Board of Directors and Officers of the Company own directly more than 5% of Philippine H2O Ventures Corp.'s shares.

Listed below are the Directors and Senior Officers of the Company as of 31 January 2018 with their qualifications and credentials. There are no other such directors and senior officers.

| ***Name*** | ***Positions Held*** | ***Company/Organization*** |
|---|---|---|
| **JOLLY L. TING**<br>72, Filipino<br>Bachelor of Science in Business Administration, University of the East | **Present:** | |
| | ○ Chairman (since March 21, 2011) | Ormin Power, Inc. |
| | ○ Chairman (since January 2009) | Philippine H2O Ventures Corp. |
| | ○ Founder, Chairman, Chief Executive Officer (since April 3, 1999) | Jolliville Holdings Corporation |
| | ○ Chairman (since April 26, 2002) | Jolliville Group Management, Inc. |
| | ○ Chairman (since April 26, 2002) | Ormina Realty and Development Corp. |
| | ○ Chairman (since May 19, 2009) | Servwell BPO International Inc. |
| | ○ Chairman (since July 19, 1992) | Jolliville Leisure and Resort Corporation |
| | ○ Chairman (since April 7, 1990) | Jollideal Marketing Corporation |
| | ○ Chairman (since 1997) | Calapan Waterworks Corporation |
| | ○ Member (since 1978) | Mirage Resources & Holdings Corp. (manages the renowned Gloria Maris Sharksfin Restaurant & Dimsum chains) |
| | **Previous:** | |
| | ○ President (January 2009 to April 2010) | Calapan Ventures, Inc. |
| | ○ President (1991-1992) | Rotary Club, University District, Manila |
| | ○ Director, Treasurer (1994-1997) | Mirage Resources & Holdings Corp. |
| | ○ Chairman (since April 26, 2002) | Uptrend Concepts Management Corp. |

| | | |
|---|---|---|
| **NANETTE T. ONGCARRANCEJA**<br>44, Filipino<br>Fine Arts Advertising Studies, College of the Holy Spirit<br><br>Advanced Courses, Columbia College, Vancouver Community College, Kwantlen University | **Present:**<br>o President (since April 2010)<br>o President (since September 15, 2004)<br>o Director (since April 19, 1999)<br>o President, Director (since October 26, 2000)<br>o Vice President (since April 5, 2008)<br>o Director (since November 6, 2000)<br>o Director (since August 17, 1999)<br><br>**Previous:**<br>o Secretary and Director (January 2009 to April 2010)<br>o Vice President (July 2001 to September 2004)<br>o Secretary/Treasurer (April 1999 to July 2001)<br>o Assistant Secretary (March-April 1999)<br>o Treasurer (November 6, 2000 to April 4, 2008)<br>o Treasurer (since August 2010)<br>o Chairman (since January 2013) | <br>Philippine H2O Ventures Corp.<br>Jolliville Holdings Corporation<br>- do -<br>Jolliville Group Management, Inc.<br>Jollideal Marketing Corporation<br>- do -<br>Ormin Holdings Corporation<br><br><br>Calapan Ventures, Inc.<br>Jolliville Holdings Corporation<br>- do -<br>- do -<br>Jollideal Marketing Corporation<br>Ormin Power, Inc.<br>Rural Bank of Roxas (Or.Min.), Inc. |

| *Name* | *Positions Held* | *Company/Organization* |
|---|---|---|
| **ORTRUD T. YAO**<br>40, Filipino<br>Honors, Bachelor of Commerce, Major in Finance, University of British Columbia | **Present:**<br>o Director, Treasurer and Chief Finance Officer (since January 2009)<br>o Secretary (since April 2010)<br>o Secretary/Treasurer, Chief Finance Officer (since July 20, 2001)<br>o Chief Compliance Officer (since June 17, 2002)<br>o President, Director (since September 28, 2005)<br>o President, Director (since August 15, 2005)<br>o Secretary, Director (since January 12, 2004)<br>o President, Director (since March 30, 1999)<br>o Vice President, Director (since March 26, 1999)<br>o Treasurer, Director (since March 19, 2001) | Philippine H2O Ventures Corp.<br>- do –<br>Jolliville Holdings Corporation<br>- do -<br>Calapan Waterworks Corporation<br>Ormin Holdings Corporation<br>Kenly Resources, Inc.<br>Oltru Holdings Corp.<br>A-Net Resources Corp.<br>Granville Ventures, Inc. |

| *Name* | *Positions Held* | *Company/Organization* |
|---|---|---|
| **MELODY T. LANCASTER**<br>45, Filipino<br>Bachelor of Science in Management Engineering<br>Ateneo de Manila University<br><br>Computer Systems Technology<br>British Columbia Institute of Technology<br><br>Certified Project Management Professional Project Management Institute | **Present:**<br>o Vice-President (since July 2, 2014)<br>o Vice President (since June 25, 2014)<br>o Secretary (since June 18, 2014)<br>o Vice-President (since February 7, 2014)<br>o Director (since March 29, 2010)<br>o Director (since 2009)<br>o Vice-President (since March 30, 2007)<br>o Director (since March 26, 1999)<br>o Management Consultant (since 2004)<br>o Director (since March 2002)<br>o President<br>o Treasurer (since 1986 | Philippine H2O Ventures Corp.<br>Jolliville Hodlings Corporation<br>Menakeo Construction, Inc.<br>Melan Properties Corp.<br>Kenly Resources Inc.<br>Febra Resources Corp.<br>Elgeete Holdings Inc.<br>A-Net Resources Corp.<br>RBS Citizens Bank of Rhode Island<br>Oltru holdings Corp.<br>Fortress Industries Ltd. (Canada)<br>Jolliville Realty and Development Inc. (former name of Jolliville Holdings Corporation) |
| **RODOLFO L. SEE**<br>76, Filipino<br>Bachelor of Science in Business Administration, Far Eastern University | **Present:**<br>o Director (since August 18, 2004)<br>o Director (since January 2009)<br>o Chairman, President (since 1980)<br>o Chairman, President (since 1974)<br>o Owner (since 1982) | Jolliville Holdings Corporation<br>Calapan Ventures, Inc.<br>Gold Prize Food Manufacturing Corp.<br>Gold Medal Food Manufacturing Corp.<br>International Food Snack Corp. (exporter of locally produced dried fruit products) |

| ***Name*** | ***Positions Held*** | ***Company/Organization*** |
|---|---|---|
| **SERGIO ORTIZ-LUIS JR.**<br>74, Filipino<br>Bachelor of Science in Business Administration<br>Master of Business Administration (Candidate)<br>De La Salle University<br><br>PhD Humanities hc<br>Central Luzon State University<br><br>PhD Business Technology hc<br>Eulogio "Amang" Rodriguez Institute of Science and Technology | **Present:** | |
| | o President & CEO (since 1991) | Philippine Exporters Confederation Inc. |
| | o Honorary Chairman/Treasurer (since 2013) | Philippine Chamber of Commerce & Industry |
| | o Honorary Chairman/Past President (since 1991) | Employers Confederation of the Philippines |
| | o Director/Past President (since 2013) | Philippine Foundation, Inc. (Team Phil.) |
| | o Founding Director (since 2001) | International Chamber of Commerce of the Phil. |
| | o Vice Chairman (since 2008) | Alliance Global, Inc. |
| | o Director (since 2008) | Waterfront Philippines, Inc. |
| | o Director (since 1997) | Manila Exposition Complex, Inc. (World Trade Ctr.) |
| | o Director (since 2000) | Lasaltech Academy |
| | o Director (since 2012) | Philippine Estate Corporation |
| | o Independent Director (Since 2012) | BA Securities |
| | o Director (Since 2012) | Rural Bank of Baguio |
| | o Honorary Chairman (since 2008) | Integrated Concepts & Solutions, Inc. |
| | o Founding Director (since 1995) | GSI (Formerly Philippine Article Numbering Council) |
| | o Vice Chairman (since 2012) | Export Development Council (EDC) |
| | o Commissioner/Auditor (since 1992) | Patrol 117 (Foundation for Crime Prevention) |
| | o Independent Director (since June 25, 2014) | Jolliville Holdings Corporation |
| | o Independent Director (since July 2, 2014) | Philippine H2O Ventures Corp. |
| | o Director (since 2008) | The Wallex Group |
| | o Director (since 2008) | Acesite Hotel Phil. Inc. |
| | o Director (since 2008) | Forum Pacific, Inc. (FPI Phil.) |
| | o Director (since 2015) | LikeCash Asia & The Pacific Corporation |
| | o President (since 2015) | Asia Pacific Chinese Media Inc. |
| | o Trustee & Treas. (since 2015) | Human Resources Dev. Found. |
| | o Chairman (since 2015 | National Center for Mediation |

| *Name* | *Positions Held* | *Company/Organization* |
|---|---|---|
| **ERNESTO S. ISLA**<br>67, Filipino<br>Bachelor of Science in Architecture<br>University of Sto. Tomas | **Present:** | |
| | o Independent Director (since January 2009) | Philippine H2O Ventures Corp. |
| | o President & CEO (since 1996) | Bitech Systems (Phils.), Inc. Business Information Technology System (BITS) |
| | o President & CEO (since 1973) | E.I. Construction Co., Inc. |
| | o Director (since 2006) | Quezon City Red Cross |
| | o Member (since 1980) | Rotary International District 3780, |
| | o Member (since 1980), Past President | Rotary Club of Kamuning |
| | o President (since 1999) | APO Production Unit Inc. |
| | o President & CEO (1994-1997 | Troikapital Management, Inc. |
| | o Director (2003-2007) | Timpla Corporation |
| | o President (2016-present) | Kapihan Sa Club, Inc. |
| | o VP/Trustee (2007-2015) | Kapihan Sa Club, Inc. |
| | o Special Asst. to the Secretary (2011-2016) | Presidential Communications Operations Office |
| | o Governor (2015-present) | Philippine Red Cross |
| | o Member (2013-present) | Management Association of the Philippines (MAP) |

No one from the above listed Directors and Senior Officers is related or connected with any government unit or its instrumentalities. A copy of the Secretary's certificate is attached as Annex "F".

*b. Family Relationships*

Ms. Ortrud T. Yao, Ms. Nanette T. Ongcarranceja, and Ms. Melody T. Lancaster are siblings and they are all children of Mr. Jolly L. Ting. There are no other family relationships involving directors and executive officers.

*c. Independent Directors*

Messrs. Ernesto S. Isla and Sergio R. Ortiz-Luis Jr. are neither officers nor substantial shareholders of Philippine H2O Ventures Corp. nor are they directors or officers of any of its related companies with the exception of parent company Jolliville Holdings Corporation where Mr. Ortiz-Luis also serves as independent director.

The independent directors were pre-screened by the Nomination Committee of the Corporation under the procedures laid down in the Corporation's By-Laws and its Manual on Corporate Governance. They possess all the qualification and none of the disqualification of being an independent director, pursuant to SRC Rule 38 of the Rules Implementing the Securities Regulations Code.

Effective 1 January 2017, the Company has adopted the new rules on the term limits of Independent Directors under the New Code of Corporate Governance ("New CG Code"). Current Independent Directors are allowed to serve for a cumulative term of nine (9) years, with or without the cooling-off period. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. Reckoning of the cumulative nine-year term is from 2012, in connection with SEC Memorandum Circular No. 9, Series of 2011.

In the instance that the Company wants to retain an Independent Director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

*d. Significant Employees*

While the Company values the contribution of each executive and non-executive employee, no single employee who is not an executive officer is expected to make a significant contribution to the business. Other than standard employment contracts, there are no arrangements with non-executive employees that will assure the continued stay of these employees with the Company.

*e. Pending Legal Proceedings*

To the knowledge and/or information of the Company, the present members of the Board of Directors or its Senior Officers and the nominees for election as directors named in the subsequent sections are not, as of 31 January 2018 or for the past five (5) years, involved or have been involved in any material legal proceeding affecting/involving themselves and/or their properties before any court of law or administrative body in the Philippines or elsewhere. To the knowledge and/or information of the Company, the said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or any other nation/country.

*f. Certain Relationships and Related Transactions*

Historically, the Company receives or extends advances from and to its major shareholders from time-to-time as the need arises. These advances are non-interest bearing and payable under certain terms and conditions primarily dependent on the Company's cash position.

The Company, in the regular course of trade or business, enters into transactions with affiliated/related companies principally consisting of management fees, leasing agreements and cash advances. Generally, management and leasing arrangements are renewed on an annual basis and are based on terms similar to those offered to non-related parties.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or will be involved or had or will have a direct or indirect material interest.

Please refer to Note 6 of the attached 3rd Quarter 2017 unaudited consolidated financial statements.

*g. Elections of Directors*

The directors of the Company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected and qualified.

The directors on the Nominations Committee are Mr. Jolly L. Ting, Mrs. Nanette T. Ongcarranceja, and Mr. Sergio R. Ortiz-Luis Jr. The chairperson is Mr. Ting and the Independent Director is Mr. Ortiz-Luis Jr.

The incumbent members of the Board of Directors are also the nominees for the succeeding year as submitted to and pre-screened by the Nominations Committee of the Corporation. Their particulars and qualifications had already been enumerated and given earlier in this Information Statement. The Company has no reason to believe that any of the aforesaid nominees will be unwilling or unable to serve if elected as a director.

As required under SRC Rule 38 and as ratified for inclusion in the Corporation's By-Laws by the stockholders in its meeting held November 24, 2010 (the amended By-Laws was approved by the SEC on December 23, 2009), the following criteria and guidelines shall be observed in the nomination and election of independent directors:

A. Definition

1. As used in Section 38 of the Code, independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company and includes, among others, any person who:
    a. Is not a director or officer of the covered company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
    b. Does not own more than two percent (2%) of the shares of the covered company and/or its related companies or any of its substantial shareholders;
    c. Is not related to any director, officer or substantial shareholder of the covered company, any of its related companies or any of its substantial shareholders. For this purpose, relatives includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
    d. Is not acting as a nominee or representative of any director or substantial shareholder of the covered company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
    e. Has not been employed in any executive capacity by the covered company and/or by any of its substantial shareholders within the last five (5) years;
    f. Is not retained as professional adviser by the Corporation, and/or any of its related companies and/or any of its substantial shareholder within the last five (5) years;
    g. Is not retained, either personally or through his firm or any similar entity, as professional adviser, by that covered company, any of its related companies and/or any of its substantial shareholders;
    h. Has not engaged and does not engage in any transaction with the covered company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.

No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of this Code, committed within five (5) years prior to the date of his election, shall qualify as an independent director. This is without prejudice to other disqualifications which the covered company's Manual on Corporate Governance provides.

Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by appointing independent directors from the list of nominees submitted by the stockholders.

When used in relation to a company subject to the requirements of this Rule and Section 38 of the Code:

a. **Related company** means another company which is: (a) its parent company, (b) its subsidiary, or (c) a subsidiary of its parent company; and
b. **Substantial shareholder** means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

B. Qualifications

1. Must be the holder of at least one share of the Corporation;
2. College graduate or has sufficient management experience to compensate for lack of formal education or has been engaged or exposed to the business of the corporation for at least five (5) years;
3. Of legal age;
4. Possesses integrity and probity; and
5. Assiduous.

C. Disqualifications

1. Falls under Section II (5) of the Code of Corporate Governance;
2. Becomes an employee;
3. Beneficial ownership exceeds two percent (2%);
4. Absent in meetings up to 50%; and
5. Others as per Corporate Governance Manual.

D. Nominations

1. The Nominations Committee conducts nominations prior to the Annual Stockholders' Meeting.
2. The Nominations Committee solicits candidates for independent director. All recommendations are signed by the nominating shareholder together with acceptance and conformity by the prospective nominee.
3. The Nominations Committee pre-screens candidates whether they meet the requirements as an independent director per criteria mentioned above, general guidelines in the Corporate Governance Manual, Articles of Incorporation, By-Laws and perceived needs of the Board of Directors and the Corporation such as, but not limited to:
   a. Nature of business of corporations which he is a director of;
   b. Age;
   c. No. of directorships/active memberships/officer in other corporations and organizations;
   d. Possible conflict of interest.
4. The Nominations Committee shall prepare a list of all candidates and evaluate based on the above-listed required qualifications to enable it to effectively review the qualifications of the nominees for independent director.
5. After the nomination, the Committee shall prepare a final list of candidates which shall contain all the information about the nominees for independent director, as required under Part IV (A) and (C) of Annex C of SRC Rule 12, which list, shall be made available to the SEC and to all shareholders through the filing and distribution of the Information Statement or Proxy Statement, in accordance with SRC Rule 20, or in such other reports the company is required to submit to the SEC.
   The name of the person or group who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
6. Only nominees on the final list of candidates will be eligible for election. No other nominees shall be entertained after the final list is prepared. No further nomination will be allowed during the annual stockholders' meeting.

E. Election

1. Except as those required under the Rule and subject to pertinent existing laws, rules and regulations of the Commission, the conduct of the election of independent

directors shall be made in accordance with the standard election procedures of the company or its by-laws.
2. It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent directors. He shall ensure that independent directors are elected during the stockholders' meeting.
3. Specific slots for independent directors shall not be filled-up by unqualified nominees.
4. In case of failure of election for independent directors, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Committee otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

The following nominees, as submitted to and pre-screened by the Nominations Committee of the Corporation, qualify as independent director:

1. Mr. Sergio R. Ortiz-Luis Jr.
2. Mr. Ernesto S. Isla

The name of the person who recommended Mr. Ortiz-Luis is Ms. Nanette Ongcarranceja. Meanwhile, Mr. Isla was nominated by his close friend Mr. Jolly Ting. Mrs. Ongcarranceja and Mr. Ting are not related by consanguinity or affinity to either of the nominated independent directors.

Copies of the certification of qualification of independent directors are attached as Annexes "E" and "E-1".

## Item 6. Compensation of Directors and Executive Officers

**SUMMARY COMPENSATION TABLE**
**Annual Compensation**

| Name and Principal position | Year | Salary (PhP) | Bonus (PhP) | Others |
|---|---|---|---|---|
| Jolly L. Ting**, Chairman & Chief Executive Officer<br>Nanette T. Ongcarranceja**, President & COO<br>Ortrud T. Yao**, Secretary/Treasurer & Chief Financial Officer<br>Melody T. Lancaster**, Sr. Vice President | | | | |
| TOTAL | 2018* | 3,634,943 | 254,680 | - |
| | 2017 | 3,461,850 | 242,550 | - |
| | 2016 | 3,297,000 | 231,000 | |
| | 2015 | 3,140,000 | 220,000 | - |
| | 2014 | 2,415,000 | 200,000 | - |
| All other officers and directors as a group unnamed | 2018* | 2,272,145 | 171,593 | |
| | 2017 | 2,163,948 | 163,422 | |
| | 2016 | 2,060,903 | 155,640 | - |
| | 2015 | 1,962,765 | 148,229 | - |

| | | | |
|---|---|---|---|
| 2014 | 1,869,300 | 141,170 | - |

**Estimated amounts*

***These are the only top compensated Executives of the Company.*

During the last and ensuing year, there are no:

1) Employment contracts between the Company and the named directors and senior officers
2) Compensatory Plan or Arrangement;
3) Outstanding Warrants or Options held by directors and officers or the prices of such adjusted or amended; and
4) Amounts paid for committee participation or special assignments.

Under the Company's By-Laws, the officers of the Corporation shall hold office for one year and until their successors are chosen and qualified in their stead. Any officer elected or appointed by the majority of the Board of Directors may be removed by the affirmative vote of the Board of Directors.

The members of the Compensation and Remuneration Committee are Mrs. Nanette T. Ongcarranceja, Mrs. Ortrud T. Yao and Mr. Ernesto S. Isla. The chairman is Mrs. Ongcarranceja and the independent director is Mr. Isla.

## Item 7. Independent Public Accountants

Constantino, Guadalquiver & Co. (CGCo) has been the Company's independent auditors since 2009. They are being recommended by the Audit Committee for election by the stockholders at the scheduled annual meeting.

Mr. Sergio R. Ortiz-Luis Jr., an independent director, chairs the Audit Committee. The members are Mr. Rodolfo L. See and Mrs. Ortrud T. Yao.

Representatives of CGCo will be present during the annual stockholders' meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions from stockholders, if needed. CGCo has accepted the Company's invitation to stand for re-election this year.

Edwin F. Ramos is the current audit partner for the Company and its subsidiaries. Pursuant to SRC Rule 68, Paragraph 3(b)(iv), the Company will either change its External Auditor or rotate the engagement partner every five (5) years.

## Item 8. Financial and Other Information

The Company's financial statements for the 3$^{rd}$ quarter ended September 30, 2017 and Management Report are attached hereto as Annexes "A" and "B".

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.**

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

**MRS. ORTRUD T. YAO**
Chief Finance Officer
Philippine H2O Ventures Corp.
4/F 20 Lansbergh Place
170 Tomas Morato Ave., cor. Scout Castor St.
1103, Quezon City

## Item 9. Actions to be Taken

Actions to be taken will constitute the approval of the Sale of Water Business (defined below).

The Sale of Water Business involves the sale of H2O of all its existing business, non-cash assets and liabilities, including all its shares and interests in Calapan Waterworks Corporation.

The Sale of Water Business will be made pursuant to the condition in the Memorandum of Agreement dated 21 December 2017 entered into by and between H2O's parent company, JOH, together with certain shareholders and related parties (collectively, the Sellers) and Udenna Development Corp. (UDEVCO) One of the contitions to the H2O Sale is the spin-off by H2O of all its existing business and assets.

## Item 10. Voting Procedures

The aforementioned motions will require the affirmative vote of a majority of the issued and outstanding shares of the Company's common stock present and represented and entitled to vote at the Annual Meeting. Because abstentions with respect to any matter are treated as shares present and represented and entitled to vote for purposes of determining whether the stockholders have approved that matter, abstentions have the same effect as negative votes. Broker non-votes and shares as to which proxy authority has been withheld with respect to any matter are not deemed to be present or represented for purposes of determining whether stockholder approval of that matter has been obtained.

Items requiring the vote of stockholders will be presented for approval of the stockholders at the meeting and voting shall be by *viva voce*. CGCo, the Company's independent auditors, were requested and have agreed to manually tally the votes at the meeting. They will present the results afterwards.

### Item 11. Amendments of Charter, By-Laws and Other Documents

No amendments of Charter, By-Laws and Other Documents were made during the year.

### Item 12. Other Matters

As of the date hereof, there are no other matters which the Board of Directors intends to present or has reason to believe others will present at the meeting.

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Quezon City on 31 January 2018.

**PHILIPPINE H2O VENTURES CORP.**
Issuer

**NANETTE T. ONGCARRANCEJA**
President

# Annex A

**Philippine H2O Ventures Corp.**

**Unaudited Financial Statements**
As of September 30, 2017

# COVER SHEET

SEC Registration Number

C S 2 0 0 9 0 1 2 6 9

## Company Name

P H I L I P P I N E H 2 O V E N T U R E S C O R P .

A N D S U B S I D I A R I E S

## Principal Office ( No./Street/Barangay/City/Town)Province)

4 T H F L O O R 2 0 L A N S B E R G H P L A C E

1 7 0 T O M A S M O R A T O A V E . C O R .

S C O U T C A S T O R S T . , Q U E Z O N C I T Y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
| --- | --- | --- |
| 1 7 - Q 3rd Qtr. 2017 | | N A |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
| --- | --- | --- |
| ortrud_ting@joh.ph | 3 7 3 - 3 0 3 8 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
| --- | --- | --- |
| 37 | 3rd Wednesday of June | December 31 |

## CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
| --- | --- | --- | --- |
| ORTRUD T. YAO | ortrud_ting@joh.ph | 373-3038 | |

Contact Person's Address

4TH FLOOR 20 LANSBERGH PLACE 170 TOMAS MORATO AVE. COR. SCOUT CASTOR ST., QUEZON CITY

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

# PHILIPPINE H2O VENTURES CORP.

## SEC FORM 17-Q

## QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(b)(2) THEREUNDER

1. For the quarterly period ended: **September 30, 2017**

2. SEC Identification No. **CS200901269**

3. BIR Tax Identification **No. 007-236-853-000**

4. Exact name of registrant as specified in its charter:
**PHILIPPINE H2O VENTURES CORP.**

5. Province, Country or other jurisdiction of incorporation or organization:
**PHILIPPINES**

6. Industry Classification Code : _________ (SEC Use Only)

7. Address of principal office and Postal Code:
**4th Floor 20 Lansbergh Place, Tomas Morato Ave. cor. Scout Castor St., 1103 Quezon City**

8. Registrant's telephone no. and area code: **(632) 373-3038**

9. Former name, address, and fiscal year, if changed since last report:
**Not applicable**

10. Securities registered pursuant to Sections 4 & 8 of the RSA:

| Title of Each Class | No. of Shares of Common Stock Outstanding &/or Amount of Debt Outstanding |
|---|---|
| **Common Stock, ₱ 1 par value** | **243,241,504 shares** |

11. Are any or all of these securities listed on the Philippine Stock Exchange?
Yes [x] No [ ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [x] No [ ]

(b) has been subject to such filing requirements for the past 90 days:
Yes [x] No [ ]

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**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**
***(Formerly Calapan Ventures, Inc.)***

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**SEPTEMBER 30, 2017 AND DECEMBER 31, 2016**
***(Amounts in Philippine Pesos)***

| | Note | | **2017 (Unaudited)** | | 2016 (Audited) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | | ₱ | **99,038,768** | ₱ | 138,829,991 |
| Receivables – net | | | **105,667,591** | | 122,091,405 |
| Due from related parties | 6 | | **15,536,198** | | 16,588,829 |
| Prepayments and other current assets | | | **4,009,486** | | 2,009,843 |
| Total Current Assets | | | **224,252,043** | | 279,520,068 |
| **Noncurrent Assets** | | | | | |
| Available-for-sale investment | | | **1,476,565** | | 1,476,565 |
| Investment in an associate | | | **980,109** | | 980,109 |
| Property and equipment – net | | | **897,883,635** | | 908,359,775 |
| Deferred tax assets | 7 | | **8,149,155** | | 8,149,155 |
| Other noncurrent assets | | | **17,216,486** | | 17,216,486 |
| Total Noncurrent Assets | | | **925,705,950** | | 936,182,090 |
| | | ₱ | **1,149,957,993** | ₱ | 1,215,702,158 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable and other current liabilities | | ₱ | **221,467,141** | ₱ | 299,990,011 |
| Current portion of loans payable | 5 | | **23,932,805** | | 21,108,950 |
| Due to related parties | 6 | | **12,132,332** | | 13,113,065 |
| Income tax payable | | | **13,407,805** | | 12,707,796 |
| Total Current Liabilities | | | **270,940,083** | | 346,919,822 |
| **Noncurrent Liabilities** | | | | | |
| Noncurrent portion of loans payable | 5 | | **318,766,022** | | 336,715,625 |
| Retirement benefit obligation | | | **8,758,527** | | 8,758,527 |
| Customers' deposits | | | **20,936,881** | | 18,651,827 |
| Deferred tax liabilities | | | **15,735,071** | | 15,735,071 |
| Total Noncurrent Liabilities | | | **364,196,501** | | 379,861,050 |
| Total Liabilities | | | **635,136,584** | | 726,780,872 |

*(Forward)*

*(Carryforward)*

| | | 2017 (Unaudited) | | 2016 (Audited) |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **Attributable to Equity Holders of Parent Company** | | | | |
| Capital stock | **₱** | **243,241,504** | ₱ | 243,241,504 |
| Additional paid-in capital | | **58,073,612** | | 58,073,612 |
| Revaluation surplus in property and equipment | | **20,789,073** | | 20,789,073 |
| Fair value gain on available-for-sale investment | | **474,943** | | 474,943 |
| Reserve on actuarial gain | | **215,973** | | 215,973 |
| Retained earnings | | **158,515,917** | | 130,805,848 |
| | | **481,311,022** | | 453,600,953 |
| **Noncontrolling Interest** | | **33,510,387** | | 35,320,333 |
| Total Equity | | **514,821,409** | | 488,921,286 |
| | **₱** | **1,149,957,993** | ₱ | 1,215,702,158 |

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**
***(Formerly Calapan Ventures, Inc.)***

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
***(Amounts in Philippine Pesos)***

| | Note | | Quarters Ended September 30 2017 | | 2016 | | Nine Months Ended September 30 2017 | | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **WATER SERVICE REVENUES** | | **₱** | **60,719,592** | ₱ | 57,625,002 | **₱** | **174,428,401** | ₱ | 164,881,598 |
| **COST OF SERVICES** | | | **29,850,982** | | 30,246,787 | | **73,034,626** | | 70,927,639 |
| **GROSS INCOME** | | | **30,868,610** | | 27,378,215 | | **101,393,775** | | 93,953,959 |
| **OPERATING EXPENSES** | | | **14,253,556** | | 15,016,701 | | **45,442,796** | | 44,334,126 |
| **INCOME FROM OPERATIONS** | | | **16,615,054** | | 12,361,514 | | **55,950,979** | | 49,619,833 |
| **OTHER CHARGES - NET** | | | **(4,450,888)** | | (629,798) | | **(13,073,998)** | | (1,929,953) |
| **INCOME BEFORE INCOME TAX** | | | **12,164,166** | | 11,731,716 | | **42,876,981** | | 47,689,880 |
| **CURRENT INCOME TAX EXPENSE** | 7 | | **4,926,478** | | 5,024,909 | | **16,976,858** | | 16,113,682 |
| **TOTAL COMPREHENSIVE INCOME** | | **₱** | **7,237,688** | ₱ | 6,706,807 | **₱** | **25,900,123** | ₱ | 31,576,198 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | | | | | | | |
| Equity holders of the parent company | | **₱** | **7,850,515** | ₱ | 6,864,676 | **₱** | **27,710,069** | ₱ | 31,727,159 |
| Noncontrolling interest | | | **(612,827)** | | (157,869) | | **(1,809,946)** | | (150,961) |
| | | **₱** | **7,237,688** | ₱ | 6,706,807 | **₱** | **25,900,123** | ₱ | 31,576,198 |
| **TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:** | | | | | | | | | |
| Equity holders of the parent company | | **₱** | **7,850,515** | ₱ | 6,864,676 | **₱** | **27,710,069** | ₱ | 31,727,159 |
| Noncontrolling interest | | | **(612,827)** | | (157,869) | | **(1,809,946)** | | (150,961) |
| | | **₱** | **7,237,688** | ₱ | 6,706,807 | **₱** | **25,900,123** | ₱ | 31,576,198 |
| **EARNINGS PER SHARE** | 8 | **₱** | **0.0323** | ₱ | 0.0282 | **₱** | **0.1139** | ₱ | 0.1304 |

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**

***(Formerly Calapan Ventures, Inc.)***

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

***(Amounts in Philippine Pesos)***

| | Attributable to Equity Holders of Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Additional paid-in capital | Revaluation surplus in property and equipment | Fair value gain on available-for-sale investments | Reserved on actuarial gain | Accumulated profit | Total | Noncontrolling interest |
| Balance at December 31, 2015 | 243,241,504 | 58,073,612 | 21,090,383 | 480,163 | 215,973 | 95,054,647 | 418,156,282 | 427,980 |
| Income (loss) for the period | | | | | | 31,727,159 | 31,727,159 | (150,961) |
| Balance at September 30, 2016 | 243,241,504 | 58,073,612 | 21,090,383 | 480,163 | 215,973 | 126,781,806 | 449,883,441 | 277,019 |
| **Balance at December 31, 2016** | **243,241,504** | **58,073,612** | **20,789,073** | **474,943** | **215,973** | **130,805,848** | **453,600,953** | **35,320,333** |
| **Income (loss) for the period** | | | | | | **27,710,069** | **27,710,069** | **(1,809,946)** |
| **Balance at September 30, 2017** | **243,241,504** | **58,073,612** | **20,789,073** | **474,943** | **215,973** | **158,515,917** | **481,311,022** | **33,510,387** |

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**

***(Formerly Calapan Ventures, Inc.)***

# UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

***(Amounts in Philippine Pesos)***

| | Note | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Income before income tax and noncontrolling interest | | ₱ | **42,876,981** | ₱ | 47,689,880 |
| Adjustment for: | | | | | |
| Depreciation and amortization | | | **28,172,948** | | 24,737,953 |
| Operating profit before working capital changes | | | **71,049,929** | | 72,427,833 |
| Decrease (increase) in: | | | | | |
| Receivables | | | **16,423,814** | | 13,631,514 |
| Prepayments and other current assets | | | **(1,999,643)** | | (44,199) |
| Increase (decrease) in: | | | | | |
| Accounts payable and other current liabilities | | | **(78,522,870)** | | (30,135,528) |
| Customers' deposits | | | **2,285,054** | | 1,700,013 |
| Net cash provided by operations | | | **9,236,284** | | 57,579,633 |
| Income tax paid | | | **(16,276,849)** | | (14,787,082) |
| Net cash provided by (used in) operating activities | | | **(7,040,565)** | | 42,792,551 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Additions to: | | | | | |
| Due to related parties | 6 | | **71,898** | | (1,292,661) |
| Property and equipment | | | **(17,696,808)** | | (80,379,045) |
| Net cash used in investing activities | | | **(17,624,910)** | | (81,671,706) |
| **CASH FLOW FROM A FINANCING ACTIVITY** | | | | | |
| Loan drawings (payments) | 5 | | **(15,125,748)** | | 6,298,887 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | | **(39,791,223)** | | (32,580,268) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | | **138,829,991** | | 134,163,659 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | ₱ | **99,038,768** | ₱ | 101,583,391 |

*See accompanying Notes to Consolidated Financial Statements.*

***(Amounts in Philippine Pesos)***

1. **Corporate Information**

Philippine H2O Ventures Corp. ("Parent Company") formerly Calapan Ventures Inc. was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on January 30, 2009. The common shares of the Parent Company are listed and traded in the Philippine Stock Exchange (PSE).

On August 18, 2014, the SEC approved change of name of the Parent Company from Calapan Ventures, Inc. to Philippine H2O Ventures Corp.

Philippine H2O Ventures Corp. is a subsidiary of Jolliville Holdings Corporation (JOH), a Company incorporated in the Philippines and listed in the PSE.

The consolidated financial statements include the accounts of the Philippine H2O Ventures Corp. and the following subsidiaries ("Group"):

| Name of Subsidiary | Dates of Incorporation | Percentage of Ownership |
|---|---|---|
| Calapan Waterworks Corporation (CWC) | May 23, 1991 | 99.75 |
| Group's ownership through CWC on | | |
| Metro Agoo Waterworks Inc. (MAWI) | September 17, 2012 | 84.75 |

The Parent Company was incorporated primarily to invest in, purchase, or otherwise acquire and own, hold, use, develop, lease, sell, assign, transfer, mortgage, pledge, exchange, operate, enjoy or otherwise dispose of, as may be permitted by law, all properties of every kind, nature and description and wherever situated, including but not limited to real estate, whether improved or unimproved, agricultural and natural resource projects, buildings, warehouses, factories, industrial complexes and facilities; shares of stock, subscriptions, bonds, warrant, debentures, notes, evidences of indebtedness, and other securities and obligations of any corporation or corporations, associations, domestic or foreign, for whatever lawful to pay therefore stocks, bonds, debentures, contracts, or obligations, to receive, collect, and dispose of interest, dividends, and income arising from such property; and to possess and exercise in respect thereof all the rights, powers, and privileges of ownership, including complying with the provisions of Revised Securities Act.

The principal activities of the subsidiaries are as follows:

| Name of subsidiary | Principal activity |
|---|---|
| CWC | Operates, manages and maintains the general business of development and utilization of water resources to harness, produce and supply water for domestic, municipal, agricultural, industrial, commercial or recreational purposes. |
| MAWI* | Will engage in the operation, management and maintenance of development and utilization of water resources. Also, will acquire, own, lease, construct, install, equip, operate, manage and maintain plants. |

** started operations in February 2016*

On October 23, 2002, the 12th Congress of the Republic of the Philippines enacted Republic Act No. 9185 whereby CWC was granted a franchise to construct, install, operate, and maintain for commercial purposes and in the public interest, a water supply and sewerage system for the purpose of distributing water for sale and for sanitation in the City of Calapan, province of Oriental Mindoro. The franchise is for a period of 25 years from the date of enactment. The Act took effect on February 9, 2003. CWC was also granted a Certificate of Public Convenience (CPC) by the National Water Resources Board (NWRB) on December 18, 2002 and expired on January 17, 2014. CPC was renewed in 2014 and became effective until January 17, 2018.

On October 18, 2012, the Provincial Government of La Union issued Ordinance No. 31-2012 whereby MAWI was granted a franchise to construct, install, operate, and maintain a water supply and sewerage system in Agoo, Tubao and other waterless municipalities in the second district of the province of La Union. The franchise is for a period of 25 years from the date of effectivity of ordinance. MAWI was also granted a CPC by NWRB on October 21, 2015 and will expire on October 21, 2020.

On February 2, 2016, MAWI started its commercial operations.

On December 12, 2016, CWC's BOD approved the declaration of cash dividends of ₱1 per common share, or a total of ₱117,808,839. Out of the total dividends declared, dividends attributable to the Parent Company amounting to ₱117,647,484 were converted into deposit for future stock subscription in 2016. In March 2017, Parent Company subscribed 19,577,914 CWC's common shares valued at ₱6 per share through the use of the deposit for future stock subscription

On December 29, 2016, MAWI's BOD and stockholders approved the increase of MAWI's authorized capital stock from ₱10,000,000 divided into 10,000,000 common shares with par value of ₱1 per share to ₱110,000,000 divided into 10,000,000 common shares with par value of ₱1 per share and 100,000 preferred shares with par value of ₱1,000 per share. MAWI received ₱35,000,000 from a third party as deposit for future stock subscription. Out of the total deposit received, ₱25,000,000 was applied for subscription of 25,000 preferred shares after the increase in authorized capital stock was approved by the SEC on May 25, 2017. On June 14, 2017, the remaining deposit of ₱10,000,000 was applied for subscription of 10,000 preferred shares.

The registered address of Philippine H2O Ventures Corp. is at 4th Floor 20 Lansbergh Place Bldg., 170 Tomas Morato cor. Scout Castor St., Quezon City.

## 2. **Basis of Preparation**

The consolidated financial statements of the Group have been prepared on the historical cost basis except for available-for-sale investment and certain property and equipment which are stated at appraised values. These consolidated financial statements are presented in Philippine pesos, which is the Group's functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying financial statements of the Group have been prepared in compliance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Basis of Consolidation

The consolidated financial statements include the accounts of Parent Company and the aforementioned subsidiaries (see Note 1) held directly or indirectly through wholly and majority-owned subsidiaries. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany accounts, transactions, and income and expenses and losses are eliminated upon consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Noncontrolling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity they're in. Noncontrolling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the noncontrolling interest in excess of the non-controlling interests in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover losses.

Disposals of equity investments to noncontrolling interests result in gains and losses for the Parent Company are recorded in the consolidated statements of comprehensive income. Purchase of equity shares from noncontrolling interests are accounted for as equity transaction (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and noncontrolling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid shall be recognized directly in equity.

## 3. Changes in Accounting and Financial Reporting Policies

Changes in Accounting Policies

The accounting policies adopted by the Group are consistent with those of the previous financial years except for the following amended PFRS, amended PAS and interpretations issued by IFRIC which became effective in 2016:

- PFRS 10, PFRS 12 and PAS 28, *"Investment Entities: Applying the Consolidation Exception"*
  The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with PFRS 10. Consequential amendments have also been made to PAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services

related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12 Disclosure of Interests in Other Entities.

The Parent Company, as a publicly listed entity, presents consolidated financial statements which includes all the subsidiaries of the Parent.

- PFRS 11, *"Accounting for Acquisitions of Interests in Joint Operations"*
  The amendment clarifies the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply the principles on business combinations accounting. Previously held interest in joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. Amendment does not apply when the parties sharing joint control, including the reporting entity, are under the common control of the same ultimate controlling party.

  The amendment is not applicable to the Group as it currently has no interest in a joint operation.

- PFRS 14, *"Regulatory Deferral Accounts"*
  PFRS 14 is an optional standard that allows an entity whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

  The standard did not have an impact on the Group's financial statements.

  - PAS 1, *"Presentation of Financial Statements: Disclosure Initiative"*
    The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in PAS 1 had in some cases been read to prevent the use of judgment. Certain key highlights in the amendments are follows:

    - An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
    - An entity need not provide a specific disclosure required by a PFRS if the information resulting from that disclosure is not material.
    - In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosure for the following items:

- The share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss;
- The share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

The amendments have no significant impact on the Group's financial statements.

- PAS 16, *"Property, Plant and Equipment"* and PAS 38, *"Intangible Assets: Classification of Acceptable Methods of Depreciation and Amortization"*
  The amendments clarify that revenue-based methods to calculate the depreciation of an asset is inappropriate because revenue generated by an activity that includes the use of an asset reflects factors other than the consumption of the economic benefits embodied in the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  The amendments did not have significant impact on the Group's financial statements.

- PAS 16, *"Property, Plant and Equipment"* and PAS 41, *"Agriculture": Bearer Plants*
  The amendments clarify that biological assets that meet the definition of bearer plants will be accounted for in the same way as property, plant and equipment PAS 16 *Property, Plant and Equipment*. The amendments also clarify that produce growing on bearer plants continues to be accounted under PAS 41. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

  The amendments are not applicable to the Group as it currently has no biological assets.

- PAS 27, *"Separate Financial Statements: Equity Method in Separate Financial Statements"*
  The amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply the change retrospectively. For first time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS.

  The amendments did not have an impact on the Group's financial position or performance.

*Annual Improvements to PFRS and PAS (2012-2014 Cycle)*

- PFRS 5, *"Noncurrent Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal"*
  The amendment clarifies the accounting for a change in a disposal plan from a plan to sell to a plan to distribute a dividend in kind to its shareholders (or vice versa) when an entity reclassifies an asset (or disposal group) directly from one method of disposal to other should not be considered a new plan rather as a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change date of classification.

This amendment is not applicable to the Group as it has no noncurrent assets held for sale and discontinued operations.

- PFRS 7, *"Financial Instruments: Disclosure – Servicing Contracts"*
  This amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity is required to disclose any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will be applied retrospectively. An entity that first applies the amendments is not required to provide comparative disclosures for any period beginning before the annual period of first application.

  This amendment did not have significant impact on the Group's financial statements.

- PFRS 7, *"Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements"*
  The amendment clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report. This amendment is applied.

  This amendment did not have significant impact on the Group's financial statements.

- PAS 19, *"Employee Benefits": Regional Market Issue Regarding Discount Rate*
  This amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of market for high quality corporate bonds should be assessed at currency level).

  The amendment did not have significant impact on the Group's financial statements.

- PAS 34, *"Interim Financial Reporting" Disclosure of information 'elsewhere in the Interim Financial Report"*

  These amendments clarify that an entity discloses information elsewhere in the interim financial report when it incorporates disclosures by cross-reference to information in another statement and wherever they are included within the greater interim financial report (e.g., management commentary or risk report).

  This amendment did not have significant impact on the Group's financial statements.

<u>New Accounting Standards, Amendments to Existing Standards Annual Improvements and Interpretations Effective Subsequent to December 31, 2016</u>
The standards, amendments, annual improvements and interpretations which have issued but are not yet effective are discussed below and in the subsequent pages. The Group will adopt these standards, amendments and annual improvements and interpretations when these become effective and applicable to the Group. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards, annual improvements and interpretations to have a significant impact on its financial statements.

<u>*Effective in 2017*</u>
- PAS 7, *"Cash Flow Statements": Disclosure Initiative*
  The amendments require the entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The specific disclosure that may be necessary in order to satisfy the above requirement includes:

- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and
- a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The Group does not expect that the amendments will have significant impact on the financial statements.

- PAS 12, *"Income Taxes": Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments in recognition of deferred tax assets for unrealized losses clarify the requirements on recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. This amendment is effective for annual period beginning on or after January 1, 2017, with earlier application permitted. As transition relief, an entity may recognize the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity.

  The Group does not expect that the amendments will have significant impact on the financial statements.

*Effective in 2018*
PFRS 9, *"Financial Instruments: Classification and Measurement"*
PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI.

The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. The Group is currently assessing the impact of this new standard to its financial statements.

This is not expected to have a significant impact on the Group's financial statements.

*Effective in 2019*

PFRS 16, *"Leases"*

On January 13, 2016, the International Accounting Standards Board (IASB) issued its new standard, which later on adopted by FRSC, PFRS 16, Leases, which replaces PAS 17, the current leases standard, and the related Interpretations. Under the new standard (renamed as PFRS 16), lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statements of financial position, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group plans to adopt the new standard on the required effective date. It is currently assessing the impact of the new standard and expects it to significantly impact its lease arrangements wherein the Group is a lessee as it will already recognize the related assets and liabilities in its statements of financial position.

*Deferred*

- Philippine Interpretation IFRIC 15, *"Agreements for the Construction of Real Estate"*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Currently, the Group has no activities to which this interpretation will apply.

- PFRS 10, *"Consolidated Financial Statements"* and PAS 28, *"Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that full gain or loss is recognized when a transaction involves a business (whether it is a housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  The amendments do not have an impact on the Group's financial position or performance as it currently has no such transaction. The Group will accordingly recognize the effect of sale or contribution of assets under the amended standards when such transaction exists.

Standards adopted by the Philippines FRSC but not yet been approved by the Board of Accountancy (BOA)

- Amendments to PFRS 2, *"Classification and Measurement of Share-based Payment Transactions"* – effective beginning on or after January 1, 2018
- Amendments to PFRS 4, *"Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts"* – effective beginning on or after January 1, 2018
- PFRS 15, *"Revenue from Contracts with Customers"* – effective beginning on or after January 1, 2018
- Amendments to PFRS 15, *"Clarifications to PFRS 15"* – effective beginning on or after January 1, 2018
- *Annual Improvements to PFRSs 2014 to 2016 Cycle*
  - Amendments to PFRS 1, *"Deletion of Short-term Exemptions for First-time Adopters"* – effective beginning on or after January 1, 2018
  - Amendments to PFRS 12, *"Clarification of the Scope of the Standard"* – effective beginning on or after January 1, 2017
  - Amendments to PAS 28, *"Measuring an Associate or Joint Venture at Fair Value"* – effective beginning on or after January 1, 2018
- Amendments to PAS 40, *"Transfers of Investment Property"* – effective beginning on or after January 1, 2018
- Philippine Interpretation IFRIC 22, *"Foreign Currency Transactions and Advance Consideration"*– effective beginning on or after January 1, 2018

The Group will continue to assess the relevance and impact of the above standards, amendments to standards and interpretations. The revised disclosures on the financial statements required by the above standards and interpretations will be included in the Group's financial statements when these are adopted.

## 4. **Summary of Significant Accounting and Financial Reporting Policies**

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefit associated with the transactions will flow to the Group and the amount can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- *Water service revenues* are recognized when the related water services are rendered.
- *Sale of goods* is recognized upon delivery of goods sold, and the transfer of risks and rewards to the customer has been completed.
- *Financial income* is recognized on a time proportion basis that reflects the effective yield on the asset.
- *Other income* is recognized when the related income/service is earned.

Cost and Expense Recognition

Cost and expenses are recognized upon utilization of the service or at the date they are incurred. Except for borrowing costs attributable to qualifying assets, all finance costs are recognized in the consolidated statements of comprehensive income.

Value Added Tax (VAT)

Revenues, expenses and assets are recognized, net of the amount of VAT, except when VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Prepayments and other current assets" or "Accounts payable and other current liabilities" in the consolidated statements of financial position.

Fair Value Measurement

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

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

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the 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. 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 assets or liability and the level of the fair value hierarchy.

Cash and cash equivalents

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

Financial Assets and Liabilities

*Recognition*

The Group recognizes a financial asset or liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

*Determination of Fair Value*
Fair value is determined by preference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value model where the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for a similar instruments with similar maturities. Other valuation techniques include comparing to similar instruments for which market observable prices exist; recent arm's length market transaction; option pricing model and other relevant valuation models.

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: financial assets and liabilities at FVPL, loans and receivables, held-to-maturity investments, and available-for-sale financial assets as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification at initial recognition and, where allowance is appropriate, re-evaluates this designation at every reporting date.

As of September 30, 2017 and December 31, 2016, the Group has financial assets under loans and receivables and available-for-sale financial assets and financial liabilities under other financial liabilities.

- *Loans and Receivables*
  Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Such assets are carried initially at cost or at amortized cost subsequent to initial recognition in the consolidated statements of financial position. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the end of financial reporting period. Otherwise, these are classified as noncurrent assets.

  Classified under this category are the Group's cash and cash equivalents, receivables, due from related parties, utilities and other deposits under prepayments and other current assets account and special bank deposits and reserve fund under other noncurrent assets account.

- *Available-for-Sale (AFS) Financial Assets*
  AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the other categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of comprehensive income. The fair value of investments that are actively traded in organized financial market is determined by reference to quoted market bid prices at the close of business on the end of financial reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm's length market transaction; reference to the current market value of another instrument which is substantially the same; discounted cash flows analysis and option pricing models.

Classified under this category are the Group's mutual fund managed by an insurance company.

- *Other Financial Liabilities*
  This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations and borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

  This category includes accounts payable and other current liabilities, due to related parties, loans payable, and customers' deposits.

*Impairment of Financial Assets*
The Group assesses at end of each financial reporting period whether a financial asset or group of financial assets is impaired.

*Assets Carried at Amortized Cost*
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the Group's consolidated statements of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and group of financial asset is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*Assets Carried at Cost*
If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

*AFS Financial Assets*
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statements of comprehensive income, is transferred from Statements of changes in equity to the consolidated statements of comprehensive income. Reversals in respect of equity instruments classified as AFS

financial assets are not recognized in the consolidated statements of comprehensive income. For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment is removed from consolidated statements of changes in equity and recognized in the consolidated statements of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statements of comprehensive income; increases in their fair value after impairment are recognized directly in statements of changes in equity.

*<u>Derecognition of Financial Assets and Liabilities</u>*
*Financial assets*
A financial asset is derecognized when (1) the rights to receive cash flows from the financial instruments expire, (2) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or (3) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where the 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 consolidated statements of comprehensive income.

*<u>Offsetting Financial Instruments</u>*
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

<u>Prepayments and Other Current Assets</u>
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises the following:

- *Input tax* is recognized when an entity in the Group purchases goods or services from a VAT-registered supplier. This account is offset, on a per entity basis, against any output tax previously recognized.

- *Prepaid rent and other expenses* are apportioned over the period covered by the payment and charged to the appropriate account in the consolidated statements of comprehensive income when incurred.
- *Creditable withholding tax* is deducted from income tax payable in the same year the revenue was recognized.

Prepayments and other assets that are expected to be realized for no more than 12 months after the reporting period are classified as current assets. Otherwise, these are classified as other noncurrent assets.

Property and Equipment

Land and building and improvements is carried at appraised values as determined by an independent firm of appraisers on January 15, 2016. The appraisal increment resulting from the revaluation was credited to "Revaluation Surplus in Property and Equipment" shown under "Equity" section in the consolidated statements of financial position. Other property and equipment are carried at cost less accumulated depreciation, amortization and any allowance for impairment in value.

Initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable cost of bringing the assets to its working condition and location for its intended use. Expenses incurred and paid after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income when the costs are incurred.

In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | Years |
|---|---|
| Land improvements | 20 |
| Water utilities and distribution system | 5 – 50 |
| Building and improvements | 25 |
| Office furniture and equipment | 5 |
| Transportation equipment | 5 |
| Leasehold improvements | 10 |

Leasehold improvements are amortized over the estimated useful life of the assets or the term of the lease, whichever is shorter.

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

Construction in Progress included in the property and equipment is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in Progress is not depreciated until such time as the relevant assets are completed or installed and put into operational use.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts, and any gain or loss resulting from their disposal is credited or charged to current operations.

Investment in an Associate
The Group carries its investment in an associate at cost, increased or decreased by the Group's equity in net earnings or losses of the investee company and reduced by dividends received.

An associate is an entity over which the Parent Company is in a position to exercise significant or joint control, through participation in the financial and operating policy decision of the investee company, generally accompanying a shareholding between 20% to 50% of the voting rights, but which are neither subsidiaries nor interests in joint venture.

Impairment of Non-financial Assets
The carrying values of long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs.

Impairment losses are recognized in the consolidated statements of comprehensive income in the period in which it arises unless the asset is carried at a revalued amount in which case the impairment is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates 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.

A reversal of an impairment loss is credited to current operations.

Customers' Deposits
Customers' deposits are noninterest-bearing cash reservation fees received from the Group's customers for sales that do not meet the revenue recognition criteria (i.e., transfer of risk and rewards to customers through actual delivery of merchandise or services) as at reporting date. Customers' deposits will be applied against future rendition of services which are generally completed within the next twelve months or will be returned to customers in case of cancellation of reservation.

Employee benefits

- *Short-term benefits*
  Short-term employee benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the accounting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments. Short-term benefits given by the Group to its employees include salaries and wage, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

- *Retirement benefits*
  Retirement benefits liability, as presented in the consolidated statements of financial position, 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, adjusted for the effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method. The retirement benefit costs comprise of the service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

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

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

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

<u>Related Party Transactions and Relationships</u>
Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) and, individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

<u>Equity</u>
- *Capital* stock is determined using the nominal value of shares that have been issued.

- *Additional paid-in capital* includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

- *Revaluation surplus* accounts for the excess of the fair market value over the carrying amounts of Land included under the "Property and equipment" account. Any appraisal decrease is first offset against appraisal increment on earlier revaluation with respect to the same property and is thereafter charged to operations.

- *Fair value gain on available-for-sale* investment accounts are the excess of the fair market value over the cost of investments. When fluctuation is deemed permanent, the gain or loss resulting from such fluctuation will be reversed and charged to profit and loss in the year that the permanent fluctuation is determined.

- *Retained earnings* include all current and prior period net income less any dividends declared as disclosed in the consolidated Statements of changes in equity.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs incurred during the construction period on loans and advances used to finance construction and property development are capitalized as part of construction and development costs included under "Property and Equipment" account in the consolidated statements of financial position. 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 substantially all the activities necessary to prepare the asset for its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

All other borrowing costs are charged to operation in the period in which they are incurred.

Leases

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Assets held under finance lease are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rental are recognized as expense in the periods in which they are incurred.

Rental expense under operating leases is charged to profit or loss on a straight-line basis over the term of the lease.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Income Taxes

Income taxes represent the sum of current year tax and deferred tax.

The current year tax is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted at the end of financial reporting period.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of financial reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes and carryforward benefits of net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured using the tax rate that is expected to apply to the period when the asset is realized or the liability is settled.

The carrying amount of deferred tax assets is reviewed at end of each financial reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Income tax relating to items recognized directly in equity is recognized in equity and other comprehensive income.

<u>Earnings per Share (EPS)</u>
EPS is determined by dividing net profit for the year by the weighted average number of shares outstanding during the year including fully paid but unissued shares as of the end of the year, adjusted for any subsequent stock dividends declared. Diluted earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares. The Group has no existing dilutive shares.

<u>Provisions</u>
Provisions are recognized only when the following conditions are met: a) there exists a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and, c) reliable estimate can be made of the amount of the obligation. Provisions are reviewed at end of each financial reporting period and adjusted to reflect the current best estimate.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable.

<u>Events after the End of Financial Reporting Period</u>
Post year-end events that provide additional information about the Group's position at the end of financial reporting period (adjusting events) are reflected in the Group's consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

<u>Management's Use of Judgments and Estimates</u>
The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial

statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. The effect of any changes in estimates will be recorded in the Group's financial statements when 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 which have the most significant effect on the amounts recognized in the consolidated financial statements:

- *Assessment of Classification of Financial Instruments*
  The Group classifies a financial instrument, or its components parts, on initial recognition financial liability or an equity instrument in accordance with the substance of the contractual definitions of a financial asset, a financial liability or an equity instrument. The substance rather than its legal form, governs its classification in the consolidated statements of financial position.

- *Determination of Fair Value of Financial Instruments*
  PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of extensive accounting estimates and judgments. While significant components of fair value measurement are determined using verifiable objective evidence (i.e. interest rates, volatility rate), 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 liabilities would directly affect income and equity.

- *Determination of Control*
  The Group determines control when it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the equity. The Group controls an entity if and only if the Group has all of the following:

  a. Power over the entity;
  b. Exposure, or rights, to variable returns from its involvement with the entity; and,
  c. The ability to use its power over the entity to affect the amount of the Group's returns.

  The Group regularly reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

- *Determination of Operating Lease Commitments*
  The Group assesses at the inception of the lease whether the arrangement is a finance or operating lease based on who bears substantially all the risks and benefits incidental to ownership of the leased item. The Group as a lessee has entered into a lease contract for its office where it has determined that the risks and rewards related to the property are retained by the lessor. As such, the agreement is accounted for as operating lease.

- *Provision for Contingencies*
  The Group is currently involved in 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 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 effect on its financial position and results of operations. It is possible, however, that future results of operation could be materially affected by changes or in the effectiveness of strategies relating to these proceedings.

*Estimates*

The key assumptions concerning the future and other sources of estimation uncertainty at the end of financial reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- *Impairment on Receivables*
  The Group maintains allowances for impairment losses on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. The factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for receivables that it deems uncollectible. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

- *Impairment of AFS investment*
  If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss, is transferred from the "Revaluation reserve" account to profit or loss and presented as a reclassification adjustment within other comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in profit or loss. Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after impairment loss was recognized.

- *Fair Value of Property and Equipment*
  The Group's property and equipment which include parcels of land and building are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

- *Useful Lives of Property and Equipment*
  Useful lives of property and equipment are estimated based on the period over which these assets are expected to be available for use. Such estimation is based on a collective assessment of industry practice, 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. Any reduction in the estimated useful lives of property and equipment would increase the Group's recorded operating expenses and decrease on the related asset accounts.

- *Impairment of Non-Financial Assets*
  Impairment review is performed when certain impairment indicators are present. Such indicators would include significant changes in asset usage, significant decline in market value and obsolescence or physical damage on an asset. If such indicators are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Determining the net recoverable value 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 financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

- *Determination of Retirement and Other Benefits*
  The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts. The assumptions for pension costs and other retirement benefits and include among others, discount and salary increase rates. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Group's pension and other retirement obligations. The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availment of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

- *Recoverability of Deferred Tax Assets*
  The carrying amount of deferred tax assets is reviewed at each end of financial reporting period 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. Management expects future operations will generate sufficient taxable profit that will allow all or part of the deferred income tax assets to be utilized.

## 5. **Loans Payable**

The following discussion pertains to the Group's loans:

a. In 2005, CWC entered into a loan agreement with local bank for the rehabilitation, expansion and improvement of its waterworks system for ₱137.0 million payable in fifteen (15) years inclusive of a maximum of two years grace period on principal. Interest is fixed at 10.5% per annum, reviewable and subject to adjustment annually thereafter but not to exceed 15% per annum. CWC was able to negotiate the interest rate at 6.25% in 2017 and 2016.

   *Debt Covenant*
   CWC executed a Deed of Assignment relative to the loan, in favor of the bank of (a) a portion of CWC's Reserve Fund (via Savings or Other Investment Account) equivalent to

two monthly interest amortization during the grace period, to increase to two monthly principal and interest amortization after the grace period onwards; and (b) billed water/receivables until the amount of the loan is fully paid. The Reserve Fund shall be maintained for CWC's expenses for maintenance, operation and emergency fund.

Also, CWC mortgaged certain property and equipment situated in Calapan, Oriental Mindoro in favor of the bank.

b. In 2014, CWC entered into another loan agreement with a local bank amounting to ₱118.2 million payable in ten (10) years with an annual interest rate of 6%. The proceeds of the loan will be used exclusively to finance water source development, acquisition of the three (3) sets electro-mechanical equipment, site and land equipment, construction of a high ground reservoir and expansion of its waterworks system.

c. In 2015, MAWI entered into a loan agreement with a local bank to partially finance the Phase 1 of the proposed improvement and expansion of its water supply system for ₱280.0 million payable in fifteen (15) years inclusive of a maximum of two (2) years grace period on principal. Initial interest is fixed at 6.78% per annum reviewable and subject to adjustment.

*Debt Covenant*
MAWI executed a Deed of Assignment relative to the loan, in favor of the bank of (a) a portion of MAWI's Reserve Fund equivalent to at least 5% of its monthly revenue and shall be effective only after six (6) months from the date of commercial operation; and (b) billed water services until the amount of the loan is fully paid. The said Reserve Fund is subject to a hold-out provision equivalent to at least one (1) quarterly amortization due under this agreement.

Also, MAWI entered in to a Deed of Undertaking and Deed of Trust to constitute (a) within six (6) months from the date of full release of loan a real estate mortgage over all real properties, together with improvements to be acquired out of the total proceeds of the loan; (b) to increase its authorized capital stock and paid up capital within one (1) year of loan availment to at least ₱45.0 million and within two (2) years from the date of full release of loan to at least ₱92.0 million; and (c) a chattel mortgage over property and equipment to be acquired under the loan agreement.

Loans payable balance amounted to ₱342,698,827 and ₱357,824,575 as of September 30, 2017 and December 31, 2016, respectively.

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## 6. **Related Party Transactions**

The Group has the following transactions with related parties:

a. Unsecured and non-interest bearing cash advances with related parties for investing and working capital purposes. Also, the Group availed unsecured and non-interest bearing cash advances from its major stockholder and affiliate for the acquisition of operating machinery and equipment. Settlements of these advances are made in cash.

b. Management and consultancy agreement with an affiliate renewable annually upon such terms and conditions as may be mutually agreed upon by both parties.

c. Lease of office space from an affiliate for a period of one year, renewable upon mutual agreement of both parties.

d. Service agreement with an entity under common/shared ownership for the operations and maintenance of the water system facilities located in Agoo, La Union for a period of three years, renewable upon mutual agreement of both parties.

e. In 2014, CWC entered into a construction agreement with an entity under common/shared ownership where the latter agreed to complete the execution and completion of Phase 1 of 2014 Expansion Program. Total contract price of the project amounted to ₱162.0 million.

f. In 2015, MAWI entered into a construction agreement with a related entity where the latter agreed to complete the execution and completion of Phase 1 of the Agoo Water System for a contract price of ₱313.7 million.

## 7. Income Taxes

The provision for income tax differs from the amount computed by applying the statutory income tax rate to income before income tax due mainly to interest income already subjected to final tax at a lower rate.

The deferred tax assets represent the tax consequences of NOLCO, retirement benefit obligation, and allowances for impairment losses and excess MCIT over RCIT.

The deferred tax liability pertains to tax consequences of capitalized borrowing costs and appraisal increase in land under property and equipment.

## 8. Earnings Per Share (EPS)

EPS is computed as follows:

| | For the Nine Months Ended September 30 | |
|---|---|---|
| | **2017** | 2016 |
| Net income attributable to the equity holders of the parent | **₱27,710,069** | ₱31,727,159 |
| Divided by weighted average number of common shares | **243,241,504** | 243,241,504 |
| | **₱0.1139** | ₱0.1304 |

There were no potential dilutive shares in 2017 and 2016.

***MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION***

**Financial Position (Balance Sheet)**

Total assets decreased by 5.41% or about ₱65.74 million to ₱1,149,957,993 as of September 30, 2017. The decrease can be attributed to the collection of receivables and depreciation of property and equipment.

Cash and cash equivalents decreased by ₱39,791,223 mainly due to settlement of payables to suppliers and contractor.

Receivables decreased by 13.45% or ₱16,423,814 mainly due to collection.

Due from related parties decreased by 6.35% and amounted to ₱15,536,198 due to collection from affiliates.

Prepayments and other current assets increased by 99.49% to ₱4,009,486 primarily due to prepaid expenses and input VAT.

Available-for-sale investment, investment in an associate, deferred tax assets, and other noncurrent assets were unchanged from their balances as of September 30, 2017.

The property and equipment account decreased by ₱10,476,140 or 1.15%, mainly due to depreciation.

Accounts payable and other current liabilities decreased by 26.18% from ₱299,990,011 as of December 31, 2016 to ₱221,467,141 as of September 30, 2017. Much of this was due to settlements made to suppliers and contractor.

Current portion of loans payable increased by 13.38% from ₱21,108,950 as of December 31, 2016 to ₱23,932,805 as of September 30, 2017. Current portion of loans payable pertains to principal amortizations that will become due within twelve (12) months from the financial reporting date.

Due to related parties account balance decreased by ₱980,733 or 7.48% due to payment to affiliates.

The income tax liability as of December 31, 2016 was paid in April 2017. The income tax liability as of September 30, 2017 pertains to the accrual of income tax due for the third quarter of 2017.

Noncurrent portion of loans payable decreased by ₱17,949,603 which pertains principal amortizations that became currently due.

Retirement benefit obligation and deferred tax liabilities were unchanged from year-end.

Customers' deposits, which mainly pertains to additional water meter maintenance, increased by 12.25% or ₱2,285,054.

Noncontrolling interest represents the share of noncontrolling shareholders in the net assets of CWC and MAWI. The change in this account represents the share of noncontrolling shareholders in the results of operations for this period.

**Results of Operations**

Water service revenues grew due to the increase in number of service connections from 16,625 subscribers in September 2016 to 19,535 subscribers in September 2017. Revenues grew by ₱9,546,803 or 5.79% from ₱164,881,598 to ₱174,428,401 for the nine months ended September 30, 2017 vis-à-vis last year.

Cost of services increased by 2.97% or ₱2,106,987 primarily due to higher depreciation expense and utilities expense during the period.

Total amount of operating expenses was higher this year by ₱1,108,670 mainly due to higher salaries and wages and higher taxes and licenses.

Net other charges increased by ₱11,144,045 for the period. The increase was mainly attributed to interest charges on MAWI loans with a local bank, portion of which was capitalized last year.

Total comprehensive income decreased by 17.98%, or ₱5,676,075, primarily due to incurred losses from MAWI operation.

Noncontrolling interest represents noncontrolling stockholders' share in the net income or loss of CWC and MAWI. The fluctuation in this account is tied-in to the operating results of CWC and MAWI and to the Parent Company's overall ownership in the former.

**Liquidity and Solvency**

The Group's cash balance decreased from end-2016 of ₱138.83 million to ₱99.04 million as of September 30, 2017. The decrease for this period was the result of payments of obligations mentioned earlier.

The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and serve its maturing obligations. The objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Group manages liquidity by maintaining adequate reserves through advances from related parties and loan facilities with local banks. Further, its strong relations with suppliers and creditors enable the Group to negotiate and stretch credit terms. It may also be worth mentioning that payment terms of accounts with related parties have no definite call dates. The retirement benefit obligation and deferred tax liabilities may also be regarded as provisions and are not due immediately.

**Dividends**

No dividends were declared in the years 2017 and 2016.

**Issuances, Repurchases, and Repayments of Debt and Equity Securities**

None

**Events that will trigger Direct or Contingent Financial Obligation that is Material to the Group, including any Default or Acceleration of an Obligation**

None

**Material Off-Balance Sheet Transactions, Arrangements, Obligations (including Contingent Obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons created during the Reporting Period**

None

**Known Trends, Demands, Commitments, Events or Uncertainties that will have a Material Impact on Liquidity or that are reasonably expected to have a Material Favorable or Unfavorable Impact on Net Sales/Revenues/Income from Continuing Operations**

None

**Cause for any Material Change from period to period which shall include Vertical and Horizontal Analyses of any Material Item**

This is already incorporated in the discussion under "Results of Operations" and "Financial Position".

**Seasonal Aspects that has a Material Effect on the Financial Statements**

None

**Material Commitments for Capital Expenditures, General Purpose of such Commitments, Expected Sources of Funds for such Expenditures**

Calapan Waterworks Corporation is currently undertaking Phase I of its expansion program in Calapan City. Phase I involves development of three new water production facilities, installation of storage facilities for the water system, and pipe laying of additional distribution lines. Phase I is estimated to cost about ₱150 million, about ₱120 million will be financed through bank borrowings while the balance will be funded through internally generated funds.

**Any Significant Elements of Income or Loss that did not arise from Continuing Operations**

None

**Financial Risk Disclosure**

Please refer to Note 4 of the Notes to Consolidated Financial Statements for the description, classification and measurements applied for financial instruments of the Group.

The main purpose of the Group's financial instruments is to fund the Group's operations and to acquire and improve property and equipment. The main risks arising from the use of financial instruments are liquidity risk, interest rate risk and credit risk. The Group's BOD reviews and agrees with policies for managing each of these risks. These are summarized below:

*Liquidity risk*
The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and serve its maturing obligations. The Group's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

*Credit risk*
Credit risk refers to the risk that a customer/debtor will default on its contractual obligations resulting in financial loss to the Group. The Group controls this risk through regular coordination with the customers. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group also controls this risk by cutting its services and refusal to reconnect until the customer's account is cleared or paid.

The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

*Interest rate risk*
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term borrowings. The Group's policy is to minimize interest rate cash flow risk exposures. Long-term borrowings are therefore usually at agreed interest rates.

**Philippine H2O Ventures Corp.**

**Schedule of Financial Indicators**

| KEY PERFORMANCE INDICATORS | | | SEPTEMBER 2017 | SEPTEMBER 2016 |
|---|---|---|---|---|
| **I PROFITABILITY** | | | | |
| ***Return on Total Assets*** | ROA= | NI+ {(interest exp x (1-tax rate)} | 35,377,677 | 33,374,423 |
| | | Ave. Total Assets | 1,182,830,076 | 1,164,062,391 |
| It measures efficiency of the Group in using its assets to generate net income. | | | 0.0299 | 0.0287 |
| ***Return on Equity*** | ROE= | Annual Net Income | 25,900,123 | 31,576,198 |
| | | Ave. Stockholder's Equity | 501,871,348 | 434,372,361 |
| It is a measure of profitability of stockholders' investments. It shows net income as percentage of shareholder equity. | | | 0.0516 | 0.0727 |
| ***Water Revenue per Subscriber*** | WRS= | Water Revenue | 174,428,401 | 164,881,598 |
| | | Ave. No. of Water Subscribers | 18,712 | 16,048 |
| Measures how well service and facilities improvements have influence consumer's usage | | | 9,322 | 10,274 |
| **II FINANCIAL LEVERAGE** | | | | |
| ***Debt Ratio*** | Debt Ratio= | Total Liabilities | 635,136,584 | 715,979,674 |
| | | Total Assets | 1,149,957,993 | 1,166,140,134 |
| It is a solvency ratio and it measures the portion of the assets of a business which are financed through debt. | | | 0.5523 | 0.6140 |
| ***Debt to Equity Ratio*** | Debt to Equity= | Total Liabilities | 635,136,584 | 715,979,674 |
| | | Shareholder's Equity | 514,821,409 | 450,160,460 |
| It measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business. | | | 1.2337 | 1.5905 |
| **III MARKET VALUATION** | | | | |
| ***Price to Book Ratio*** | PB ratio= | Market value/share | 6.10 | 3.44 |
| | | Book value/share | 2.12 | 1.85 |
| Relates the Group's stock to its book value per share | | | 2.88 | 1.86 |

Below is the aging analysis of receivables:

| | September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Current | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| Trade | ₱13,898,696 | ₱632,669 | ₱231,418 | ₱13,077,866 | ₱27,840,649 |
| Advances and nontrade | 356,344 | 4,053 | 5,768 | 77,460,777 | 77,826,942 |
| Total | ₱14,255,040 | ₱636,722 | ₱237,186 | ₱90,538,643 | ₱105,667,591 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Current | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| Trade | ₱11,796,631 | ₱447,988 | ₱312,146 | ₱13,670,424 | ₱26,227,189 |
| Advances and nontrade | 15,000 | 124,988 | 4,720 | 95,719,508 | 95,864,216 |
| Total | ₱11,811,631 | ₱572,976 | ₱316,866 | ₱109,389,932 | ₱122,091,405 |

**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**
**(A Subsidiary of Jolliville Holdings Corporation)**

**SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017**
***(Amounts in Philippine Pesos)***

| | |
|---|---|
| Beginning Unappopriated Retained Earnings | ₱ 145,923,400 |
| Less: Net loss during the period | 1,444,849 |
| Retained Earnings Available for Dividend Declaration | ₱144,478,551 |

**PHILIPPINE H2O VENTURES CORP. AND SUBSIDIARIES**
***(Formerly Calapan Ventures Inc.)***

**SUMMARY OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS**
**AS OF SEPTEMBER 30, 2017**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | | | |
| **PFRSs Practice Statement Management Commentary** | | | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Annual Improvements (2009-2011 Cycle): Repeated Application of PFRS 1 | | | ✓ |
| | Annual Improvements (2009-2011 Cycle): First-time Adoption of PFRS – Borrowing Cost | | | ✓ |
| | Annual Improvements (2011-2013 Cycle): First-time Adoption of PFRS – Meaning of Effective PFRS | | | ✓ |
| | Annual Improvements to PFRSs 2014 to 2016 Cycle: Amendments to PFRS 1 – Deletion of Short-term Exemption for First-time Adopters* | | ✓ | |
| **PFRS 2** | Share-based Payment | | | ✓** |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓** |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓** |
| | Annual Improvements (2010-2012 Cycle): Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* | | ✓ | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Annual Improvements (2010-2012 Cycle): Accounting for Contingent Consideration in a Business Combination | | | ✓** |
| | Annual Improvements (2011-2013 Cycle): Scope Exceptions for joining Arrangements | | | ✓** |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* | | ✓ | |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓** |
| | Annual Improvements (2012-2014 Cycle): Noncurrent Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal | | | ✓** |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓** |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓** |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | | | ✓** |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | | | ✓** |
| | Annual Improvements (2012-2014 Cycle): Servicing Contract | | | ✓** |
| | Annual Improvements (2012-2014 Cycle): Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓** |
| **PFRS 8** | Operating Segments | ✓ | | |
| | Annual Improvements (2010-2012 Cycle): Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | | ✓ | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 9** | Financial Instruments | ✓ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ✓** |
| | Amendments to PFRS 9: Financial Instruments – Classification and Measurement* | | ✓ | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments for Investment Entities | | | ✓** |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities - Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 10: Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate and Joint Venture | | | ✓ |
| **PFRS 11** | Joint Arrangements | | | ✓** |
| | Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓** |
| **PFRS 12** | Disclosure of Interests in Other Entities | | | ✓** |
| | Amendments for Investment Entities | | | ✓** |
| | Annual Improvements to PFRSs 2014 to 2016 Cycle: Amendments to PFRS 12 – Clarification of the Scope of the Standard* | | ✓ | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Annual Improvements (2010-2012 Cycle): Short-term Receivables and Payables | ✓ | | |
| | Annual Improvements (2011-2013 Cycle): Portfolio Exception | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓** |
| **PFRS 15** | Revenue from Contracts with Customers* | | ✓ | |
| | Amendments to PFRS 15: Clarifications to PFRS 15* | | ✓ | |
| **PFRS 16** | Leases* | | ✓ | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓** |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Annual Improvements (2009-2011 Cycle): Clarification of the Requirements for Comparative Information | ✓ | | |
| | Amendment to PAS 1: Presentation of Financial Statements – Disclosure Initiative | | | ✓** |
| **PAS 2** | Inventories | | | ✓** |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiative* | | ✓ | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✓** |
| | Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses* | | ✓ | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Annual Improvements (2009-2011 Cycle): Classification of Servicing Equipment | | | ✓** |
| | Annual Improvements (2010-2012 Cycle): Revaluation Method – Proportionate Restatement of Accumulated Depreciation | | | ✓** |
| | Amendment to PAS 16: Property, Plant and Equipment – Classification of Acceptable Methods of Depreciation | | | ✓** |
| | Amendment to PAS 16: Property, Plant and Equipment – Bearer Plants | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19 – Defined Benefit Plans: Employee Contributions | | | ✓** |
| | Annual Improvements (2012-2014 Cycle): Regional Market Issue Regarding Discount Rate | | | ✓** |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓** |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | | | ✓** |
| | Amendment: Net Investment in a Foreign Operation | | | ✓** |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓** |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Annual Improvements (2010-2012 Cycle): Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| | Amendments in Investment Entities | | | ✓** |
| | Amendment to PAS 27 - Separate Financial Statements: Equity Method in Separate Financial Statements* | | | ✓** |
| **PAS 28** | Investments in Associates | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | ✓** |
| | Annual Improvements to PFRSs 2014 to 2016 Cycle: Amendments to PAS 28 – Measuring an Associate or Joint Venture at Fair Value* | | ✓ | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓** |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓** |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓** |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | | ✓** |
| | Annual Improvements (2009-2011 Cycle): Presentation – Tax effect of Distribution to Holders of Equity Instruments | | | ✓** |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓** |
| | Annual Improvements (2009-2011 Cycle): Interim Financial Reporting and Segment Information for | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Total Assets and Liabilities | | | |
| | Annual Improvements (2012-2014 Cycle): Disclosure of information elsewhere in the Interim Financial Report* | | ✓ | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments arising from Recoverable Amount Disclosures for Non-Financial Assets | | | ✓** |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓** |
| | Annual Improvements (2010-2012 Cycle): Revaluation Method – Proportionate Restatement of Accumulated Amortization | | | ✓** |
| | Amendment to PAS 38: Intangible Assets – Classification of Acceptable Methods of Amortization | | | ✓** |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓** |
| | Amendments to PAS 39: The Fair Value Option | | | ✓** |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓** |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓** |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | | | ✓** |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓** |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓** |
| | Amendment to PAS 39: Novations of Derivatives and Continuation of Hedge Accounting | | | ✓** |
| **PAS 40** | Investment Property | | | ✓** |
| | Annual Improvements (2011-2013 Cycle): Investment Property | | | ✓** |
| | Amendments to PAS 40: Transfers of Investment Property* | | ✓ | |
| **PAS 41** | Agriculture | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓** |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓** |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓** |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✓** |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓** |
| **IFRIC 12** | Service Concession Arrangements | | | ✓** |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓** |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓** |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | | | ✓** |
| **IFRIC 15** | Amendments to Philippine Interpretations IFRIC- 15, Agreements for Construction of Real Estate | | ✓ | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓** |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓** |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓** |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓** |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓** |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration* | | ✓ | |
| **SIC-7** | Introduction of the Euro | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓** |
| **SIC-15** | Operating Leases - Incentives | | | ✓** |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓** |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓** |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓** |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓** |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓** |

*These are effective subsequent to December 31, 2016
**Adopted but no significant impact.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **PHILIPPINE H2O VENTURES CORP.**

FOR THE REGISTRANT

Chief Executive Officer: **JOLLY L. TING**

Signature and Title: ______________________________

Chief Executive Officer

Chief Financial Officer: **ORTRUD T. YAO**

Signature and Title: ______________________________

Chief Financial Officer

Date: November 9, 2017

# ANNEX B

## MANAGEMENT REPORT

The information herein should be read in conjunction with, and is qualified in its entirely by reference to, the consolidated financial statements and related notes thereto contained in this Report.

### Short Background of Business of Registrant

Philippine H2O Ventures Corp. ("H2O" or the "Company") through its subsidiary companies has principal business interests in a local waterworks system.

*Calapan Waterworks Corporation ("CWWC" or "Calapan Water")*, a subsidiary of H2O, owns, operates, and manages the water works system of Calapan City, Oriental Mindoro. It is one of the few privately owned water systems in the country today. Within its franchise area, it has no competitor and there is no known oppositor to its franchise. The franchise has a term of 25 years that started on February 9, 2003. The franchise shall be deemed by the fact itself revoked in the event Calapan Water fails to implement fully its medium-term development plan submitted to Congress in support of its application for the franchise. Calapan Water has been H2O's wholly-owned subsidiary since March 31, 2009.

Last October 1, 2006, Calapan Water formally took over the operation of the water system of the Municipality (now a City) of Tabuk, the capital of Kalinga Province. Calapan Water's role is to operate and maintain the water system for a period of 15 years initially, extended by 10 more years, for a total of 25 years in all. The system remains the property of the local government.

Metro Agoo Waterworks ("MAWI") became an indirect subsidiary of the company through CWWC on September 17, 2012. MAWI is a holder of a provincial franchise to construct, install, operate, and maintain a water supply and sewerage system in Agoo, Tubao, and other waterless municipalities in the Second District of the Province of La Union granted under Ordinance No. 031-2012 issued by the provincial government of La Union.

### Business and General Information

### Item 1. Business Development

Philippine H2O Ventures Corp. ("the Company" or "H2O") was incorporated on January 30, 2009 under its original name "Calapan Equity Ventures, Inc." primarily as an investment holding company. On December 23, 2009, the Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Company changing (i) its name from "Calapan Equity Ventures, Inc." to "Calapan Ventures, Inc." and (ii) primary purpose from a holding company to one that is engaged in the business of trading, processing, assembling, manufacturing, and/or fabricating and exporting and importing, and dealing in goods, materials, merchandise, commodities, minerals, metals and real and personal properties of every kind, class and description. It still performs the function as a holding company as a secondary purpose.

Upon its incorporation, the Company has an authorized capital stock of Two Hundred Million Pesos (₱200,000,000.00) divided into two hundred million (200,000,000) common shares with a par value of One Peso (₱1.00) per share. The issued and outstanding capital stock of the Company consisted of one hundred sixty-two million and one hundred sixty-one thousand (162,161,000) common shares.

On July 16, 2014, the Company has filed its application for Amended Articles of Incorporation and By-Laws with SEC changing (i) its corporate name from “Calapan Ventures, Inc.” to “Philippine H2O Ventures Corp.”, (ii) its primary purpose from “trading” to a “holding company” since its trading business has already been suspended and to recognize as well that its primary purpose is to be a holding company and the secondary purpose will be “trading”, and (iii), the date of its annual stockholders’ meeting from the “last Friday of June” to “every 3rd Wednesday of June”. The SEC has approved the changes and issued a certificate of filing of amended articles of incorporation and By-Laws on 18 August 2014.

A 50% stock dividend corresponding to 81,080,500 shares was declared and approved during the board of directors’ meeting held on 20 May 2015 and was confirmed, ratified, and approved in the annual stockholders’ meeting of the Company on 17 June 2015. This is equivalent to 50% stock dividends for the total of 162,161,000 outstanding shares of the Company. Relative to the declaration of stock dividend, H2O filed an increase of authorized capital stock in the amount of ₱300 million and it was approved by the Securities and Exchange Commission on 5 October 2015. The Commission also authorized the issuance of 81,080,500 common shares of the par value of ₱1.00 or ₱81,080,500 through SEC Order dated 20 October 2015 to cover stock dividends declared by its Board of Directors. The record date was set by the Commission to 4 November 2015 and approved 1 December 2015 to be the payment date. Simultaneous to H2O’s application for an increase, the Company filed an application for listing of the 81,080,504 shares, inclusive of four (4) fractional shares, and was likewise approved by the Philippine Stock Exchange on December 2015. Currently, H2O has 243,241,504 issued and outstanding common shares.

Jolliville Holdings Corporation (“JOH”), H2O’s parent company, notified the latter last 19 December 2017 that JOH along with its subsidiaries and related parties (collectively, the “Sellers”), will be selling all their shareholding in H2O, representing 62.006% of the issued and outstanding capital of H2O, to Udenna Development Corp. (“UDEVCO”), or to any of the latter’s subsidiaries or affiliates (the “H2O Sale”). One of the conditions to the H2O Sale is the implementation and completion by H2O of a spin-off by selling all of its existing business and assets, including shares and interests in Calapan Waterworks Corporation (“CWWC”) and all other interests in other corporation. H2O shall also collect all receivables, settle all its obligation, assign its contractual interests, transfer of reassign all of its employees and settle and dissolve its retirement fund (the “Clean-up Exercise”).

JOH, a listed company, owns 36.728% of H2O total outstanding shares. The selling affiliates and related parties of JOH are KGT Ventures Inc., Melan Properties Corp., NGTO Resources Corp., OTY Development Corp., Nanette T. Ongcarranceja, Ortrud T. Yao, Kenrick G. Ting, Jolly L. Ting, and Lourdes G. Ting.

Moreover, H2O was notified that UDEVCO shall launch a mandatory tender offer for the H2O shares pursuant to the Securities Regulation Code.

The Company conducts its water business activities mainly through its subsidiaries:

*Calapan Waterworks Corporation (“CWWC” or Calapan Water”)*:
CWWC was formally registered with the SEC on 23 May 1991 under the corporate name “Calapan Water Works System and Development Corporation” with SEC Registration No. AS091-191028 to engage in the business of developing and utilizing water resources.

Currently, Calapan Water has an authorized capital stock of Two Hundred Million Pesos (₱200,000,000.00) divided into two hundred million (200,000,000) common shares, with par value of One Peso (₱1.00) per share.

On 24 November 2014, Calapan Water’s Board of Directors (BOD) has approved the declaration of cash dividends amounting to ₱101,027,839 or ₱1 per 1 common share, out of the retained earnings as of 2014 October. The dividends were distributed to stockholders of record as of 24 November 2014 on 8 December 2014. On 31 January 2015, H2O subscribed to 16,781,000 additional shares of CWWC. To date, 118,331,139 common shares of CWWC have been subscribed and paid.

The BOD, in its regular meeting held on 12 December 2016, approved another cash dividend declaration of One Peso (₱1.00) per share, out of the retained earnings as of 30 November 2016. On 15 March 2017, CWWC subscribed 19,577,914 additional shares of CWWC at six pesos (₱6.00) per share resulting to 137,909,053 common shares outstanding.

*Metro Agoo Waterworks Inc. (*"MAWI"):
MAWI was formally registered with the SEC on 17 September 2012 with SEC registration no. CS201212304. The authorized capital stock of MAWI is ten million (10,000,000) shares with a par value of One Peso (₱1.00) per share. As of 31 December 2016, ten million (10,000,000) common shares are subscribed and paid. CWWC owns 84.96% of the outstanding capital stock of MAWI.

On 29 December 2016, MAWI's BOD and stockholders approved the increase of MAWI's authorized capital stock from ₱10,000,000 divided into 10,000,000 common shares with par value of ₱1.00 per share to ₱110,000,000 divided into 10,000,000 common shares with par value of ₱1.00 per share and 100,000 preferred shares with par value of ₱1,000.00 per share. MAWI received ₱35,000,000 from a third party as deposit for future stock subscription. Out of the total deposit received, ₱25,000,000 will be applied for subscription of 25,000 preferred shares after the increase in authorized capital stock has been approved by the SEC. MAWI's application for increase of authorized capital stock from ₱10,000,000 divided into 10,000,000 shares of the par value of ₱1.00 each, to ₱110,000,000 divided into 10,000,000 Common shares with the par value of ₱1.00 and 100,000 Preferred shares with the par value of ₱1,000 each has been approved by the Securities and Exchange Commission on 25 May 2017.

*Nation Water Corporation ("Nation Water" or "NWC").* Nation Water is a pre-operating company that was formally registered with the SEC on 13 November 2014 primarily to engage in, carry on, conduct, operate, manage and maintain the general business of development and utilization of water resources which have for their objects the harnessment, production, and supply of water for domestic, municipal, agricultural, industrial, commercial and recreational purposes to this end, to acquire, own, lease, construct, install, equip, operate, manage and maintain plants for the harnessment, production, conveyance and supply of water and other plants and other related system elements required thereto. It has an authorized capital stock of ₱10 million divided into 10 million common shares with a par value of ₱1 per share. Currently, 2.5 million common shares are subscribed, and ₱625,000 has been paid.

On 13 November 2014, CWWC and Tabuk Water Corp. (TWC) subscribed 998,800 common shares and 874,800 common shares, respectively, in Nation Water which resulted in H2O owning 74.84% of Nation Water indirectly.

On 13 May 2015, the Company's BOD approved the sale of its shares in TWC, with a total subscription of 9,999,995 common shares with a selling price of ₱1 per share. Due to the sale, the Group's ownership on the shareholdings of NWC was reduced from 74.84% to 39.87%.

Neither the Company nor its subsidiaries are the subject of any bankruptcy, receivership or similar proceedings.

## Item 2. Business of Issuer

Philippine H2O Ventures Corp is a holding company with business interests in local waterworks systems.

Its subsidiary, CWWC owns, operates and manages the waterworks system of Calapan City, Oriental Mindoro by virtue of its legislative franchise under Republic Act NO. 9185 which will expire on 9 February 2028 and a CPC issued by the National Water Resources Board ("NWRB") that expired last 17 January 2018. The renewal has been processed with the NWRB and release of the CPC shall be expected any day in February 2018. It is one of the few privately owned water systems in the country today. It has no competitor nor known oppositor to its franchise within its franchise area.

As of 31 December 2017, the water supply system serves twenty-seven (27) urban barangays and eight (8) adjoining rural barangays. The total number of household connections is now at 14,450 from the previous year's 13,384. It currently serves 13,647 residential and 803 commercial clients.

Average non-revenue water went up slightly to 25.51% for 2017 as against 23.47% for 2016. The increase was due to the flushing and disinfection of new transmission and distribution lines prior to commission.

Groundwater is the source of water supply in Calapan City. A total of seven (7) wells are operational and are equipped with production meters.

CWWC introduces ten (10) booster units to ensure adequate water supply to higher elevations and extreme areas within the service barangays.

CWWC completed the pipelaying and energization of new transmission line from the newly commissioned water source at Barangay Biga to the existing transmission line at Barangay Sapul. This will partially improve the water supply condition at the existing service barangays.

Regular bacteriological and chemical/physical test results released by the Batangas Water District Laboratory indicate that all of CWWC's water sources conform to the Philippine National Standards for Drinking Water.

In 26 May 2010, the NWRB approved Calapan Water's petition for increase of water rates for the operation and maintenance of water supply system within Calapan City, Oriental Mindoro. The approved Certificate of Public Convenience (CPC) is valid for five (5) years with authority to charge the following rates:

| Residential | |
|---|---|
| *Consumption Bracket* | *Water rates* |
| 0-10 cu.m. | P321.00 min. charge |
| 11-20 cu.m. | 47.90 per cu.m. |
| 21-30 cu.m. | 59.00 per cu.m. |
| 31-40 cu.m. | 62.60 per cu.m. |
| 41-50 cu.m. | 66.80 per cu.m. |
| Over 50 cu.m. | 72.30 per cu.m. |
| | |
| Commercial | |
| Consumption Block | Approved Rates |
| 0-25 cu.m. | P1,605.00 min. charge |
| 26-1000 cu.m. | 118.00 per cu.m. |
| Over 1000 cu.m. | 133.60 per cu.m. |

The above chart shows the residential and commercial rates approved by the NWRB that are currently being implemented in Calapan.

On 02 July 2014, Development Bank of the Philippines (DBP) approved a One Hundred Eighteen Million Two Hundred Fifty Thousand Pesos (₱118,250,000) term loan to CWWC to finance the Phase 2 Expansion Program of the existing water distribution system. As of 31 December 2017, Ninety-Two Million Two Hundred Ninety-Eight Thousand Three Hundred Pesos (₱92,298,300) has been drawn.

Calapan Water formally took over the operation of the water system of the Municipality of Tabuk, the capital of Kalinga province in October 2006. Under the contract with the Local Government of Tabuk, Calapan Water will operate and maintain the water system in Tabuk City for a period of 15 years. The system remains the property of the local government. The subscriber base stood at 3,700 as of 31 December 2017, 3,475 as of 31 December 2016, and

3,636 as of 31 December 2015. The system is capable of accommodating up to around 9,000 subscribers.

In a resolution passed by the legislative council of Tabuk City on 2 February 2010, this lease agreement was extended for another 10 years (from year 2021) up to 30 September 2031.

Groundwater is the source of water supply in Tabuk City. Three (3) out of four (4) wells with a total capacity of 80 lps are operational. Aside from the existing three (3) wells, an elevated water steel storage and a ground level concrete reservoir with a total capacity of 350 cu.m. and 640 cu,m., respectively, has been built to ensure consistent water supply.

As part of its campaign to reduce the non-revenue water, the company implemented the use of leak detection equipment last 2013. By using this device, the distribution system water losses will be minimized and water will be conserved.

The NRW for the years 2016, 2015 and 2014 averaged 36.04%, 28.50%, and 32.03%, respectively.

MAWI is an indirect subsidiary of the Company through CWWC.

The provincial government of La Union granted MAWI a franchise that is covered by Ordinance No. 31-2012, to construct, install, operate, and maintain a water supply and sewerage system in Agoo, Tubao and other waterless municipalities in the second district of the province of La Union on 18 October 2012. The franchise is for a period of 25 years from the date of effectivity of ordinance.

On 19 November 2014, Development Bank of the Philippines (DBP) extended MAWI, a Two Hundred Eighty Million Pesos (₱280,000,000) term loan facility to finance the construction of water distribution system in Agoo, La Union. As of 31 December 2017, Two Hundred Seventeen Million Seven Hundred Forty Five Thousand Eight Hundred Twenty Seven Pesos (₱217,745,827) has been drawn from the term loan facility.

The NWRB in its Decision dated 21 October 2015, granted MAWI a Certificate of Public Convenience and approved the following water rates:

| Residential/Institutional/Public Taps | |
|---|---|
| *Consumption Block* | *Approved Rates* |
| 0-10 cu.m. | P475.00 min. charge |
| 11-20 cu.m. | 61.70 per cu.m. |
| 21-30 cu.m. | 85.20 per cu.m. |
| 31-40 cu.m. | 108.90 per cu.m. |
| 41-50 cu.m. | 132.90 per cu.m. |
| Over 50 cu.m. | 160.00 per cu.m. |
| Commercial/Industrial | |
| *Consumption Block* | *Approved Rates* |
| 0-25 cu.m. | P2,372.50 min. charge |
| 26-1000 cu.m. | 151.90 per cu.m. |
| Over 1000 cu.m. | 234.00 per cu.m. |

MAWI started its formal business operations last 2 February 2016.

It serves fourteen (14) urban barangays and twenty-six (26) adjoining rural barangays in Agoo and five (5) barangays in Aringay. Total number of household connections is 2,032 broken down into 1,961 residential and 71 commercial.

As of 31 December 2017, the Non-Revenue Water (NRW) is 10.83% inclusive of flushing activities.

The Group at present employs 147 full-time employees broken down as follows: 4 Executives, 8 Managerial and 135 Administrative, Operations, Clerical and Contractual. No major addition or reduction from the present manpower is anticipated for the ensuing twelve months. There are no collective bargaining agreements in the Group. The Group has never experienced a strike from its employees since its inception and has no reason to believe that a strike may occur.

The risks associated with the Company and its subsidiaries are as follows:

The Company's profitability relies on the performance of its subsidiaries. The company's revenues and income are derived from the operations of its subsidiaries. A decline in its subsidiaries' financial performance would have a significant effect on the Company's own profitability. Furthermore, the Company cannot ensure that its subsidiaries would declare dividends. This risk is mitigated to some extent by virtue of the Company having the same key executive officers with its subsidiaries and being the majority shareholder of its subsidiaries.

Business operations of its subsidiaries require significant amounts of electricity and increased power costs may have an adverse effect on its financial performance. One of Calapan Water's highest costs and expenses is power or electricity charges consumed by its water pumping stations. The cost of electricity in the Philippines, which is already one of the highest in the region, continues to increase over the years. Continued increases in power rates could materially affect Calapan Water's net income levels and that of the Company.

Calapan Water's contract with Tabuk City specifies that it can charge a standard rate adjustment (SRA) to its consumers in Tabuk City. While the SRA does not perfectly capture movements in power costs, both the Power Cost Adjustment and SRA provisions in the contract enable Calapan Water to soften its risk exposure to fluctuations in power costs and inflation.

Most of Calapan Water's operations are dependent on electricity. In cases where there is electric power interruption or blackout, Calapan Water purchases fuel for its water supply business. Any delay in fuel deliveries or disruptions in fuel supply during a prolonged blackout may result in unplanned shut downs. To mitigate this risk, Calapan Water maintains sufficient inventory of fuel to ensure continuous production and distribution of water within the service areas.

The Company depends on key management personnel. The members of the Company's senior management and key employees are important to its success. The loss of any of the senior management or key employees could have a material adverse effect on the Company's business if it is unable to find suitable replacements in a timely manner. The Company manages this risk by continuing to exert substantial effort to ensure that it has in place retention tools, in the form of employee benefits, training and monetary incentives, which will motivate its personnel to stay with the Company.

Calapan Water may not be able to successfully implement its expansion plans. Calapan Water's growth strategy involves obtaining new subscribers and expanding its services to other areas in the Philippines. It is probable that Calapan Water may not be successful in identifying other areas for expansion. Expansion to new areas is largely dependent on the cooperation of relevant LGUs in each location, as well as the ability of Calapan Water to obtain necessary permits, licenses and approvals.

Calapan Water manages this risk by putting in place a management team that has the necessary experience in identifying potential expansion areas.

Potential liability for environmental problems could result in material losses and costs. Calapan Water is subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations which apply to any given project development site vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. Compliance with environmental laws may result in delays, may cause Calapan Water to incur substantial compliance and other costs and can prohibit project development activity in environmentally-sensitive areas.

Water contamination may pose threats to Calapan Water’s operations. The supply of water to end-users may be subject to water supply contamination which could result in disease, death or otherwise endanger public health. Any contamination of Calapan Water’s groundwater sources may have material adverse effects on Calapan Water’s operations. As a result of contamination, Calapan Water may have to interrupt the supply of water to its customers until it can install treatment equipment or substitute the flow of water from an uncontaminated water production source. If Calapan Water's water supply becomes contaminated, it could be subject to civil, criminal or regulatory enforcement actions, private lawsuits and expensive cleanup obligations.

Calapan Water conducts testing of water quality to make sure that it complies with the Philippine National Standards for Drinking Water set by the DOH. Regular testing may also alert and allow Calapan Water to act immediately should there be any signs of water contamination.

The water supply and distribution facility is in general satisfactory condition for the distribution of good quality water. All submersible pumps are running well under normal operating condition. Each pumping station is equipped with a standby generator set in case of power interruption. All standby generator sets, including their electrical paraphernalia and accessories are in good working condition. Each Pumping Station is also equipped with a chlorinator and flow meter.

The pump house, administrative and executive office, warehouse, and chlorine storage facility (foundation, walls, floors and roof trusses) structures are in acceptable condition.

Five (5) deep wells are located in Barangay Bayanan I, one (1) in Barangay Tawiran, and one (1) in Barangay Biga. There are six (6) booster stations which are located in Barangay Ilaya (2 stations), Barangay Tawiran, Barangay Sapul, Barangay Salong, and Barangay Suqui. The pumping station is located in Barangay Bayanan I. The flow rates of the deep wells vary between 20.7, 25 and 32 lps. Each booster station has an average boosted flow rate of 4.40 lps each or a total average of 26.4 lps.

## Item 3. Properties

The Company’s parcels of land, owned indirectly through its consolidated subsidiary, are summarized in the following table. These properties are covered with the titles (TCTs) in the name of its subsidiary:

| *Type/Location* | *Area (Sqm.)* | *Nature of Property* |
|---|---|---|
| Brgy. Tawiran, Calapan City | 301.00 | Well site |
| | 500.00 | |
| Brgy. Sta. Maria, Calapan City | 377.00 | Well site |
| Brgy Pachoca, Calapan City | 210.00 | Well site |
| | 182.00 | |
| Brgy. Lalud, Calapan City | 200.00 | Well site/residential |
| Brgy. Ilaya, Calapan City | 205.00 | Well site |
| | 286.00 | |
| Macalva Sur, Agoo La Union | 3,229.00 | Agricultural |
| Brgy. Garcia, Tubao La Union | 3,214.00 | Agricultural |
| Brgy. Garcia, Tubao La Union | 143.50 | Agricultural |
| Brgy. Garcia, Tubao La Union | 200.00 | Well site |

## Item 4. Legal Proceedings

There are no pending legal proceedings involving the Company or any of its subsidiaries, or any of their properties which could have a material adverse effect on the business or financial position of the Company or any of its subsidiaries or any of their properties.

## Item 5. Management's Discussion and Analysis

The information herein should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes thereto contained in this Report.

## Results of Operations

Water service revenues grew due to the increase in number of service connections from 16,625 subscribers in September 2016 to 19,535 subscribers in September 2017. Revenues grew by ₱9,546,803 or 5.79% from ₱164,881,598 to ₱174,428,401 for the nine months ended September 30, 2017 vis-à-vis last year.

.

Cost of services increased by 2.97% or ₱2,106,987 primarily due to higher depreciation expense and utilities expense during the period.

Total amount of operating expenses was higher this year by ₱1,108,670 mainly due to higher salaries and wages and higher taxes and licenses.

Net other charges increased by P₱11,144,045 for the period. The increase was mainly attributed to interest charges on MAWI loans with a local bank, portion of which was capitalized last year.

Total comprehensive income decreased by 17.98%, or ₱5,676,075, primarily due to incurred losses from MAWI operation.

Noncontrolling interest represents noncontrolling stockholders' share in the net income or loss of CWC and MAWI. The fluctuation in this account is tied-in to the operating results of CWC

## Financial Position

Total assets decreased by 5.41% or about ₱65.74 million to ₱1,149,957,993 as of September 30, 2017. The decrease can be attributed to the collection of receivables and depreciation of property and equipment.

Cash and cash equivalents decreased by ₱39,791,223 mainly due to settlement of payables to suppliers and contractor.

Receivables decreased by 13.45% or ₱16,423,814 mainly due to collection.

Due from related parties decreased by 6.35% and amounted to ₱15,536,198 due to collection from affiliates.

Prepayments and other current assets increased by 99.49% to ₱4,009,486 primarily due to prepaid expenses and input VAT.

Available-for-sale investment, investment in an associate, deferred tax assets, and other noncurrent assets were unchanged from their balances as of September 30, 2017.

The property and equipment account decreased by ₱10,476,140 or 1.15%, mainly due to depreciation.

Accounts payable and other current liabilities decreased by 26.18% from ₱299,990,011 as of December 31, 2016 to ₱221,467,141 as of September 30, 2017. Much of this was due to settlements made to suppliers and contractor.

Current portion of loans payable increased by 13.38% from ₱21,108,950 as of December 31, 2016 to ₱23,932,805 as of September 30, 2017. Current portion of loans payable pertains to principal amortizations that will become due within twelve (12) months from the financial reporting date.

Due to related parties account balance decreased by ₱980,733 or 7.48% due to payment to affiliates.

The income tax liability as of December 31, 2016 was paid in April 2017. The income tax liability as of September 30, 2017 pertains to the accrual of income tax due for the third quarter of 2017.

Noncurrent portion of loans payable decreased by ₱17,949,603 which pertains principal amortizations that became currently due.

Retirement benefit obligation and deferred tax liabilities were unchanged from year-end.

Customers' deposits, which mainly pertains to additional water meter maintenance, increased by 12.25% or ₱2,285,054.

Noncontrolling interest represents the share of noncontrolling shareholders in the net assets of CWC and MAWI. The change in this account represents the share of noncontrolling shareholders in the results of operations for this period.

## Financial Risk

Please refer to Note 4 of the Notes to Consolidated Financial Statements for the escription, classification and measurements applied for financial instruments of the Group.

The main purpose of the Group's financial instruments is to fund the Group's operations and to acquire and improve property and equipment. The main risks arising from the use of financial instruments are liquidity risk, interest rate risk and credit risk. The Group's BOD reviews and agrees with policies for managing each of these risks. These are summarized below:

*Liquidity risk*
The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and serve its maturing obligations. The Group's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

*Credit risk*
Credit risk refers to the risk that a customer/debtor will default on its contractual obligations resulting in financial loss to the Group. The Group controls this risk through regular coordination with the customers. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group also controls this risk by cutting its services and refusal to reconnect until the customer's account is cleared or paid.

The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

*Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term borrowings. The Group's policy is to minimize interest rate cash flow risk exposures. Long-term borrowings are therefore usually at agreed interest rates.

## Key Performance Indicators

| KEY PERFORMANCE INDICATORS | | | SEPTEMBER 2017 | SEPTEMBER 2016 |
|---|---|---|---|---|
| **PROFITABILITY** | | | | |
| ***Return on Total Assets*** | ROA= | NI+ {(interest exp x (1-tax rate)} | 35,377,677 | 33,374,423 |
| | | Ave. Total Assets | 1,182,830,076 | 1,164,062,391 |
| It measures efficiency of the Group in using its assets to generate net income. | | | 0.0299 | 0.0287 |
| ***Return on Equity*** | ROE= | Annual Net Income | 25,900,123 | 31,576,198 |
| | | Ave. Stockholder's Equity | 501,871,348 | 434,372,361 |
| It is a measure of profitability of stockholders' investments. It shows net income as percentage of shareholder equity. | | | 0.0516 | 0.0727 |
| ***Water Revenue per Subscriber*** | WRS= | Water Revenue | 174,428,401 | 164,881,598 |
| | | Ave. No. of Water Subscribers | 18,712 | 16,048 |
| Measures how well service and facilities improvements have influence consumer's usage | | | 9,322 | 10,274 |
| **FINANCIAL LEVERAGE** | | | | |
| ***Debt Ratio*** | Debt Ratio= | Total Liabilities | 635,136,584 | 715,979,674 |
| | | Total Assets | 1,149,957,993 | 1,166,140,134 |
| It is a solvency ratio and it measures the portion of the assets of a business which are financed through debt. | | | 0.5523 | 0.6140 |
| ***Debt to Equity Ratio*** | Debt to Equity= | Total Liabilities | 635,136,584 | 715,979,674 |
| | | Shareholder's Equity | 514,821,409 | 450,160,460 |
| It measures the degree to which the assets of the business are financed by the debts and the shareholders' equity of a business. | | | 1.2337 | 1.5905 |
| **MARKET VALUATION** | | | | |
| ***Price to Book Ratio*** | PB ratio= | Market value/share | 6.10 | 3.44 |
| | | Book value/share | 2.12 | 1.85 |
| Relates the Group's stock to its book value per share | | | 2.88 | 1.86 |

The reason for the Group's continuing profitability is discussed in the results of operations. From the point of view of its water business, which the Group considers to be its major growth driver, water revenues has shown steady improvement since 2010 and is expected to grow further in the succeeding years. The Group is constantly on the lookout for expansion and growth opportunities within existing and neighboring service areas. .

## Liquidity and Solvency

The Group's cash balance decreased from end-2016 of ₱138.83 million to ₱99.04 million as of September 30, 2017. The decrease for this period was the result of payments of obligations mentioned earlier.

The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and serve its maturing obligations. The objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information. The Group manages liquidity by maintaining adequate reserves through advances from related parties and loan facilities with local banks. Further, its strong relations with suppliers and creditors enable the Group to negotiate and stretch credit terms. It may also be worth mentioning that payment terms of accounts with related parties have no definite call dates. The retirement benefit obligation and deferred tax liabilities may also be regarded as provisions and are not due immediately.

Further, its good relations with its suppliers and creditors enable the Company to negotiate and stretch credit terms to the fullest extent possible. It's also worth mentioning that the payment terms of amounts due to related parties may likewise be extended and no interest imputed.

**Events that will trigger Direct or Contingent Financial Obligation that is Material to the Company, including any Default or Acceleration of an Obligation**

None

**Material Off-Balance Sheet Transactions, Arrangements, Obligations (including Contingent Obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons created during the Reporting Period**

None

**Known Trends, Demands, Commitments, Events or Uncertainties that will have a Material Impact on Liquidity or that are reasonably expected to have a Material Favorable or Unfavorable Impact on Net Sales/Revenues/Income from Continuing Operations**

None

**Cause for any Material Changes from period to period which shall include Vertical and Horizontal Analyses of any Material Item**

This is already incorporated in the discussion under "Results of Operations" and "Financial Position".

**Seasonal Aspects that has a Material Effect on the Financial Statements**

None

**Material Commitments for Capital Expenditures, General Purpose of such Commitments, Expected Sources of Funds for such Expenditures**

The Group has completed the 2nd Phase Expansion Program for Calapan City Water Supply System. Phase II involves development of new water production facilities, installation of storage facilities for the water system, and pipe laying of additional distribution lines. Phase II was estimated to cost about ₱162 million, about ₱118 million was financed through bank borrowing while the balance has been funded through internally generated funds.

**Any Significant Elements of Income or Loss that did not arise from Continuing Operations**

None

**Changes in and disagreements with accountants on accounting and financial disclosure**

There were no significant changes in and disagreements with accountants on accounting and financial disclosures.

**Restatement of Accounts**

None

**Market Information**

H2O's common equity is traded at the Philippine Stock Exchange ("PSE").

The high and low sales prices for each quarter are indicated in the table below:

| Quarter | High | Low |
|---|---|---|
| 1st quarter 2018 | ₱6.25 | ₱5.77 |
| 4th quarter 2017 | 7.20 | 6.59 |
| 3rd quarter 2017 | 7.22 | 6.93 |
| 2nd quarter 2017 | 5.83 | 5.44 |
| 1st quarter 2017 | 3.79 | 3.76 |

For 31 January, 2018, last trading date prior to the release of this statement, the opening, high, low and closing sales price are ₱6.25, ₱6.50, ₱6.03,and ₱6.10, respectively.

## Holders

As of 31 January, 2018, the Company's top 20 stockholders, their respective number of shares held, and the corresponding percentage of these shares out of the total Common Shares outstanding, are as follows:

| Rank | Stockholders | Class of Shares | Number of Shares | Percentage |
|---|---|---|---|---|
| 1. | Jolliville Holdings Corporation | Common | 89,338,805 | 36.73% |
| 2. | Lucky Securities, Inc. | Common | 20,420,000 | 8.39% |
| 3. | KGT Ventures Inc. | Common | 15,000,000 | 6.17% |
| 4. | Melan Properties Corp. | Common | 15,000,000 | 6.17% |
| 5. | NGTO Resources Corp. | Common | 15,000,000 | 6.17% |
| 6. | OTY Development Corp. | Common | 15,000,000 | 6.17% |
| 7. | IGC Securities, Inc. | Common | 11,537,876 | 4.74% |
| 8. | Globalinks Securities & Stocks Inc. | Common | 11,456,250 | 4.71% |
| 9. | Papa Securities Corporation | Common | 6,849,970 | 2.82% |
| 10. | Unicapital Securities, Inc. | Common | 4,190,578 | 1.72% |
| 11. | Mandarin Securities Corp. | Common | 4,156,400 | 1.71% |
| 12. | Belson Securities, Inc. | Common | 3,942,800 | 1.62% |
| 13. | COL Financial Group, Inc. | Common | 3,822,116 | 1.57% |
| 14. | See, Rodolfo Lim | Common | 3,489,410 | 1.43% |
| 15. | Yao, Ortrud T. | Common | 1,932,002 | 0.79% |
| 16. | Ongcarranceja, Nanette T. | Common | 1,866,002 | 0.77% |
| 17. | Lancaster, Melody T. | Common | 1,500,000 | 0.62% |
| 18. | Tower Securities, Inc. | Common | 1,460,574 | 0.60% |
| 19. | Gan Chua, Wilfredo K. | Common | 1,369,440 | 0.56% |
| 20. | Genmaco Corp. | Common | 1,300,560 | 0.53% |

## Dividends

Under the Corporation Code and the Company's By-Laws, dividends shall be declared only from surplus profits (representing net accumulated earnings, with capital unimpaired, which is not appropriated for any other purpose) and shall be payable at such time and in such amounts as the Board of Directors of the Company shall determine; provided, however, that no stock dividends shall be issued without the approval of the stockholders representing not less than two thirds (2/3) of all stock then outstanding and entitled to vote at the Company's general meeting or at a special meeting called for the purpose, and no property dividends shall be issued without the prior approval of the SEC. No dividends shall be declared that impair H2O's capital.

The Company is authorized to pay cash, property or stock dividends or a combination thereof, subject to approval by the Company's Board of Directors and Stockholders. Holders of outstanding shares on a dividend record date for such shares are entitled to the full dividend declared without regard to any subsequent transfer of shares.

No dividend declaration was made during the year 2017.

**Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction**

There is no sale of unregistered or exempt Securities, including recent issuance of securities constituting an exempt transaction during 2017, 2016 and 2015.

## External Audit Fees

Constantino Guadalquiver and Co. ("CGCo"), independent certified public accountants, audited the Company's consolidated financial statements without qualification as of and for the years ended December 31, 2016, 2015 and 2014. CGCo will be auditing also the Company's financial statements as of 31 December 2017.

Edwin F. Ramos is the current audit partner for the Company and its subsidiaries. Pursuant to SEC Memorandum Circular No. 8, Series of 2003, the Company will either change its External Auditor or rotate the engagement partner every five (5) years.

There have been no disagreements between the Company and CGCo over the length of their relationship with regard to any matter involving accounting principles or practices, financial statement disclosures, and auditing scope and procedures.

CGCo has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. CGCo will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants, or rights thereto). The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In connection with the audit of the Company's financial statements, the Audit Committee had, among other activities, (a) evaluated significant issues reported by the external auditor in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company; (b) ensured that no other work is provided by the external auditor that would impair its independence and conflict with its function as independent accountants; and (c) ensured the compliance of the Company with acceptable auditing and accounting standards and regulations.

The aggregate fees paid to CGCo for services rendered are ₱347,600, ₱346,000, and ₱315,000 in 2017, 2016 and 2015, respectively. The services are those normally provided by the external auditor in connection with statutory and regulatory filings or engagements. There had been no consulting or tax engagements with CGCo.

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