

ALTERNATIVE ENERGY SOLUTIONS: THE MAYNILAD EXPERIENCE
ASSOCIATION OF PACIFIC ISLANDS LEGISLATURES
24 JUNE 2013, HONOLULU, HAWAII



#1: MAYNILAD LOGO

[SALUTATIONS TO DIGNITARIES AND GUESTS]

GOOD AFTERNOON.

IT IS MY PLEASURE AND HONOR TO ADDRESS THIS AUGUST BODY ON BEHALF OF OUR PRESIDENT AND CEO, MR. RICKY VARGAS.

MR VARGAS COULD NOT BE HERE TODAY BUT HE SENDS HIS GRATITUDE FOR THE INVITATION TO SPEAK BEFORE YOU.

I AM VERY EXCITED TO TALK TO YOU ABOUT OUR COMPANY'S CONTINUING SEARCH FOR SAFE, COST-EFFICIENT ENERGY SOLUTIONS.

BUT BEFORE I GO INTO DETAILS ABOUT OUR SEARCH, ALLOW ME FIRST TO INTRODUCE OUR COMPANY.

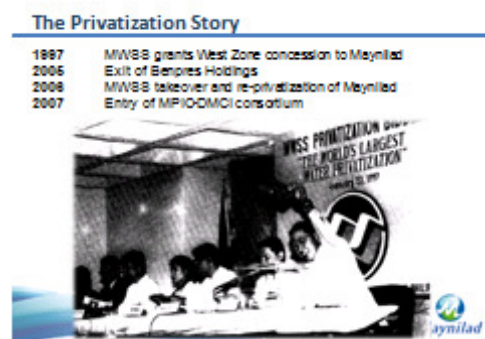


#2: MAYNILAD WATER SERVICES, INC.

MAYNILAD WATER SERVICES, INC. IS THE PRIVATE WATER CONCESSIONAIRE OF THE WEST ZONE OF GREATER MANILA AREA.

THE WEST ZONE IS COMPOSED OF 17 CITIES AND MUNICIPALITIES, INCLUDING THE CAPITAL CITY OF MANILA, COVERING A TOTAL LAND AREA OF 540 SQUARE KILOMETRES – ROUGHLY THE SIZE OF GUAM.

AT PRESENT WE SERVE 8.2 MILLION PEOPLE OR 96% OF THE TOTAL POPULATION OF THE WEST ZONE.



#3: THE PRIVATIZATION STORY

IN 1997, THE PHILIPPINE GOVERNMENT PRIVATIZED WATER SERVICES IN MANILA BY BREAKING UP THE SERVICE AREA OF METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM OR MWSS INTO

THE EAST AND WEST ZONES.

MAYNILAD, THEN OWNED BY THE CONSORTIUM OF BENPRES HOLDINGS AND SUEZ LYONNAISE DES EAUX, WON THE WEST CONCESSION AREA.

HOWEVER, ALMOST IMMEDIATELY AFTER THE PRIVATIZATION, THE ASIAN FINANCIAL CRISIS HIT THE PHILIPPINES.

THE PREVIOUS OWNERS OF MAYNILAD COULD NEITHER SERVICE THE DOLLAR-DENOMINATED DEBTS OF MWSS NOR MAKE THE NECESSARY INVESTMENTS TO IMPROVE SERVICE LEVELS AND REDUCE WATER LOSSES IN THE WEST ZONE.

YEAR 2005 SAW THE EXIT OF BENPRES HOLDINGS AS MAJORITY SHAREHOLDER OF THE COMPANY, AND BY THE FOLLOWING YEAR THE MANAGEMENT AND CONTROL OF MAYNILAD WAS CEDED BACK TO THE MWSS.

UNFAZED BY THIS SETBACK, MWSS RE-PRIVATIZED MAYNILAD.

THE CONSORTIUM OF METRO PACIFIC INVESTMENTS CORPORATION, OR MPIC, AND DMCI HOLDINGS INC. WON OVER TEN OTHER INVESTOR GROUPS.

THEY TOOK OVER THE MANAGEMENT AND CONTROL OF MAYNILAD IN JANUARY 2007.



#4: THE NEW MAYNILAD

NOW ON ITS SIXTH YEAR UNDER THE NEW MANAGEMENT, MAYNILAD HAS

MADE DRAMATIC IMPROVEMENTS BOTH FINANCIALLY AND OPERATIONALLY.

FOR ONE, MPIC AND DMCI PULLED OFF ONE OF THE FASTEST, IF NOT THE FASTEST EXIT FROM CORPORATE REHABILITATION.

ONLY A YEAR AFTER THEIR TAKEOVER OF MAYNILAD, THEY PRE-PAID AROUND US\$240 MILLION WORTH OF DEBTS IN 2008 – FIVE YEARS AHEAD OF THE REHABILITATION COURT’S DEADLINE.

AFTER THAT THE NEW MANAGEMENT EMPLOYED A TRULY REMARKABLE TURNAROUND STRATEGY.

TODAY, WE HAVE 44 ISO CERTIFICATIONS PROVING THAT OUR FACILITIES, SYSTEMS AND PROCEDURES MEET STRINGENT INTERNATIONAL STANDARDS FOR QUALITY, ENVIRONMENT, AND SAFETY AND HEALTH.

IN 2011 WE WENT AHEAD OF THE CURVE BY INAUGURATING THE LARGEST MEMBRANE-BASED AND REVERSE OSMOSIS TREATMENT FACILITY IN THE PHILIPPINES.

OUR ALL-OUT WAR AGAINST WATER LOSSES HAS LIKEWISE BEEN SUCCESSFUL, WITH THE INTERNATIONAL WATER ASSOCIATION RECOGNIZING OUR NON-REVENUE WATER REDUCTION PROGRAM AS THE MOST AGGRESSIVE OF ITS KIND IN THE WORLD.

SINCE 2008, WE HAVE SPENT ROUGHLY US\$197 MILLION TO ADDRESS LEAKS, ILLEGAL CONNECTIONS AND BILLING INACCURACIES.

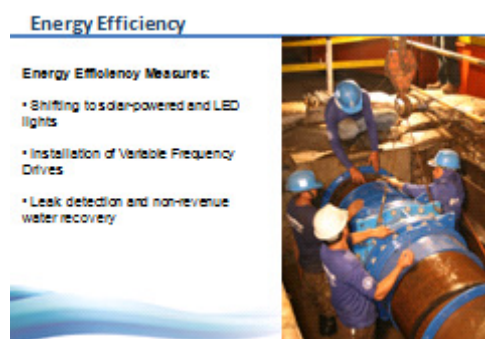
WE HAVE SO FAR RECOVERED AROUND 600 MILLION LITERS PER DAY – ENOUGH WATER TO SUPPLY A FIFTH OF THE TOTAL POPULATION OF THE PACIFIC ISLANDS.

SO GIVEN ALL THESE ACCOMPLISHMENTS, WHY ARE WE THEN ON A SEARCH FOR ENERGY?

WHAT DOES A WATER COMPANY LIKE MAYNILAD HAVE TO DO WITH ENERGY?

IS THERE SUCH A THING AS “WATER-ENERGY NEXUS”?

LET ME SHARE WITH YOU TWO PERSPECTIVES.



#5: ENERGY EFFICIENCY

FIRST, AS A UTILITY COMPANY THAT DELIVERS A BASIC SERVICE, IT IS OUR INTEREST TO OPERATE AT THE HIGHEST POSSIBLE EFFICIENCY.

ENERGY FIGURES DEEPLY INTO OUR OPERATIONS BECAUSE POWER TAKES UP 15% OF OUR OPERATING EXPENSES.

IN 2012 ALONE, WE SPENT US\$16 MILLION FOR OUR ELECTRICITY CONSUMPTION.

IN MAYNILAD'S SUBSIDIARY PHILHYDRO, WHICH OPERATES IN FOUR PROVINCIAL AREAS OUTSIDE OF METRO MANILA, POWER EXPENSE AVERAGES ALMOST 50% OF THE OPERATING EXPENSES. FIFTY PERCENT!

AND AT THE RATE POWER COSTS ARE GOING UP, WE NEED TO THINK ABOUT SAFE, COST-EFFICIENT ENERGY SOLUTIONS.

IN GENERAL, WATER IS A POWER-GUZZLING BUSINESS AS YOU NEED TO POWER UP TREATMENT FACILITIES AND PUMPING STATIONS 24/7 TO CONTINUOUSLY DELIVER WATER AT THE APPROPRIATE PRESSURE.

MAYNILAD IS DRIVING DOWN ITS POWER EXPENSES BY SHIFTING TO MORE ENERGY-EFFICIENT TECHNOLOGY.

WE HAVE INSTALLED SOLAR-POWERED LIGHTS AND POWER ANALYZERS IN OUR LA MESA TREATMENT PLANT, WHERE 97% OF OUR WATER IS PROCESSED.

JUST LAST MONTH, WE STARTED USING ENERGY-EFFICIENT VARIABLE FREQUENCY DRIVES IN OUR PUMPING STATIONS AND ONLINE BOOSTERS.

VARIABLE FREQUENCY DRIVES ARE ELECTRONIC CONTROLLERS THAT ADJUST THE SPEED OF AN ELECTRIC MOTOR, ALLOWING THE MODULATION OF PUMP SPEED AND FLOW RATE ACCORDING TO ACTUAL DEMAND.

FROM THIS TECHNOLOGY, WE HOPE TO SAVE APPROXIMATELY US\$600,000 ON POWER EXPENSES FOR THIS YEAR ALONE.

THE AGGRESSIVE REDUCTION IN OUR WATER LOSSES ALSO RESULTED IN ENERGY SAVINGS.

REDUCED LEAKS AND PILFERAGES LEADS TO IMPROVED NETWORK PRESSURE, WHICH REDUCES PUMPING REQUIREMENTS OR AT TIMES EVEN ELIMINATING THE NEED FOR PUMPS ALTOGETHER.

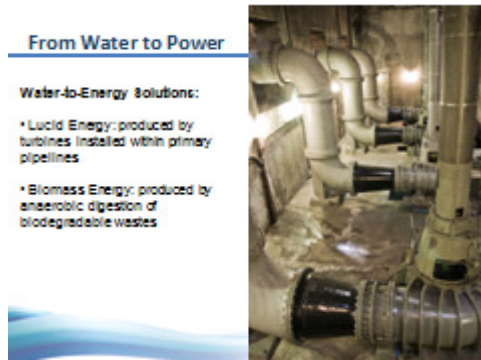
TODAY WE ARE STARTING TO TAKE BOLDER STEPS TOWARDS ENERGY EFFICIENCY.

MAYNILAD, AS ANY WATER UTILITY COMPANY, IS IN A POSITION TO ENJOY THE POTENTIAL THAT IS UNIQUE TO WATER.

WATER IS BOTH INPUT AND OUTPUT, RAW MATERIAL AND END PRODUCT.

WE CAN MAKE USE OF THIS PECULIAR PROPERTY OF WATER AND UTILIZE THE ENERGY POTENTIAL OF WATER WITHIN OUR OWN SYSTEM.

I AM NOT TALKING ABOUT HYDROPOWER, BECAUSE THAT IS EXTRANEIOUS TO OUR EXISTING OPERATIONS.



#6: FROM WATER TO POWER

I AM TALKING ABOUT WATER-TO-ENERGY SOLUTIONS THAT CAN BE READILY INTEGRATED INTO OUR CURRENT OPERATIONS AND EXISTING FACILITIES.

OUR ENGINEERS ARE STUDYING THE POSSIBILITY OF INSTALLING SMALL TURBINES ALONG OUR PRIMARY PIPELINES TO PRODUCE ENERGY.

PRIMARY PIPELINES ARE LARGE-DIAMETER PIPES WHERE WATER FLOWS CONTINUOUSLY AT VERY HIGH PRESSURES.

BY INSTALLING TURBINES WITHIN MAYNILAD'S 472 KILOMETERS OF PRIMARY PIPES, WE CAN HARNESS THE FLOW TO PRODUCE "LUCID ENERGY". EACH TURBINE PRODUCES 100 KILOWATTS WHICH CAN POWER 300 HOUSEHOLDS.

WE ARE ALSO LOOKING AT THE END-STAGE OF OUR OPERATIONS FOR ALTERNATIVE ENERGY SOLUTIONS.

ASIDE FROM DISTRIBUTING POTABLE WATER TO CONSUMERS, MAYNILAD IS ALSO THE EXCLUSIVE PROVIDER OF SEWERAGE AND SANITATION SERVICES IN THE WEST ZONE.

WE ARE NOW STUDYING WAYS TO CAPTURE ENERGY FROM OUR WASTEWATER OPERATIONS.

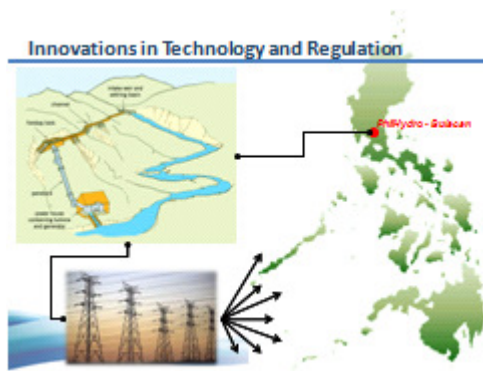
COMMONLY REFERRED TO AS BIOMASS ENERGY, POWER CAN BE PRODUCED BY ALLOWING MICROORGANISMS TO DIGEST BIODEGRADABLE WASTES FOUND IN SEWAGE AND SEPTAGE.

THE MINIMUM CAPACITY REQUIRED TO PRODUCE BIOMASS ENERGY IS 50 MILLION LITERS OF WASTEWATER PER DAY.

BEGINNING 2016, MAYNILAD WILL PUT UP WASTEWATER TREATMENT PLANTS OF THIS SIZE AND BIGGER. PART OF OUR MASTER PLAN IS TO INTEGRATE ANAEROBIC DIGESTERS TO PRODUCE BIOMASS ENERGY.

THE SECOND REASON WHY ENERGY IS OF VITAL IMPORTANCE TO MAYNILAD IS BECAUSE ENERGY EFFICIENCY IS CRUCIAL TO OUR GROWTH.

SEEING AS MAYNILAD IS NEARING 100% COVERAGE OF ITS SERVICE AREA, WE ARE NOW LOOKING BEYOND THE WEST ZONE FOR EXPANSION PROSPECTS.



#7: INNOVATIONS IN TECHNOLOGY AND REGULATION

LAST DECEMBER, A GROUP OF SCIENTISTS APPROACHED OUR SUBSIDIARY PHILHYDRO TO PROPOSE DEVELOPMENT OF HYDROPOWER IN ITS OPERATIONS IN BULACAN PROVINCE.

WE WERE KEEN TO STUDY THIS PROJECT BECAUSE NOT ONLY WILL IT POWER UP PHILHYDRO'S BULACAN OPERATIONS, WE CAN ALSO SELL EXCESS CAPACITY TO THE NATIONAL GRID.

AND WITH THE NEW REGULATION CALLED THE "FEED-IN TARIFF" SCHEME, WE HAVE THE OPTION TO OFFTAKE THE CAPACITY WE THROW TO THE GRID AT ANY POINT IN THE PHILIPPINES.

THIS MEANS THAT THE POWER PRODUCED AT THE BULACAN MINI-HYDRO PLANT MAY BE USED BY OUR OTHER PLANTS AND PROJECTS ELSEWHERE IN THE COUNTRY, PAYING ONLY THE TRANSMISSION CHARGE.

IN EFFECT, WE CAN BYPASS LOCAL ELECTRICITY PROVIDERS WHO ARE SELLING AT A HIGHER PRICE THAN HOW MUCH WE ARE PRODUCING.

THIS HYDRO PROJECT IS A WORK IN PROGRESS, BUT THE PROSPECTS ARE EXCITING.

MAYNILAD'S EXPANSION PROJECTS OUTSIDE OF THE WEST ZONE MAY SOON ENJOY CHEAP POWER BECAUSE OF THIS ALTERNATIVE ENERGY SOLUTION.

IF THE PRODUCTION COST IS SUBSTANTIALLY LOWER THAN COAL OR FOSSIL FUEL SOURCES, WE CAN EVEN MAKE REASONABLE PROFIT BY SELLING EXCESS CAPACITY TO OTHER COMPANIES.



#8: BEYOND THE WEST ZONE

THIS COMES AT A CRUCIAL POINT WHEN MAYNILAD'S EXPANSION FOOTPRINT IS TAKING SHAPE.

SINCE LAST YEAR, WE HAVE BEEN MAKING STRATEGIC ACQUISITIONS TO GAIN Foothold IN KEY MARKETS AROUND THE PHILIPPINES.

LAST YEAR, WHEN WE ACQUIRED PHILHYDRO, WE GAINED IMMEDIATE PRESENCE IN FOUR PROVINCES IN THE MAIN ISLAND OF LUZON.

EARLIER THIS YEAR, WE WON THE BID FOR ENTRY INTO SUBIC WATER COMPANY.

SUBIC IS A FORMER U.S. MILITARY BASE NORTH OF METRO MANILA, AND IS NOW A MAJOR ECONOMIC ZONE.

LAST YEAR WE ALSO CLOSED A DEAL WITH THE PROVINCIAL GOVERNMENT OF CEBU.

BY FIRST QUARTER OF 2014, WE WILL START SUPPLYING 35 MILLION LITERS PER DAY OF TREATED WATER TO CEBU, THE QUEEN CITY OF THE SOUTH.

IN ALL, OUR CURRENT FOOTPRINT IN THE PHILIPPINES TOTALS OVER 100 MILLION LITERS PER DAY.

WE ARE IN THE PROCESS OF DEVELOPING BUSINESS WITH OTHER STRATEGIC LOCAL GOVERNMENT PARTNERS TO EXPORT OUR TECHNICAL AND MANAGEMENT EXPERTISE IN OTHER PLACES WHERE OUR WATER SOLUTIONS ARE NEEDED.



#9: TODAY THE NATION, TOMORROW THE REGION

AT THE SAME TIME THAT WE ARE EXPANDING WITHIN THE PHILIPPINES, MAYNILAD HAS ALSO STARTED SCOUTING EMERGING MARKETS IN SOUTHEAST ASIA FOR PROJECTS AND PARTNERSHIPS IN WATER.

AT PRESENT, WE ARE IN TALKS WITH A POTENTIAL PARTNER IN VIETNAM.

MAYNILAD HAS ALSO BEGUN EXPLORING MYANMAR, ANOTHER COUNTRY THAT IS HUNGRY FOR INFRASTRUCTURE DEVELOPMENT.

I WOULD BE THRILLED TO FIND OUT IF THERE ARE OPPORTUNITIES FOR PUBLIC-PRIVATE PARTNERSHIP HERE IN THE PACIFIC ISLANDS AS WELL.



#10: METRO PACIFIC INVESTMENTS CORP.

FOR THE INFORMATION OF THE BODY, MAYNILAD'S MAJORITY SHAREHOLDER, MPIC, IS THE LARGEST INFRASTRUCTURE INVESTING COMPANY

IN THE PHILIPPINES.

MAYNILAD'S SISTER COMPANIES MERALCO AND METRO PACIFIC TOLLWAYS OWN THE LARGEST ELECTRIC DISTRIBUTION AND TOLLROAD SYSTEM IN THE PHILIPPINES, RESPECTIVELY. MPIC ALSO OWNS THE LARGEST HOSPITAL CHAIN IN THE WHOLE COUNTRY.



#11: FIRST PACIFIC LTD. CO.

MPIC IS A SUBSIDIARY OF FIRST PACIFIC COMPANY, AN INVESTMENT COMPANY LISTED IN THE HONG KONG STOCK EXCHANGE.

THE OTHER PHILIPPINES-BASED COMPANIES UNDER THE FIRST PACIFIC GROUP ARE: PLDT AND SMART, THE LARGEST WIRED AND WIRELESS TELECOMMUNICATIONS GROUP IN THE PHILIPPINES; TV5 AND MEDIAQUEST, MAJOR PLAYERS IN THE TELEVISION AND MEDIA SECTOR; PHILEX MINING, A LEADER IN EXPLORATION AND MINING OF MINERAL RESOURCES AND OIL.

FIRST PACIFIC ALSO OWNS INDOFOODS, THE LARGEST FOOD PRODUCTS MANUFACTURER AND DISTRIBUTOR IN INDONESIA.

AS YOU MAY NOTICE, THE PORTFOLIO OF MPIC AND FPC ENJOY A NATURAL SYNERGY, ESPECIALLY IN INFRASTRUCTURE.

ONE OF MERALCO'S SUBSIDIARIES, M-GEN, IS A POWER GENERATION COMPANY THAT RECENTLY ACQUIRED A NEW 800 MEGAWATT POWER PLANT IN SINGAPORE.

IT IS NOT UNCOMMON FOR OUR BUSINESS DEVELOPMENT ACTIVITIES TO BE PARALLEL IF NOT INTERTWINED.

IN AREAS WHERE THE WATER SOURCE IS DEEMED TO HAVE HYDROPOWER POTENTIAL, M-GEN MOVES IN TO STUDY THE ENERGY PROSPECTS.

Public-Private Participation (PPP)



#12: PUBLIC-PRIVATE PARTICIPATION

WE HAVE TO UNDERSTAND THAT DEMAND FOR BASIC SERVICES LIKE WATER AND POWER WILL CONTINUE TO RISE.

THE PRIVATE SECTOR IS WILLING AND ABLE TO PARTICIPATE IF THE PUBLIC-PRIVATE PARTNERSHIP OR PPP FRAMEWORK AND REGULATORY MECHANISMS ARE WELL-DEFINED AND FAIRLY IMPLEMENTED.

THE SOONER INFRASTRUCTURE PRESSURES ARE ADDRESSED, THE MORE EQUIPPED A COUNTRY WILL BE TO PURSUE OVERALL ECONOMIC PROSPERITY.

WE IN MAYNILAD RECOGNIZE THE SOCIAL BENEFITS AND LONG-TERM VALUE OF PARTNERING WITH THE PUBLIC SECTOR.

HAILED AS THE WORLDS BIGGEST PPP PROJECT IN WATER, OUR HIGHLY SUCCESSFUL PARTNERSHIP WITH THE PHILIPPINE GOVERNMENT HAS IMPROVED THE LIVES OF MILLIONS OF FILIPINOS.

AND WE ARE COMMITTED TO FURTHER STRENGTHING THIS PARTNERSHIP FOR THE SAKE OF OUR CUSTOMERS.

I WOULD LIKE TO CLOSE WITH AN APPEAL TO APIL.

INASMUCH AS COMPANIES LIKE MAYNILAD, PHILHYDRO AND MPIC ARE COMMITTED TO PURSUE INNOVATION IN SUCH CRUCIAL AREAS AS WATER AND POWER, THE PRIVATE SECTOR CAN ONLY DO SO MUCH AND MOVE AS FAR AS LEGISLATION ALLOWS.

THE NEW FEED-IN TARIFF SCHEME IN THE PHILIPPINES IS JUST AN EXAMPLE OF LEGISLATION THAT GIVES THE PRIVATE SECTOR AN OPPORTUNITY TO OPTIMIZE OPERATIONS. IT IS THESE KINDS OF NEXUS AND SYNERGY WHICH WILL DRIVE INNOVATION AND LASTING IMPROVEMENTS.

LADIES AND GENTLEMEN, THE PRIVATE SECTOR NEEDS YOUR SUPPORT AND GUIDANCE.



#13: MAYNILAD LOGO

THANK YOU VERY MUCH, AND GOOD AFTERNOON!

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