

The Infrastructure Issue

Philippines

A Guide for Businessmen and Investors

2012 - 2013 Edition

Manabat Sanagustin & Co.



cutting through complexity™



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Message

The Philippines has recently been recognized as one of the most exciting investment destinations in the Asia Pacific. This is because there are many opportunities in the country that have the potential to provide attractive returns to investors. This publication focuses on these investment opportunities, more particularly in infrastructure.

In the power sector, new power generation plants, extended transmission facilities, and more dependable distribution systems need to be built. For transport, there is an increased need for new roads, expanded railway systems and decongested airports to support growing industries that are serving an ever increasing population. In the water sector, there is a critical requirement to find a new water source for Metro Manila as there is currently only one water source for the MWSS service area serving a total of 13 million out of the total service population of 15 million, or only 87 percent of the total service coverage.

The Philippine economy is expected to continue to strengthen in the near future on improving foreign remittances, a continuously increasing population and healthy consumer spending. In 2011, foreign remittances amounted to US\$20.11 billion and for the first two months of 2012, foreign remittances were up by 5.60% from US\$2.97

billion to US\$3.14 billion from the previous year. At the end of 2011, the population of the Philippines was estimated at 95.86 million people, with a growth rate of 1.90 percent per year, one of the highest in the region. Consumption has also continued to remain a key driver of the economy. Last year, household consumption grew by 6.10 percent, accelerating from 3.40 percent the previous year.

In addition, to support the continuous growth of the Philippines, and to further the positive investment climate that the country provides, the national government has embarked on a medium term plan to fully support private initiatives and further develop the infrastructure of the country. The government aims to create an enabling environment in the infrastructure space that would attract private investors.

We expect 2012 and the succeeding years to present numerous opportunities in the areas of power, transport and water. We at KPMG are best suited to assist potential clients maximize their investments and advise them to achieve their ideal returns. As such, we would like to present to you the 2012 – 2013 Edition of Manabat Sanagustin & Co.'s, *A Guide to Businessmen and Investors*, aptly named *The Infrastructure Issue*.



Roberto G. Manabat
Chairman & CEO
Manabat Sanagustin & Co.

A silhouette of a construction site at sunset. Two large tower cranes are visible against a bright orange sky. In the foreground, the skeletal structure of a building under construction is shown, with numerous vertical rebar rods protruding from the top. The overall scene conveys a sense of active development and infrastructure growth.

Infrastructure Development: Building the Future of the Philippines



The level of infrastructure development in a country is a prime indicator of its progress and greatly affects a country's economic and social growth. This is all the more true in an archipelagic country such as the Philippines wherein natural boundaries limit the amount of development from region to region. Extensive infrastructure development, such as roads and railways, is vital in reducing the physical distance between these locations for continued microeconomic and macroeconomic growth. It is also imperative that basic resources such as electricity and clean and potable water are provided to the populace to raise the standards of productivity and the overall quality of living.

There are a number of opportunities in the Philippines in key infrastructure sectors. The country peacefully conducted elections in 2010 and a new government with a clear mandate was elected. The government of the Philippines recognizes that in order to stimulate economic growth, an enabling environment must be established for the private sector to make investments and as a result be able to provide increasing employment opportunities. Realizing that it has lagged behind in some significant aspects critical to economic progress, the government has fast tracked the implementation of a medium-term program focused on infrastructure.

The current administration announced that it will pursue 109 priority infrastructure projects with a value of approximately US\$1.45 billion in the medium to long term. These projects are comprised of rail, toll roads, water, traditional and renewable energy, airports and other significant projects in the infrastructure space. Further, the government recognizes the importance of the role of the private sector in nation building, and conscious of its shortfalls in fiscal capacity, the government has formulated a strategy to implement these projects under a Public-Private-Partnership ("PPP") program. Increasing the number of Public-Private Partnerships that will undertake crucial infrastructure projects throughout the Philippines will be a cornerstone to the Philippine government's plan in developing the country's infrastructure. A successful PPP program can effectively bridge the gap in the lack of available government funding for essential infrastructure projects. This allows some crucial issues to be addressed concurrently: a PPP scheme mobilizes private capital to build the infrastructure, it creates fiscal space for the government to shift its limited resources into other worthy projects, it allocates the project risks to several stakeholders, it permits a more efficient cost and governance structure, and it generates a more responsive service and a higher quality project.

History and background of infrastructure in the Philippines

In terms of infrastructure, the Philippines used to be at par when compared to its Asian neighbors in the 1960s. The country had one of the first highways that cut through several Manila cities (Epifanio de los Santos Avenue or "EDSA") and one that cuts through several suburban cities (South Luzon Expressway or "SLEX"). The country also boasted the first airline in 1951 and one international airport in 1985. In recent times however, the country hit a plateau and started to decline, lagging behinds its Southeast Asian neighbors like Malaysia, Singapore and Thailand.

Global Infrastructure Competitiveness Ranking

Indicator	Country					
	Philippines	Singapore	Taiwan	Malaysia	Thailand	Indonesia
Quality of roads	114th	1st	16th	21st	36th	84th
Quality of railroad infrastructure	97th	6th	8th	20th	57th	56th
Quality of port infrastructure	131st	2nd	30th	19th	43rd	96th
Quality of air infrastructure	112th	2nd	53rd	29th	28th	68th
Quality of electricity supply	101st	9th	24th	40th	42nd	97th
Fixed telephone connectivity	106th	28th	1st	80th	93rd	82nd
Mobile telephone connectivity	88th	17th	40th	47th	32nd	98th
Overall	113th	3rd	19th	27th	46th	90th

Source: World Economic Forum

Among the infrastructure requirements that needs to be addressed urgently is an alternative to the sole source of the water supply of Metro Manila, servicing an estimated 11.6 million people, and containing the central business district and the financial district. Another is the current situation with the country's international airport which has been suffering from problems of congestion and the need for a major renovation. In energy, the country experienced long power interruptions in the early to mid 90's due to insufficient capacities of the power plants. The construction of new power plants was fast tracked and power shortages have been avoided for the last 15 years. However, recent studies show that the supply of power will again be insufficient in the coming years if no new generating plants are built. In toll roads, the two major toll roads linking Metro Manila to the south and the north are not interconnected; and the south toll road, the SLEX which had a plan for a major skyway about 10 years ago, only finished that skyway recently.

Demographics and outlook

Although the Philippines has experienced a number of economic and political challenges over the last three decades, recent developments have created a number of opportunities for potential investors. Although most developments had been done on a stop-gap basis, more often than not serving as short-term solutions to larger and more complex problems, the current government's integrated approach has generated a significant amount of optimism for Philippine infrastructure. Specifically, a positive outlook for the current government's thrust towards public-private-partnership is intended to provide

“The key to competitiveness is having the right infrastructure in place.”

**– Rolando G. Tungpalan,
Deputy Director-
General, National
Economic and
Development Authority**

expansive growth in the infrastructure space.

In its 2010 Global Competitiveness Report, the World Economic Forum ranked the Philippines 113th out of 139 countries in terms of overall infrastructure development. Fellow ASEAN members Thailand, Malaysia, Singapore, and Indonesia all ranked above the Philippines in the same category. Further breaking down the ranking, a comparison of development per infrastructure sector indicates strong potential for investment opportunities in infrastructure.

The overall infrastructure ranking was taken by evaluating several infrastructure indicators, namely: quality of roads, quality of railroad infrastructure, quality of port infrastructure, quality of air infrastructure, quality of electricity supply, fixed telephone connectivity, and mobile telephone connectivity. The Philippines ranked lowest when benchmarked against the comparable countries for all the sectors except for mobile telephone connectivity.

In order for the Philippines to rise to a level of development comparable to its neighbors, the deficiency in functioning infrastructure must be addressed, therefore highlighting the need for additional investments in these areas.

The opportunities are clear and there is plenty of room to grow for the Philippines. The economy in general has been trending upward and there is plenty of optimism in the market. Investors are generally encouraged by the economic measures being adopted by the current administration.

Current economic indicators are painting a similar picture: that the Philippines is successfully laying the ground work for economic reforms leading to a renewed optimism amongst the business sector and potential investors. The continued increase in the country's GDP shows that the current and future economic situation is an attractive setting for potential investors.

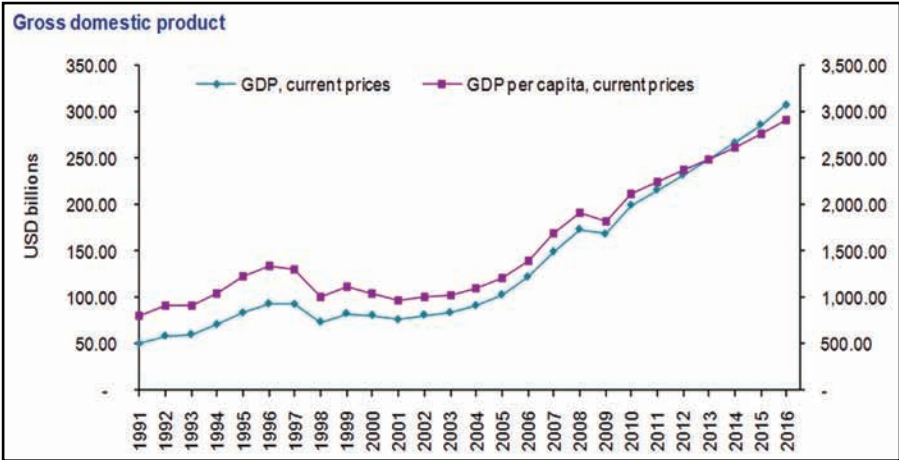
Support for the infrastructure agenda of the present administration

Investments in infrastructure will improve the country's competitiveness and governance by reducing the cost of doing business, and ensuring the effective and efficient delivery of public service. The government sees the private sector's participation as a key strategy in achieving its goal of inclusive economic growth. The recognition of the vital role of the private sector in national development has given rise to a strategy of encouraging private sector participation in infrastructure development.

With the issuance of Executive Order No.

8, the Build-Operate-Transfer (“BOT”) Center was renamed as the Public-Private-Partnership Center (“PPP Center”) and transferred as an attached agency from the Department of Trade and Industry (“DTI”) to the National Economic and Development Authority (“NEDA”). NEDA is the government’s central planning agency for social and economic development. NEDA’s Deputy Director-General, Rolando G. Tungpalan says that the key to the country’s competitiveness is having the right infrastructure in place. NEDA has been taking steps towards this goal by using “a more thorough project development process, where more gains can be achieved.”

The PPP Center was created as an enabler and developer for PPP Projects. It was placed under NEDA to better facilitate the coordination and monitoring of PPP projects. The PPP Center helps various government agencies and the private sector in developing and implementing critical infrastructure projects by providing advisory and technical services throughout a project’s life. The government is also exploring the concept of providing protection from certain regulatory risks. The private sector proponents will be selected through a competitive process and will be given reasonable returns and appropriate risk-mitigation options. PPP Center’s Executive Director, Cosette V. Canilao says that the mission of the PPP Center is to facilitate and optimize public-private partnership and to provide quality and timely technical assistance and advisory services, capacity development, and policy formulation and evaluation.



Source: IMF statistics, 2011

“Our mission in the PPP Center is to **facilitate and optimize public-private partnership**. We are here to provide quality and timely technical assistance and advisory services, capacity development, and policy formulation and evaluation.”

– Cosette V. Canilao, Executive Director, PPP Center

Other government agencies have also been involved in the planning and implementation of infrastructure projects

Implementing Agency	Overview
Department of Energy (DOE)	The DOE is mandated to prepare, integrate, coordinate, supervise and control all plans, programs, projects and activities of the Government relative to energy exploration, development, utilization, distribution and conservation
Department of Transportation and Communication (DOTC)	The DOTC is tasked with the promotion, development and regulation of a dependable and coordinated network of transportation and communications systems
Department of Health (DOH)	The DOH is responsible for guaranteeing equitable, sustainable and quality health for all Filipinos
Department of Public Works and Highways (DPWH)	The DPWH undertakes the planning, design, construction and maintenance of infrastructure, such as roads and bridges, flood control, water resources projects and other public works
Metropolitan Water and Sewerage System (MWSS)	The MWSS has the supervision and control over all waterworks and sewerage systems within Metropolitan Manila, the province of Rizal and some parts of the province of Cavite
Department of Education (DepEd)	The DepEd is tasked to provide quality basic education that is equitably accessible to all
Local Government Units (LGU)	The LGUs are tasked to administer their infrastructure and development programs and to identify certain priority projects that may be financed, operated and maintained by the private sectors

Source: IMF statistics, 2011

Opportunities in Urban Development: Hot Investment Sectors

In this Chapter:

- Power: Sustaining the growth of urban centers
- A drop in every home and business: Ensuring water supply for a growing nation
- Fueling the economy through strong transport infrastructure
- Structuring taxes on infrastructure investments

Manabat Sanagustin & Co.



Power: Sustaining the growth of urban centers



Michael H. Guarin
Head of Transactions and
Restructuring,
Advisory Services
+63 2 894 1779
mguarin@kpmg.com



Paul R. Afable
Senior Manager,
Transactions and
Restructuring
Advisory Services
+63 2 885 7000 ext 767
pafable@kpmg.com

With the government's Department of Energy ("DOE") projecting that the demand for power in the country will soon overtake the total installed generation capacity, further investments in the power sector are vital to the development of the Philippines' economy and the overall progress of the country. Current infrastructure in the energy sector includes power generation facilities, power transmission systems, which include transmission lines and substations, and power distribution facilities, which include distribution substations and distribution lines, transformers and posts.

Privatization and current setup

Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act ("EPIRA"), was signed into law on June 8, 2001. The primary objective of EPIRA is to ensure the quality, reliability, security and affordability of the energy supply in the

country. In order to achieve this objective, the government needed to ensure that there was open access and proper retail competition in the energy sector. EPIRA mandated that the power generation and power transmission assets formerly owned by NPC were to be privatized through the administration of the Power Sector Assets and Liabilities Management Corporation ("PSALM").

EPIRA also stated that the ownership of generation assets by a single owner be limited to only 30 percent of a generating capacity within a single grid. This means that in any single grid, there shall be at least four different owners of generation assets to allow competition. These two reforms were aimed to achieve retail competition and open access in the supply of electricity. EPIRA aimed to increase the level of private participation and reduce the government's involvement in the operation of the country's power

Background and History



As early as 1892, the city of Manila already had electricity provided by La Electricista, the Philippines's first electric company. In 1985, a small central power plant was built in downtown Manila producing electricity to power about 3,000 residential customers and the streetlights of Manila. Charles M. Swift, a Detroit entrepreneur, acquired in 1904 La Electricista and Manila's electric tramway service through a bid grant which served as the basic franchise of what is now Meralco.

Decades leading to World War II, Meralco was increasing its capacity and providing electricity to homes and businesses, and up to now, the only power distributor in the Metro Manila area. The government responded to the increasing demand for electricity and economic growth, then president Manuel L. Quezon approved Commonwealth Act No. 120 that created the National Power Corporation ("NPC" or "NAPOCOR").

After World War II, the Philippine power industry was highly influenced by the

political environment, which resulted in generation inefficiencies and the unreliability of power supply. Prior to legislative reforms, the industry was regulated as a whole, and sectors were bundled together. There were no clear distinctions amongst the various sectors, such as generation, transmission and distribution. Power generation used to be administered by the government through the NAPOCOR

From 1990 to 1992, blackouts occurred daily between 4-12 hours a day. Emergency powers granted to then president Fidel V. Ramos allowed government to authorize the private sector to be more actively involved in the power generation sector, which normalized the power supply. After emerging from this power crisis, the Philippine government embarked on an industry privatization and restructuring program envisioned to ensure the adequate supply of electricity to energize its developing economy.

generating assets. The ultimate goal of implementing EPIRA is to increase transparency and competition in the electric power industry to reduce electricity rates and improve reliability of supply, while keeping a healthy and reasonable level of regulation.

The power industry in the country has undergone extensive privatization since EPIRA's passage. By 2011, NPC had sold more than 80 percent of its power generation assets and is still in the process of privatizing the remaining plants. The National Grid Corporation of the Philippines ("NGCP"), privatized in 2008, manages the country's transmission assets. Electricity is then distributed to users (households or industries) by private electric utilities, or local government-owned utilities, or provincial electric cooperatives ("ECs") under the National Electrification Administration ("NEA"). There are also small power utilities groups ("SPUGs") that are responsible for providing power and its associated power delivery systems on stand-alone islands. These areas are connected to the power grid but cannot be serviced directly by private distribution utilities or other third parties.

Historically, in the power generation segment, the NPC used to be the major

owner and operator of power generation assets prior to the enactment of EPIRA. In 2003 - 2004, the national government started to bid out the full ownership of the majority of NPC's power generation assets. Government also approved the construction and operation of a number of new power projects in order to meet the ever-increasing power demand in the country. After the privatization efforts, independent power producers ("IPPs") have been supplying majority of the power needs of the country. Currently, the power generation segment is comprised of the remaining NPC owned and operated assets, NPC-owned but IPP-operated assets ("NPC-IPP"), and purely IPP-owned and operated assets. IPPs currently generate 71.5% of all generated power in the country, while fully owned and operated NPC assets now only account for 6.75%.

As of this date, there is still a number of remaining government-owned power generation assets whose administrators, otherwise known as independent power producer administrators ("IPPAs"), shall be bid out by the government.

For the transmission segment, NGCP is the private entity that won the bid for the sole franchise of taking over the National

16,359 MW
current installed
capacity

Department of Energy
projected peak demand
forecast:

15,538 MW
by 2020

25,165 MW
by 2030

Transmission Corporation's ("TransCo") power transmission operations under a 25-year concession that was awarded by Congress in 2008. The winning consortium of Monte Oro Grid Resources Corporation and State Grid of China, now operates under the NGCP name. NGCP has been operating and managing the national transmission network since PSALM formally turned over the 25 year TransCo concession to NGCP last January 15, 2009. In 2010, OneTaipan Holdings, controlled by Henry Sy Jr. of the SM conglomerate, acquired 100 percent ownership of Monte Oro Grid Resources Corp. This also resulted in Mr. Sy being appointed as the new CEO of NGCP.

There are 3 main grids in the Philippines which correspond to the 3 main islands in the country, namely, Luzon, Visayas and Mindanao. These 3 grids are not interconnected and as such, power produced in one grid is only distributed in that same area. Therefore, excess capacity in one grid cannot be used to supply power deficiencies in another grid. The interconnection of the 3 grids has been studied by the government for 3 decades but no concrete steps have been taken. NGCP unveiled plans in 2011 to have the Visayas grid interconnect with the Mindanao grid which would be completed in 2015.

For power distribution, Metro Manila is serviced by the Manila Electric Company ("Meralco"). Major urban cities also have private electric distribution utility companies present in their franchise areas. Majority of the country, specifically those in the rural areas however, get their electricity from electric cooperatives. The Rural Electrification Program was started in the 1960s to provide electricity to the Philippine countryside in order to improve the socio-economic growth in these rural areas. There are currently 119 electric cooperatives reaching most of the Philippine countryside. It is estimated that 99 percent of Philippine barangays (which are the Philippine version of a district or village) has been reached by the electrification program.

Infrastructure breakdown

Philippine power plants utilize different fuel types for their operations, namely: biomass, geothermal, hydro, wind and solar for renewable energy and coal, natural gas, and oil for non-renewable sources. The largest contribution to the

Philippines				
Plant type	Capacity (MW)		Percent Share	
	Installed	Dependable	Installed	Dependable
Coal	4,867	4,245	29.75%	30.54%
Oil based	3,193	2,488	19.52%	17.90%
Natural Gas	2,861	2,756	17.49%	19.83%
Geothermal	1,966	1,350	12.02%	9.71%
Hydro	3,400	3,021	20.78%	21.73%
Wind	33	20	0.20%	0.14%
Solar	1	1	0.01%	0.01%
Biomass	38	20	0.23%	0.14%
TOTAL	16,359	13,901	100.00%	100.00%

Source: DOE Power Statistics as of 2011

Philippines				
Grid	Capacity (MW)		Percent Share	
	Installed	Dependable	Installed	Dependable
Luzon	11,981	10,498	73.24%	75.52%
Visayas	2,407	1,745	14.71%	12.55%
Mindanao	1,971	1,658	12.05%	11.93%
TOTAL	16,359	13,901	100.00%	100.00%

Source: DOE Power Statistics as of 2011

Required additional capacity (MW)			
	Luzon	Visayas	Mindanao
2011	-	-	50
2012	-	-	50
2013	-	-	50
2014	300	-	-
2015	300	-	-
2016	600	-	100
2017	450	100	100
2018	600	50	100
2019	500	100	100
2020	650	100	100
2021	650	150	200
2022	800	100	-
2023	800	150	100
2024	800	100	100
2025	800	150	200
2026	1,000	150	100
2027	800	150	160
2028	1,100	150	150
2029	1,050	200	200
2030	1,100	150	150

Source: DOE Power Statistics as of 2011

country’s power generation comes from the non-renewable sources with coal having an installed capacity of 4,867 MW or 29.75 percent of the total capacity, followed by oil and natural gas, contributing 3,193 MW and 2,861 MW, respectively.

Based on geographic location, the island of Luzon still has the greatest installed capacity of 11,981 MW which comprises 73.24 percent of the entire capacity of the country.

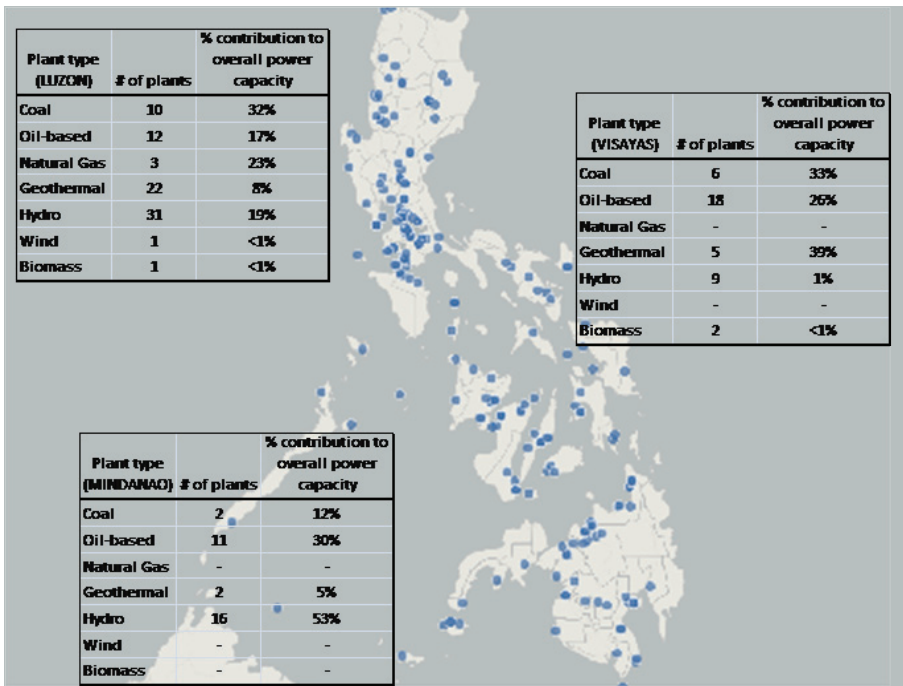
Current situation

The DOE has projected that the peak demand for power for the entire country will increase from 10,850 MW in 2011 to 15,538 MW by 2020, reaching 25,165 MW by 2030. Given these forecasts, the current dependable capacity will not be able to address the country’s needs unless new infrastructure is put in place both in the short and long-term.

For Luzon, the year 2014 has been identified as the critical period when demand can potentially exceed the installed capacity. Apart from the 730MW committed capacity from 2011 - 2014, Luzon will need at least an additional 300 MW by 2014. Cumulatively, Luzon will need a projected required additional capacity of 3,400 MW by 2020, increasing to 12,300 MW by 2030.

In the Visayas region, the year 2017 will be the region’s critical period – 610 MW of capacity was added to the Visayas region in 2010 - 2011 which will be able to answer the demand until 2017. In 2017, the Visayas region will need an additional 100 MW. Cumulatively, the Visayas region will need a projected required additional capacity of 350 MW by 2020, increasing to 1,800 MW by 2030.

In Mindanao, there is already an urgent need of at least 100 MW in 2012 - 2013 as the demand is expected to exceed the maximum supply in the region very soon. There have already been occurrences of power outages in Mindanao in 2011 due to shortage of supply when there were temporary power plant shutdowns. There is an expected additional capacity of 250 MW to be completed in 2014 - 2015 although Mindanao will need another 500 MW apart from this until 2020. From 2016 until 2030, Mindanao will cumulatively need a total additional capacity of 1860 MW.



Source: DOE Power Statistics as of 2011

All in all, the Philippines will need an additional 15,960 MW by 2030 to keep up with the power requirements of the country.

According to Lisa S. Go, Chief Investment Specialist of DOE, of the 266 energy contracts awarded, approximately 68 percent or 180 contracts are still in the pre-development stage. She noted that once in the development stage, it usually takes three more years for the power plant project to be up and fully operational.

To address these deficiencies, additional power generating assets are urgently required. Currently, there are already 28 power projects in the country’s infrastructure pipeline. The private sector has historically invested significant amounts in the country’s infrastructure, particularly with respect to power. Large conglomerates have usually engaged in the construction of capital intensive infrastructure. Given these conglomerates’ size and ability to raise funds, the government is looking to complete these projects through their Private-Public Partnership program (“PPP”).

As part of DOE’s efforts to promote PPP in the power sector, DOE has started drafting an Energy Investment Guide, which aims to help investors in the preparation of required documents for registration with

Gross power generation by ownership (in Mwh '000)	
NPC	4,575,770
NPC-IPP	14,724,519
IPPs	48,442,471
Total	67,742,760

66.76 %
percentage of installed capacity that relies on non-renewable sources (coal, oil and gas)

100 MW
additional capacity urgently required in Mindanao for 2012 - 2013

“The DOE is actively trying to increase the transparency and efficiency of government processes, both at the national and local levels, to attract foreign energy investors into the country. Efforts being made by the private sector to attract foreign investments are welcomed and encouraged. **The country is in need of investments to increase the base load power generating capacity of the Philippines.** This means additional investments in coal-fired and geothermal power plants.”

– Lisa S. Go, Chief Investment Specialist,
Department of Energy

different government agencies such as the Securities and Exchange Commission, Department of Environment and Natural Resources, Department of Trade and Industry, and Board of Investments, among others. Ms. Go also noted that “the DOE is actively trying to increase the transparency and efficiency of government processes, both at the national and local levels, to attract foreign energy investors into the country. Efforts being made by the private sector to attract foreign investments are welcomed and encouraged. The country is in need of investments to increase the base load power generating capacity of the Philippines. This means additional investments in coal-fired and geothermal power plants.”

Richard B. Tantoco, president of Energy Development Corporation (“EDC”), says that the country is already home to an abundance of expertise in the power sector. Specifically, EDC is a technology champion in geothermal power. In fact, they are able to advise foreign power companies in terms of exploring, locating, and harnessing geothermal energy. Mr. Tantoco adds that “it is crucial for the government to provide key incentives and support for the power sector so that we can take advantage of our technology capabilities.”

In Luzon, hydro plants are the most common with 31 plants currently operational. Geothermal plants are next with 22 sites existing, while oil-based and coal plants are next with 12 and 10 sites respectively. The coal plants contribute the



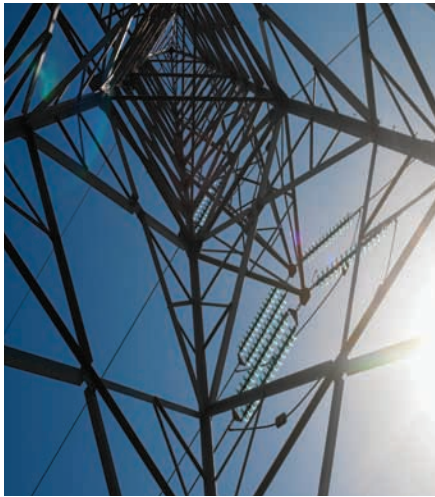
most to the supply needs of Luzon with 32 percent of the entire capacity.

In the Visayas region, oil-based plants are the most common with 18 sites in the region. Hydro plants are located in 9 sites, coal plants are in 6 sites, and geothermal plants are in 5 sites. Geothermal plants in the Visayas region contribute the most to the supply of Visayas, amounting to 39 percent of the entire capacity.

In Mindanao, the region is dominated by hydro plants with 16 currently in existence followed by oil-based plants with 11. Hydro also contributes 53 percent to the entire power supply of Mindanao.

“The Philippines needs new plants that are more fuel-efficient resulting in power being more reliable and affordable.”

– Oscar S. Reyes, Senior Executive Vice President and Chief Operating Officer, Meralco



Investment opportunities

Despite the investments of local companies in the power sectors, there is still a huge gap in the coming years to meet the power demands of the country. The current local market players will not be enough to meet the future capacity requirements.

Potential investment opportunities include investments in more power plants, expansion and renovation of existing power plants, and the privatization of the government's remaining power resources. The NPC has also been focusing to bring electricity to remote islands and rural areas not yet connected to the main grid, eventually privatizing these upon the establishment of commercial viability for investors. The DOE has also identified greenfield generation projects and possible joint ventures with proponents of indicative projects as priorities for its immediate plans. Other opportunities present in the power sector include electricity trading in the Wholesale Electricity Spot Market (“WESM”), the transition to an independent market operator, supply/aggregation business, and metering services.

Oscar S. Reyes, Senior Executive Vice President and Chief Operating Officer of Meralco, recognizes that there are still many opportunities in the power sector, evidenced by the substantial growth of

Meralco for the past two years. At the moment, Meralco continues to ensure the availability of quality power in their coverage area. However, they are also exploring further areas of growth outside of Metro Manila. They are also looking at possibilities outside Metro Manila. “We would aim to create value in other areas lacking good service and distribution.” Meralco is also not limited to distribution as it is also interested in opportunities in the generation side of power. “Capacity is once again starting to be challenged and that reserves are thinning out” adds Mr. Reyes. “The Philippines needs new plants that are more fuel-efficient resulting to power being more reliable and affordable.”

While some foreign players are already present in the country such as Marubeni (Japan) and Kepco (Korea), there is still room for more foreign direct investments (“FDI”). FDI is a major source of external finance which means that developing countries with limited amounts of capital can receive finance beyond national borders and help spur the economy and develop important infrastructure requirements. With ever-increasing power requirements of the country, FDI is even more important as there is a gap between what local players can accomplish within the next few years with the rapid increase in power demand.



Energy Development Corporation (“EDC”) is a truly international Filipino-owned corporation. A subsidiary of First Gen Corporation, it is the largest player in the geothermal energy industry in the country and also the 2nd largest producer of geothermal energy in the world. EDC is a pioneer in geothermal energy with more than three decades of proven business viability.

As of 2010, EDC has PHP84.78 billion in assets and has investments in various geothermal steam fields and power plants around the country with a total installed capacity of 1,198.8 MW. EDC is planning to invest over US\$1 billion in greenfield power plants over the next five years. Aside from the greenfield investments, the company is also allocating approximately US\$479.0 million for the rehabilitation of its existing power plants, drilling activities and the

improvement of the company's facilities. From exploration and production of water-based steam power to generation of electricity for commercial use, EDC builds some of the world's pioneering and most complex steam fields banking on highly skilled manpower and homegrown technology that are fast becoming benchmarks in the industry.

Richard B. Tantoco, president of EDC, says that the company has a unique competitive advantage. EDC is a technology champion and employs approximately 700 geoscientists. The company's high degree of specialization in geothermal power development has made it a major player in the geothermal industry worldwide. The company has capitalized on this by offering its expertise and working with both foreign and local entities to fully realize their geothermal potential.

Aboitiz Power Corporation (“AP”)

The Aboitiz Group’s involvement in the power industry started in the 1990’s when the Aboitiz family decided to acquire a 20% ownership interest in Visayan Electric Company (“VECO”), a power distribution company. Due to the increasing demand for power in the Philippines, the Aboitiz Group became more involved in power generation, making the group a pioneer in the hydroelectric energy industry. It is currently the biggest hydroelectric plant operator in the country, accounting for over 800MW in capacity from hydroelectric plants. In 1998, AP was incorporated to serve as the holding company of the Aboitiz Group focusing on power generation and distribution, and power services. In less than 10 years of operations, AP listed its shares on the Philippine Stock Exchange. As one of the major producers of renewable energy, primarily geothermal energy, the company’s distribution utilities and plants are located primarily in the Luzon region, accounting for over 700MW in capacity. AP is currently focusing on strengthening its renewable energy business in the Visayas and Mindanao region.

Ayala Corporation (“AC”)

AC is the holding company of one of the oldest business groups in the country. Founded in 1834 and now one of the largest and most diversified conglomerates in the country, AC has business interests in the power, real estate, banking, water utility, and telecommunications industries. In terms of infrastructure investments, AC is currently pursuing prospects in the power sector with the aim of generating 1000 MW in the next five years. One of the company’s subsidiaries, Michigan Power Inc., recently formed a joint venture with Mitsubishi Corp. to develop solar power projects in the country. The company has also acquired a 50% stake in NorthWind Power Development Corp., operator of a 33 MW wind farm in Bangui, Ilocos Norte. AC, through its subsidiaries, is planning to acquire two more wind power projects in Aparri and Pamplona, each with a capacity of 40 MW. In addition to wind and solar power, the company is also looking into possible investments in hydro power.

Energy Development Corporation (“EDC”)

EDC, a subsidiary of First Gen Corporation, is one of the pioneers and the largest player in the geothermal energy industry. Due to its decades of experience in power generation, the company is in the forefront of the development and commercialization of renewable energy. EDC has PHP 84.78 billion in assets as of 2010 and has investments in various geothermal steam fields and power plants around the country with a total installed capacity of 1,198.8 MW. In 2008, EDC acquired 60% of First Gen Hydro Power Corporation (“FG Hydro”), which has two hydro power plants with capacities of 110 MW and 12 MW, involving EDC in the generation of hydro power. EDC is planning to invest over US\$1 billion in Greenfield power plants over the next five years starting in 2011. The firm is scheduled to construct additional geothermal facilities with a total capacity of 230 MW. It is also planning to enter wind power generation with the construction of an 86 MW wind farm in Burgos, Ilocos Norte. Aside from the Greenfield investments, the company is also allocating PHP20.6 billion for the rehabilitation of its existing power plants, drilling activities and the improvement of the company’s facilities. These investments are intended to increase the company’s generating capacity to 1,542 MW over a five year period.

First Philippine Holdings Corporation (“FPHC”)

First Philippine Holdings Corporation was incorporated in 1961 as a holding company. Some of its principal activities include power generation, manufacturing and construction, investment in real and personal properties, roads and tollways operations, and service industries. First Gen Corporation (“FGC”) and its subsidiaries are the group’s companies involved in the power generation business. FGC which was incorporated in 1998 is now the largest Filipino owned and controlled Independent Power Producer (“IPP”) in the country, with an installed capacity of 2,031 MW as of the end of 2009. Majority of the power generation plants under FGC that are operational are owned and controlled by the company through its subsidiaries.

Manila Electric Company (“Meralco”)

Meralco is the Philippines’ largest distributor of electrical power. Meralco was established in 1903 as the Manila Electric Railroad and Light Company. Meralco is Metro Manila’s only power distributor and holds the power distribution franchise for some 22 cities and 89 municipalities, including the entire Metro Manila and nearby areas, commonly known as the greater Manila area. Meralco serves roughly a quarter of the estimated population of the country. Meralco’s current ownership structure is divided by two Philippine conglomerates, the MPIC and San Miguel groups.

Metro Pacific Investments Corporation (“MPIC”)

MPIC is a holding company for investments in infrastructure and real estate. MPIC has PHP131.38 billion in assets as of 2010 and holds various investments in power, water utilities, toll operations, and real estate. MPIC is planning to spend PHP116 billion over the next five years for infrastructure. It has budgeted PHP50 billion for capital outlays in Meralco, which it owns, aside from the costs of new power generation projects.

San Miguel Corporation (“SMC”)

SMC entered the energy sector in 2007 after diversifying from its core business. SMC has significant investments in power generation through its acquisition of NPC assets. Among its acquisitions are: the Sual Power Plant, awarded to SMC by PSALM as an IPPA contract; the Limay Power Plant, through an Asset Purchase Agreement and Land Lease Agreement; and the San Roque Power Plant which was also awarded to SMC through privatization by PSALM. All plants owned by the SMC group are located in the Luzon region.

“The key to a successful water business model is having a robust concession agreement” says **Randolph T. Estrellado, Chief Financial Officer of Maynilad**

A drop in every home and business: Ensuring water supply for a growing nation

Ensuring a reliable potable water supply is a necessity for any populace and a nation's growth. In the Philippines, as other infrastructure sectors have steadily advanced in recent years, water has lagged behind in development. The search for new water sources and the improvement of water distribution have been faced by delays. Currently, the National Government is studying new water sources to adequately supply the public and address the looming increase in demand for water services.

Metro Manila's water requirements are supplied by Angat dam, the lone water source for the mega-city. Due to the rapid increase in population in Metro Manila, additional water sources are required in the immediate future. Provincial areas are facing similar challenges as they are responsible for their own water supply. Each province, through their respective local-government unit ("LGU"), acquires water from different sources such as rivers and deep wells. The distribution of water in these areas is administered by government regulated water districts.

Background and history

Prior to 1997, Metro Manila's water service was controlled by the National Government through the Metropolitan Water Works and Sewerage System ("MWSS"). However, the Government's resources were not sufficient to meet the growing demand for water which prompted the need to privatize the Metro Manila water distribution network. In 1997, the distribution of water throughout Metro Manila was awarded to two private concessionaires, effectively splitting the water distribution in Metro Manila into two service coverage areas.

The Metro Manila east service zone was awarded to Manila Water Company ("Manila Water"). The east services zone includes the cities of Taguig, Marikina, Pasig, San Juan, Mandaluyong, the Municipality of Pateros, parts of Quezon City, most of Makati, and Rizal province.

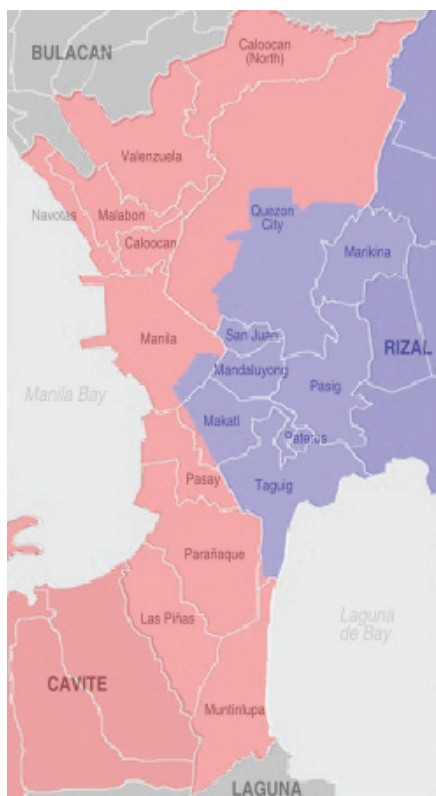
The Metro Manila west service zone was awarded to Maynilad Water Services, Inc.



Vicente A. Sarza
Head of Advisory Services
+63 2 885 0603
vsarza@kpmg.com



Mylene Mercado
Manager
Transactions &
Restructuring
Advisory Services
+63 2 885 7000 ext. 315
mcmercado@kpmg.com



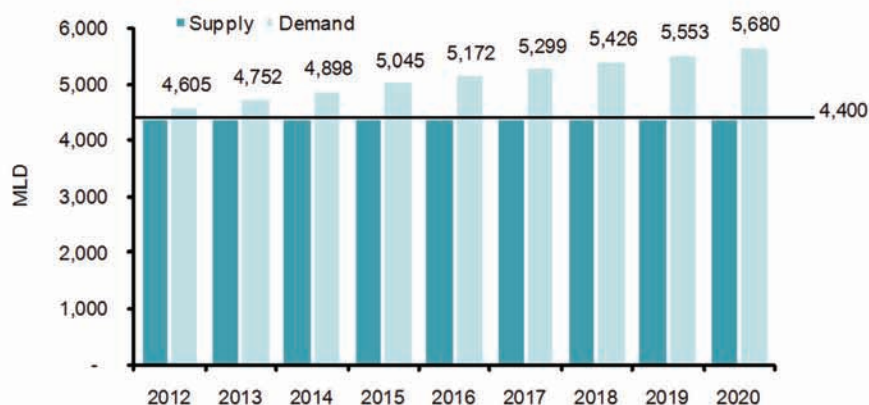
Metro Manila water zones: Red-west zone; Blue-east zone

4,000 MLD supplied by Angat Dam, the only present source of water for the entire Metro Manila

("Maynilad"). The west service zone includes the cities of Caloocan, Las Piñas, Malabon, Manila, Muntinlupa, Navotas, Pasay, Parañaque, Valenzuela, parts of Quezon City, and parts of Makati. It also includes nearby Cavite City, and the municipalities of Rosario, Imus, Noveleta, Bacoor, and Kawit in Cavite.

In 2005, Maynilad underwent corporate rehabilitation due to its inability to meet its service coverage area requirements and elected to return their franchise to the MWSS. In 2006, MWSS re-privatized Maynilad, awarding the franchise to the

Metro Manila Supply and Demand Situation



Source: New Water Sources Projects of the MWSS

DMCI-MPIC Water Company ("DMWC"), a joint venture between D.M. Consunji, Inc., one of the country's largest contractors, and Metro Pacific Investments Corporation, a local subsidiary of the First Pacific Group.

Outside of Metro Manila, LGUs account for more than half of the country's total water supply. There are also some private utilities, cooperatives, and other independent providers present in these provincial areas who provide water sources. Water districts are in-charge of the delivery of water service to their respective cities and municipalities under the supervision and oversight of the Local Water Utility Administration ("LWUA"). LWUA is mandated to develop local water districts and help promote the overall water supply projects in the provincial cities and municipalities.

Current situation

Metro Manila

Presently, Angat dam is the only source of water for the entire MWSS service area, which covers the entire Metro Manila and some nearby provinces such as Rizal and Cavite. Angat dam supplies 4,000 million liters per day ("MLD") out of the forecasted demand of 4,605 MLD for 2012. The subsequent deficit is forecasted to be covered by the Laguna lake water supply project which is projected to provide a total of 400 MLD by 2012. However, this still translates to a deficit of 205 MLD for 2012.

The projected water demand is expected to increase yearly to a high of 5,680 MLD by 2020. Therefore, an alternative water source is very high on the list of priority projects that the government is planning to

undertake starting this year.

"Ensuring water security is the MWSS' primary concern," Ramon B. Alikpala, MWSS Chairman said. Mr. Alikpala added, "given the current situation that all our eggs are in one basket, development of new water sources is an integral part of our agenda. The MWSS has developed a clear vision and mission to address the water shortage. Through these comprehensive plans, MWSS can execute a defined and accelerated program towards ensuring water security."

Provincial

Outside of Metro Manila, there are currently 851 water districts in the country. Water districts deliver water service to cities and municipalities. LWUA was formed in 1973 through the Provincial Water Utilities Act, and is mandated to promote and oversee the development of water districts in the country by acting as a specialized lending institution with financial and technical competence on water supply projects. Water districts are local corporate entities that operate a provincial city or municipalities' water supply system. LWUAs service area coverage is estimated at 60 percent of its potential market and has provided potable water to an estimated total population of 16.2 million.

Other locations not covered by LWUA are handled by local barangay water and sanitation associations and cooperatives.

Major players

Metro Manila Concessionaires

Water distribution in Metro Manila is handled exclusively by Maynilad and Manila Water. Both companies have been enjoying consistent and robust revenue and income streams.

Historical revenues are buoyed by the increase in water demand volumes and improving service area coverage. Also, continued investments in distribution infrastructure have resulted in a steady decline in the NRW. Both water concessionaires are also planning to increase capital spending to further improve their services and to address the immediate water shortages in Metro Manila.

Mr. Randolph Estrellado explained that “the key to having a successful water business model is to have a robust concession agreement.” The concession agreement should have a clear framework on cost recovery mechanisms that will allow the concessionaire to realize a steady stream of cash flows to recuperate heavy capital expenditures.

Other Concessionaires

Two examples of other water concessionaires include Subicwater and Calapan Ventures. Subicwater is a privately-run water utility serving Olongapo City. In 2007, Subicwater delivered 60 MLD and established over 35,000

connections. The ownership structure of Subicwater is:

- 70% private sector
- 20% Subic Bay Metropolitan Authority
- 10% Olongapo City Government

Calapan Ventures on the other hand is one of the two water utility companies listed on the Philippine Stock Exchange (the other listed entity is Manila Water). Calapan Ventures currently owns two water concessionaires, namely Calapan Waterworks Corporation operating in Calapan City, Oriental Mindoro, and Tabuk Water Corporation operating in Tabuk City, Kalinga province. For potential investors in water utilities, a similar holding company structure may be formed to establish a larger revenue base. In addition, Manila Water also expanded to other service

areas through acquisition or concession award in Laguna and in Boracay.

Water Districts

Based on the available data from LWUA, the most active water district in terms of production is the Davao City water district with more than 7.6 million cu. m. in total production volume. It is apparent that large metropolitan areas in the Visayas and Mindanao regions have the larger water districts in terms of production volume as they serve a larger population as compared to other metropolitan areas in Luzon such as Dasmariñas City in Cavite and San Pablo City in Laguna.

Top 10 water districts by average production

Water District	Average Monthly Production (m ³)
Davao City	7,634,126
Cagayan de Oro City	4,381,886
Dasmariñas	2,543,853
Bacolod City	2,340,956
San Pablo City	1,480,398
Metro Iloilo	1,371,057
Batangas City	1,322,318
Baguio City	1,319,660
Angeles City	1,257,731
Calamba	1,217,758

Financial performance

amounts in PHP billions	Manila Water Company, Inc.			Maynilad Water Services, Inc.		
	2008	2009	2010	2008	2009	2010
Income statement						
Revenue	8,913.6	9,532.6	11,013.4	8,244.9	10,618.5	12,049.5
Net income	2,788.1	3,230.5	3,987.5	1,994.1	2,824.6	4,780.0
Balance sheet						
Assets	36,368.5	43,758.4	48,620.7	34,751.7	38,179.4	42,590.2
Liabilities	21,910.9	26,787.7	28,642.7	33,814.6	34,417.7	34,646.4
Equity	14,457.6	16,970.7	19,978.0	937.1	3,761.7	7,943.7
Other information						
Ownership	Ayala Corporation			MPIC and DMCI		
Service coverage	East Zone (cities of Makati, Pasig, Mandaluyong, Marikina, San Juan and Taguig, most parts of Quezon City, some parts of Manila, and the municipality of Pateros, cities and municipalities in Rizal Province further east of Metro Manila)			West zone (Caloocan, Las Piñas, Malabon, Manila, Muntinlupa, Navotas, Pasay, Parañaque, Valenzuela, parts of Quezon City, a part of Makati, Cavite City, and the municipalities of Rosario, Imus, Noveleta, Bacoar, and Kawit in Cavite)		



5,680 MLD

projected water supply demand by year 2020

Investment opportunities

PPP projects

Potential investors in the water sector may be interested in new bulk and raw water source projects. The estimated cost for the water source and irrigation projects in the list of Public-Private Partnership Projects provided by the National Government last November 2010 in the launch of its infrastructure program and the latest economic briefing last February 2012 amounted to PHP119.5 billion.

The following are the projects that are expected to be rolled out in 2012:

A. New Water Supply Source Project (US\$581.4 million)

The project will involve the construction of a dam, a water treatment plant and an associated main pipeline to deliver water from the project location to Metro Manila. This project is expected to provide water supply and help address the projected increase in water demand across the metropolis.

B. Balara Water Hub (US\$465.1 million)

The project will involve the construction and operation of an international center for water excellence located within the MWSS Balara Compound situated along Katipunan Avenue opposite UP Diliman Campus in Quezon City. The proposed 75-hectare modern hub is envisioned to showcase existing eco-efficient water technology and be developed as a mixed-style popular destination for education, sports, business,

Water projects pipelines

PHP millions	Project Cost Estimate
New Water Supply Source Project	25,000.0
Balara Water Hub	20,000.0
Kaliw a Low Dam Project	22,950.0
Balog-balog Multipurpose Project Phase II	18,457.0
Jalaur River Multipurpose Project Stage II	15,220.0
Kabulnan-2 Multi-purpose Irrigation and Power Project	14,373.0
Davao del Norte Integrated Water Resource Development	3,500.0
	119,500.0

Source: Public-Private Partnership Projects Presentation dated November 2010

recreation. The area will be equipped with entertainment facilities as well as open areas for large/special events, convention center, commercial development (i.e., hotels, retail shops, restaurants). It will also house residential condominium units. Other investment opportunities

The Water Regulatory Commission Act ("WRCA") aims to establish a Water Regulatory Commission that will have the power to formulate principles in approving tariffs taking into account the following items:

- Capital expenditure and taking into consideration a reasonable rate of return on capital
- Efficiency of water service
- Incentive programs for meeting efficiency targets
- Consumer capacity to pay for the service
- Equity considerations
- Administrative simplicity

The proposed law opens the door for other potential avenues for investment. One area

for investment opportunity would be the privatization of water districts. The WRCA provides a more concrete water regulatory framework that will enable the private sector to analyze regulatory risks inherent to the privatization. Further, additional water concession contracts may also be awarded.

Lastly, other potential avenues for investment are the existing water concessionaires as there is a heavy capital requirement to undertake pipe laying projects, water treatment plant construction as well as sewerage network improvement. The key factor towards achieving a sustainable business model for water distribution is to have the ability to charge the appropriate tariff rates in a timely manner.



Vicente A. Sarza
Head of Advisory Services
+63 2 885 0603
vsarza@kpmg.com



Jose Mari C. Tan Cha
Manager
Transactions &
Restructuring
Advisory Services
+63 2 885 7000 ext 389
jtancha@kpmg.com

Fueling the economy through strong transport infrastructure

“Given that we are an archipelagic country, **reliable transportation is required to properly support our agricultural and industrial sectors.** Transport projects should be clustered along sectoral themes and targets and be assessed based on how important they are from a regional and national perspective.”

– Rolando G. Tungpalan,
Deputy Director General
of NEDA

Given the geography of the Philippines, transportation in the country involves an extensive land, sea and air transport networks. The expansion of transport networks is essential for national and local development. A lack of transportation infrastructure limits the access of people to basic agricultural inputs, transport and storage facilities and results in difficulties to access markets. According to Rolando G. Tungpalan, Deputy Director General of National Economic Development Authority (NEDA), reliable transportation should support the overall strategy of agricultural and industrial developments.

Transportation investments in the Philippines are required to meet the overall objectives of the administration. Mr. Tungpalan noted that transportation projects should be clustered along sectoral themes and targets and be assessed based on how important it is from a regional and national perspective.

The Philippine transportation sector is underdeveloped. This may be attributed to inadequate funding in the past year. As a result of this insufficient investment, the 2011 World Economic Forum (“WEF”) ranked the Philippines 100th in terms of road quality, 101st in railroad infrastructure quality and 115th in air transport infrastructure.





ROADS

Background and history

Roads are usually regarded as an indicator of the state of a country's development due to their benefits to society and the economy. Specifically, roads have been seen to: (a) enhance employment opportunities through ease of transport; (b) develop industries through efficient transport of goods and reduction of costs; (c) promote tourism through accessibility; and, (d) sever the barrier among neighboring towns and provinces. The first settlement roads in the Philippines were constructed by forced labor during the Spanish colonial era in 1565, as means for supply lines and communication. It was only in 1868 when the Bureau of Public Works and Highways (Obras Publicas) was organized to oversee the construction of roads and public works in the Philippines. Since then, roads, highways and other public infrastructure have been constructed throughout the Philippines under the mandate of the Department of Public Works and Highways ("DPWH").

Current situation

The Philippine road sector has not received adequate funding in the past years. Funding for road expansion and rehabilitation average less than 1% of the country's Gross Domestic Product ("GDP"), whereas other Asian countries have approximately 4% road funding vis-à-vis GDP.

The WEF has ranked the Philippines 100th out of the 139 surveyed countries, in its global competitiveness report for 2011 - 2012, overtaking countries such as Vietnam and Indonesia in terms of road quality. Nonetheless, the Philippines is still far off from other neighboring Asian countries such as Thailand (37th), Malaysia (18th) and Singapore (2nd).

In keeping with the government's directive of improving infrastructure across all sectors, the DPWH is planning to repair and rehabilitate the primary road network of the country. As of 2011, the Philippines has a total road network of approximately 214,000 km. Of this 214,000 km, 31,242 km are classified as primary roads. The DPWH plans to repair and rehabilitate 15,000 km of the 31,242 km of primary roads by 2014, and to upgrade the remaining 16,242 km by 2016.

Highways/expressways in the Philippines

	Length ^(a) (in km)	Covered municipalities	Operator
Operational / under construction			
Subic-Clark-Tarlac Expressway ("SCTEX")	94.0	Tarlac to Hermosa, Bataan	Tollways Management Corporation
Tarlac-La Union Expressway	85.0	Tarlac to La Union	Implemented through PPP (2013)
North Luzon Expressway ("NLEX") ^(b)	84.0	Caloocan City to Pampanga	Manila North Tollways Corporation ^(c)
Bataan Provincial Expressway	68.0	Dinalupihan to Morong, Bataan	Tollways Management Corporation
South Luzon Expressway ("SLEX")	60.0	Manila to Sto. Tomas, Batangas	Skyway Operations and Maintenance Corporation (Manila-Alabang), Manila Toll Expressway Systems (Alabang-Sto. Tomas)
Southern Tagalog Arterial Road ("STAR") Highway	42.0	Sto. Tomas to Batangas City	STAR Tollway Corporation
Metro Manila Skyway	16.3	Manila to Muntinlupa	Skyway Operations and Maintenance Corporation
Manila-Cavite Expressway ("CAVITE" or "Coastal Road")	12.5	Roxas Boulevard, Pasay City to Bacoar, Cavite	Public Estates Authority Tollway Corporation
NAIA Expressway ^(b)	1.6	Skyway to NAIA 3, Pasay City	No operator

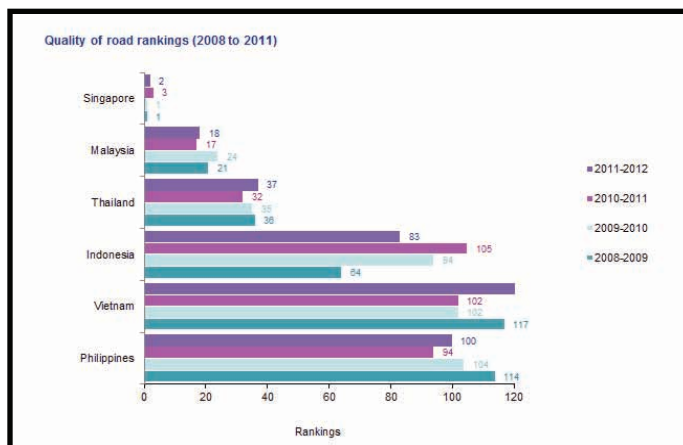
Note: (a) Length would include the planned extensions or are still under construction
 (b) Operational but certain parts of the expressways are currently being expanded
 (c) A subsidiary of Metro Pacific Investments Corporation

Source: DPWH website

Investment opportunities

Most of the national roads, provincial/city/municipal/barangay roads are essentially constructed and maintained by the national government and are for public usage; they are thus considered to be owned by the state. However, the national government has rolled out an ambitious program of partnering with the private sector to implement major road projects, their construction and maintenance, through Public Private Partnership ("PPP").

Given the numerous PPP projects in the pipeline and the success of previous highway projects, there is sufficient opportunity for private and foreign investments that would be both beneficial for the government and private parties.



Note: Number of countries evaluated – 2008-2009: 134, 2009-2010: 133, 2010-2011: 139, 2011-2012: 142

Source: WEF Global Competitiveness Reports (2008-2011)

Highway projects in the pipeline (in PHP'm)

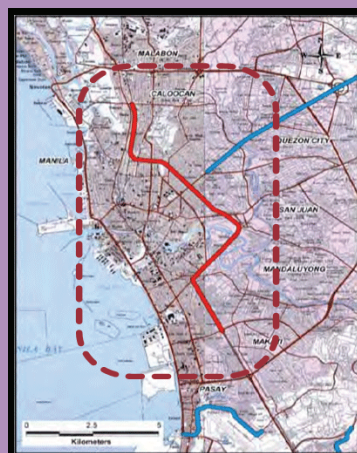
Project	Implementation period ^(a)	Amount
C-6 Expressway (Global City Link) - South section	2013 - 2016	40,400
R-7 Expressway	2016 - 2018	23,980
NLEX-SLEX Connector	January 2012 - December 2013	17,300
Central Luzon Expressway (CLEX) - Phase II, Cabanatuan-San Jose	2015 onwards	14,200
CALA Expressway - Cavite side section	May 2012 - December 2015	11,790
NAIA Expressway (Phase II)	October 2011 - September 2014	10,590
SLEX Extension (to Lucena City)	2013 - 2016	9,500
CALA Expressway - Laguna side section	2013 - 2015	7,000
Calamba - Los Baños Expressway	2014 - 2016	5,900
C-5/FTV/Skyway Connector	Mid 2012 - Mid 2015	5,640
		146,300

Note: (a) Tentative implementation period, (b) Highlighted projects are expected to be rolled out in 2012
Source: DPWH website, PPP brochure

The following are the projects that will be expected to be rolled out in 2012:

A. NLEX-SLEX Connector Road (US\$402.3 million)

The unsolicited project involves the construction of a 13.4 km four-lane elevated expressway to close the gap and complete the north-south Luzon industrial beltway transport axis by connecting the North Luzon Expressway ("NLEX") and the South Luzon Expressway ("SLEX") from Caloocan City (in the northern part of Metro Manila) to Makati City in the South.

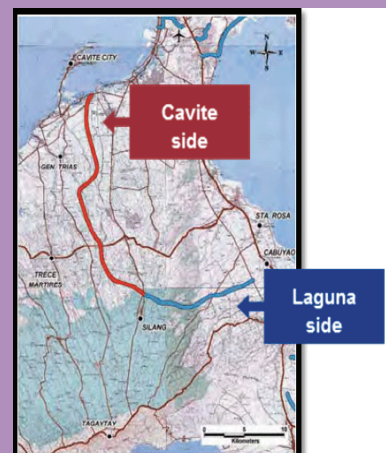


NLEX-SLEX Connector Road

B. CALA Expressway (Cavite-Laguna) (US\$437.0 million)

- Cavite side – Construction of a 27.5km, six-lane highway from the terminus of R-1 Expressway in Kawit, Cavite to Aguinaldo Highway at Silang, Cavite and Laguna;

- Laguna side – Construction of a 14.3km, six-lane highway which is a continuation of CALA-Expressway-Cavite side section and to be connected with SLEX at Calamba, Laguna Province.



CALA Expressway (Cavite-Laguna)

RAILWAYS

Challenges

All railways are currently located on the Island of Luzon. All light railways are situated in Metro Manila. Ridership of light rail has been steadily increasing over the years, registering a compounded annual growth rate ("CAGR") of 9.3% from 2000 to 2011. With the population of Metro Manila projected to increase from approximately 11.6 million in 2010 to 12.2 million in 2015, the construction of light rail systems becomes a necessity.

Based on the 2011 WEF competitiveness survey, the Philippines' ranking in terms of railroad quality deteriorated from 85th in 2010 to 101st.

Moreover, the race for the first country in Southeast Asia to build a high-speed rail has already begun. Five countries, namely Indonesia, Malaysia, Singapore, Thailand and Vietnam, have already made plans for their high-speed rail systems. The Philippines has yet to produce a plan for high-speed rail. Although, at least one Philippine conglomerate has already submitted an unsolicited proposal for the construction of a bullet train that will connect Laoag City, Ilocos Norte in the north to Manila and the Bicol region in the south.

Development plans

In cooperation with the Department of Transportation and Communication ("DOTC"), the Office of the President in 2003, initiated the master plan for light rail in Metro Manila and Luzon, which is summarized in the Strong Republic Transit System ("SRTS") project. The SRTS project aims to: (a) reclassify the existing light and heavy rail and code them by color (e.g., Yellow line, purple line, blue line, orange line etc.); (b) provide for seamless linking of the light and heavy rail; (c) unify fare systems on all the railway networks; and, (d) improve the railway system through the construction of new and extension of existing light and heavy rail.

The DOTC is also initiating plans to modernize and rehabilitate the country's heavy rail network, specifically the North and South rail projects. The South rail network, which extends from Manila to Legaspi City, Bicol, recently resumed operations in 2011. The DOTC has also initiated talks with the Chinese Export Import Credit Agency for the resumption



Passengers in front of the "Ferrocarril de Manila a Dagupan", the first rail service in Manila

The earliest railroad in the Philippines dates back to 1892 during the Spanish colonization with the construction of the 195 km Ferrocarril de Manila-Dagupan, a heavy rail that stretches from Manila to Dagupan City, Pangasinan. This was followed by linking the heavy rail from Dagupan to Legazpi City, Albay in 1931.

In 1964, through Republic Act No. 4156, the Philippine National Railways ("PNR") was formed as an agency under the Department of Transportation and Communication ("DOTC"), to oversee the operation of heavy rail in the Philippines.

Aside from heavy rail, the Philippines also has several light rail systems, which are administered by the Light Rail Transit Authority ("LRTA"), also under the DOTC through the LRTA Charter under Executive Order ("EO") No. 603 on July 12, 1980, as amended EO No. 830 in 1982, and EO No. 210 in 1987. The Light Rail Transit ("LRT") has been in operation since 1984 and is considered to be the first light rail system in Southeast Asia.

Railways Background and History

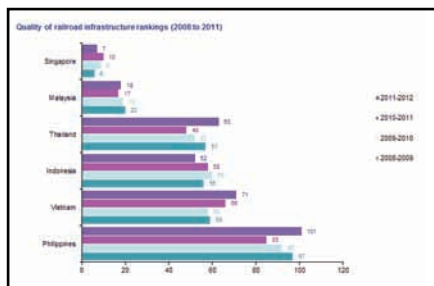
Major railway systems in the Philippines

	Length (in km)	Covered cities / provinces	Operator	Average daily ridership
Heavy rail				
South Main Rail or Southrail or Orange Line	479.0	Manila to Legazpi City, Albay / San Pedro, Laguna	DOTC and Philippine National Railways	10,000 to 30,000
North Main Rail or Northrail ^(a)	INA	Manila to Bulacan, Tarlac, Pampanga, Nueva Ecija, Pangasinan and La Union	North Luzon Railways Corp.	NA
Light rail				
Light rail transit ("LRT") 1 (or Yellow Line)	15.0	Baclaran, Pasay City to Bonifacio Monument, Caloocan City	LRTA	300,000
LRT 2 (or Purple Line or Megatren)	13.8	Santolan, Pasig city to Recto, Manila	LRTA	130,000
LRT 3 otherwise known as Metro Rail Transit ("MRT") 3 (or Blue Line)	16.8	North Avenue, Quezon City to Taft Avenue, Pasay City	DOTC and Metro Rail Transit Corporation	400,000

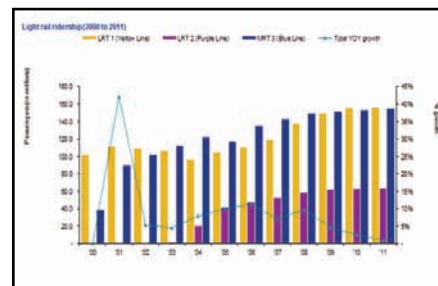
Note: (a) The North Main Rail transit has not been operational since 1930 due to damages caused by typhoons and other natural disasters

(b) INA denotes "Information not available", whereas NA denotes "Not applicable"

Source: PNR, LRTA and Metrostar Express website



Note: Number of countries evaluated – 2008-2009: 120, 2009-2010: 114, 2010-2011: 116, 2011-2012: 123
Source: WEF Global Competitiveness Reports (2008-2011)



Note: (a) MRT2/LRT2 and MRT3 only started operations in April 2003 and December 1999, respectively
(b) Data for August to December 2011 was projected using data from January to July 2011
(c) Data for 2002 was projected based on 2001 data
Source: LRTA website and Metrostar Express website

479 km.

the total length of the South Main Rail, the longest rail line, covering the cities of Manila to Albay province



and rehabilitation of the North rail project. This project had been delayed from 2007 and now has a target date of completion in 2013. The first phase of this project connects Caloocan City to the Makati Central Business District. The second phase of the North rail project involves the linking of Mabalacat, Pampanga to the Diosdado Macapagal International Airport. Another major project in the pipeline is the linking of the North rail and South rail network lines.

Aside from the SRTS project, as well as the Northrail and Southrail rehabilitation, the DOTC also plans to develop a railway system in the Metros Cebu and Davao. The Mindanao Railway System, with a total approximate length of 2,000 km will be divided into two phases. The first phase of construction which is scheduled to be implemented within 2012 to 2016 spans 124 km of railway line from Iligan City, Lanao del Norte to Cagayan de Oro, which will traverse ten (10) coastal municipalities in Misamis Oriental.

Investment opportunities

Heightened interest by the government in rail is seen as an opportunity for investors in this sector.

The following are the PPP projects that will be expected to be rolled out in 2012:

A. LRT 2 East Extension (US\$262.8 million)

The project will extend the elevated tracks of LRT2 by 4km from Santolan, Pasig to Masinag, Antipolo. The existing LRT Line 2 runs 13.8 km from the Recto Station in Manila to the Santolan Station in Pasig, along Recto Avenue, Magsaysay Boulevard and Marcos Highway. The line has 10 elevated stations and an underground station.

B. LRT 1 South Extension (US\$1.63 billion)

The project will extend the elevated tracks of the LRT 1 by 11.7 km or two additional stations from Baclaran to Cavite. The existing LRT Line 1 runs from the Bonifacio Monument in Caloocan to Baclaran, Pasay City. The line has eight elevated stations. The extension is projected to increase the passenger load by 350,000 per day. According to the PPP Center, the agency on the forefront of administering the roll-out of PPP projects, the US\$796.8 million phase 1 LRT 1 South Extension project is set to be bid out in April 2012.

Railway projects in the pipeline (in PHP'm)			
Project	Implementation period ^(a)	Project type	Amount
MRT/LRT Extension program: LRT 1 South extension project	2011 - 2015	Construction	70,000
LRT Line 2 East extension project	2011 - 2014	Rehabilitation/Improvement	11,300
MRT/LRT Extension program: Privatization of LRT 1 Operation and Maintenance	2011 - 2014	Privatization	7,700
MRT/LRT Extension program: Privatization of MRT 3 Operation and Maintenance	2011 - 2014	Privatization	6,300
MRT/LRT Extension program: Common ticketing system project	2011 - 2012	Rehabilitation/Improvement	330
Main Line South Upgrading/ Modernization	2012 - 2015	Rehabilitation/Improvement	TBA
			95,630+

Airports Background and History

The first airport in the country, named as the Manila International Air Terminal, was built in July 1937 at what is now Ayala Avenue and Paseo de Roxas in Makati City. The airport was transferred to the Villamor Airbase following Philippine independence in 1948. The Ninoy Aquino International Airport ("NAIA"), which is the premiere gateway to the country, currently has four (4) terminals, the largest of which is Terminal 3 with a capacity of 13 million passengers.

As of February 2012, the number of registered public airports in the country totalled 84. This covers 10 international, 34 principal and 40 community airports. The international airports include NAIA, Subic International Airport, Clark International Airport and Mactan-Cebu International Airport.

As competition in the aviation sector grew, air travel prices in the country have become more affordable compared to maritime travel. The following graph presents the domestic air traffic between 1990 to 2009:

Total domestic air transport passenger traffic, 1990-2009



Source: Joint Foreign Chambers: Arangkada Philippines 2010: A Business Perspective

AIRPORTS

Challenges

A challenge facing the Philippine aviation sector is capacity. NAIA, which is located in Manila, may not be able to support increasing demand. NAIA Terminal 3, launched in 2008, serves half of its intended 13 million passenger capacity due to legal and technical issues. Airlines such as Cebu Pacific are requesting that NAIA increase its passenger capacity in order to cope with the forecasted demand. As NAIA is located in the middle of the metropolis, the expansion of NAIA runways is no longer an option. The Diosdado Macapagal International Airport ("DMIA"), located in the former Clark military base in Pampanga, is being used as an alternative to NAIA in order to accommodate increasing air transportation from the Metro Manila and Central Luzon area. Last February, Clark International Corporation, the operator of DMIA, signed a PHP1.0 billion (US\$23.3 million) loan facility with the Land Bank of the Philippines to fund the airport's expansion.

US \$701.1 M
estimated total cost of
the four airports to be
rolled out under the PPP
Program

Investment opportunities

The National Government plans to construct and renovate the airport network across the country. Government plans to follow the PPP scheme, with the private sector expected to: (a) provide financial investments; (b) enhance management practices; and (c) improve efficiency of operations; and, the public sector responsible for (a) financial viability gap support and, (b) regulatory support. In order to respond to the increasing passenger demand, government is currently eyeing the construction of new airports, especially in tourist spots such as Bohol, to ease air traffic in the Manila and Cebu airports and spur provincial growth. Renovation of existing airports also presents investment opportunities, especially as a number of Philippine airports need improvement in quality and efficiency.

In response to the aforementioned opportunities, the Philippine government, particularly DOTC, aims to roll out the following four PPP projects in 2012:

A. Mactan Terminal 2 (US\$236.0 million)
The project involves the construction of a new passenger terminal, along with all associated infrastructure and facilities as per the International Civil Aviation Organization ("ICAO") standards. The project also includes the renovation of the existing terminal, installation of necessary equipment and other facilities to be in sync with international/ICAO standards.

B. New Bohol Airport (US\$186.0 million)
The project calls for the construction of a

new airport at Panglao in Bohol Province, which shall include civil works (runways, apron, taxiway, etc.) and air navigational facilities, landside building works and terminals and all other facilities as per ICAO standards.

C. Laguindingan Airport O&M (US\$181.4 million)

The project involves the operation and maintenance of the newly built airport in Laguindingan during the concession period.

D. Puerto Princesa Airport (US\$97.7 million)

The project involves the rehabilitation/ improvement of the existing Puerto Princesa Airport to meet the standards of ICAO.

President Benigno S. Aquino III has recently signed an executive order authorizing the Philippine aviation sector to be compliant with the Open Skies Policy, an ASEAN project which aims to promote economic integration within member countries. This project encourages trade and competition within the airline industry, thereby improving quality and at the same time reducing air travel prices. The Open Skies Policy is viewed as another opportunity to improve the aviation industry and gain the most benefit through increased tourism, lower trading costs and a larger market base.

Structuring Taxes on Infrastructure Investments



Ma. Carmela M. Peralta
Principal
Tax Services
+63 2 844 8597
mperalta@kpmg.com



Jeri Alanz A. Banta
Senior Manager
Tax Services
+63 2 885 7000 loc. 413
jbanta@kpmg.com



Leilani M. Cuneta
Senior Manager
Tax Services
+63 2 885 7000 loc. 579
mcuneta@kpmg.com

Considering the multi-billion cost in infrastructure projects, foreign investors seeking to participate in the development of infrastructure in the Philippines should plan ahead and think about the implications of the tax issues confronting them. Such issues may arise from funding sources, project structure, and procurement of raw materials and supplies, among others.

With respect to funding sources, foreign investors have a certain degree of leeway in determining a suitable mixture of equity or debt funding where tax considerations are often the decisive driver. After ensuring compliance with the legalities (including the nationalization requirements affecting the proposed investment), project proponents looking to structure equity and debt arrangements will have to manage potential tax issues.

Equity Funding

Capital is required to set up in the Philippines the operating entity that will handle the operations of the proposed infrastructure project. Among the considerations for determining the amount of capital to be raised will be the minimum paid-up capitalization mandated by Philippine regulations for the proposed investment.

The infusion of equity by investors in the Philippine operating entity does not by itself have any Philippine income tax implications. The distribution of dividends, on the other hand, will ordinarily trigger income tax and withholding tax implications.

The tax implications on dividend distribution vary depending on several factors such as the possible application of preferential tax treaty rates or the tax sparing principle or the tax residency of the recipient of the dividends. For instance, if the recipient of the dividends is a tax resident of a country with whom the Philippines has a tax treaty, the preferential tax treaty rate on the dividends may be availed of by filing the appropriate tax treaty relief application with the Bureau of Internal Revenue ("BIR"). A reduced tax rate is also available if the recipient of the dividends is a resident of a jurisdiction which allows a credit against the tax due from the recipient of the dividends taxes deemed to have been paid in the Philippines equivalent to fifteen percent (15%). On the other hand, if the recipient of the dividends is a resident foreign corporation or domestic corporation, the distribution of dividends will not be subject to tax.

Debt Funding

Project proponents may also look to debt funding. The Philippine tax consequences of loans vary depending on the terms of the specific loan agreements and tax residence of the lenders.

The repayment of principal is merely a return of capital and is not considered a taxable event. On the other hand, interests derived within the Philippines will generally be subject to Philippine income tax and withholding taxes.

Under Philippine withholding tax regulations, interest payments by the operating entity to the local lenders may be subject to withholding taxes where such operating entity has been notified by the BIR that it is one of the top 20,000 corporate taxpayers. However, interest payments on loans obtained from Offshore Banking Units or Foreign Currency Deposit Units of local banks are subject to a final income tax at the rate of 10% of such interest income. The operating entity making the interest income payment shall withhold and remit the 10% tax withheld.

Interest payments on foreign loans paid to non-resident foreign corporations are subject to the 20% final withholding tax ("FWT"). This 20% FWT is, however, subject to the



application of preferential tax treaty rates upon filing with the BIR of the tax treaty relief application. Moreover, if the foreign loans have sovereign guarantees, an exemption from the tax on interest may be availed of upon filing of the tax treaty relief application.

Funding through Official Development Assistance (“ODA”) and International Financial Institutions (“IFI”)

The BIR acknowledges preferential tax treatments on infrastructure projects funded by ODAs and IFIs. Interest payments to the Asian Development Bank (“ADB”) are exempt from income tax and the corresponding withholding tax. The BIR has already acknowledged that ADB is an international organization, with its funds being similar to those of the OECF Fund (now JBIC Funds), which under the standard Exchange of Notes with the Philippine Government, shall not be used to pay for tax.

Interest payments to the International Finance Corporation (“IFC”) are likewise not subject to income tax and the corresponding withholding tax. With the Philippines being a signatory to the IFC Articles of Agreement, the BIR has acknowledged that the IFC is an international financing institution established principally by foreign governments entitled to the income tax exemption under the Tax Code for income derived from its investments in the Philippines in loans, stocks, bonds or other domestic securities.

Similar recognition on preferential tax treatments has been made by the BIR on projects involving Canadian International Development Agency (“CIDA”), United States Agency for International Development (“USAID”), Japan International Cooperation Agency (“JICA”), and the International Bank for Reconstruction and Development (“The World Bank”). Considering, however, that the application of preferential tax treatments on dealings with these institutions depends on the specific circumstance of each transaction, it is advisable that appropriate confirmation from the BIR be obtained.

Other Considerations

In deciding whether to avail of equity or debt funding, the foreign investor has to bear in mind other relevant considerations such as having a thin capitalization situation for the operating entity. Notwithstanding the absence of thin capitalization rules in the Philippines, the BIR has acknowledged that high-debt financing of a thinly capitalized controlled company is the most common form of tax avoidance given that interest expense is deductible while dividends are not. Nevertheless, as a matter of practice, regulatory agencies such as the Board of Investments (“BOI”) and the Securities and Exchange Commission have adopted the debt-to-equity ratio of 3:1.

The matter of sourcing the foreign currency for servicing debts or repatriating/remitting capital/profits may be a concern as this may necessitate registering the foreign loan or the foreign investment with the Bangko Sentral ng Pilipinas (i.e., the Philippine Central Bank). Such registration requires the conversion into Philippine pesos of the loan proceeds. This is no longer the case for foreign investments.

There are applicable transactional taxes, specifically the documentary stamp taxes (“DST”) on original issuance of shares and on debt instruments. However, in certain instances an exemption from DST may be availed of by a party to the transaction.

Assumption of Taxes on Interest Payments

As a rule, any applicable withholding tax on interest payments is to be withheld by the payor (the Philippine operating entity) out of the interest payment.

However, in case of a foreign loan arrangement, it is market convention that the local borrower is made to assume the Philippine tax on the interest income of the foreign lender. The assumption of the tax requires grossing up the tax base for the withholding tax and creates an additional expense for the local borrower.

The additional expense might deter the foreign investor from proceeding with its investment in the infrastructure project. However, the foreign investor may have to consider the other tax incentives available to him that will in a way help him manage the Philippine tax burden of his project.



Tax Incentives for Infrastructure Projects

The setting up of the operating entity that will handle the operations of the proposed infrastructure project will necessarily trigger Philippine taxes, both national and local. However, different tax incentives are offered by the Philippine government, hinging on the project's structure type.

Generally, infrastructure projects are entered into via a Build-Operate-Transfer ("BOT") agreement. In fact, most of the Public-Private Partnership projects to be rolled-out by the current administration are reportedly going to be implemented under the framework of the BOT law.

Under the BOT law, the project proponent undertakes the construction, including financing, of a given infrastructure facility, and the operation and maintenance thereof. He then operates the facility over the fixed term during which it is allowed to charge facility users appropriate fees. Subsequently, he transfers the facility to the government agency or local government unit ("LGU") concerned at the end of the fixed term.

The BOT law provides for incentives available to the project proponent, subject to certain conditions. If the project undertaken costs more than PHP1 billion, and upon registration with the BOI, the project proponent will be entitled to the incentives provided under the Omnibus Investment Code (Executive Order No. 226). The main incentive provided is the income tax holiday ("ITH").

However, if the project costs PHP1 billion or less, the project proponent may still avail of the incentives under Omnibus Investment Code if the project activity or sector is included in the current Investment Priorities Plan of the BOI.

In addition to the tax incentives provided under the Omnibus Investment Code, LGUs may also provide for additional incentives, tax exemptions or reliefs subject to the Local Government Code of 1991 and other pertinent laws. It is advisable to review the provisions of the relevant local tax ordinance.

Specifically for the power industry, the investor engaged in the exploration, development and utilization of Renewable Energy ("RE") resources and actual operation of RE systems/facilities may be registered as an RE Developer under the RE Act of 2008. As such, he may avail of the following incentives, subject to certain conditions and registration/certification requirements:

- ITH;
- 10% Preferential Corporate Tax Rate after availment of the ITH;
- Duty-free importation of RE machinery, equipment, and materials;
- Special Realty Tax Rates on Equipment and Machinery;
- Net-operating loss carry-over;
- Accelerated Depreciation on Plant, Machinery, and Equipment;
- Zero Percent (0%) VAT;
- Tax Credit on Domestic Capital Equipment and Services.

The RE Act requires RE Developers to register with the BOI for purposes of availing of the incentives under the RE Act. An RE Developer is, however, required to elect to be governed by either the RE Act or the Omnibus Investments Code. Such election once made is considered final and those who elect to be governed by the Omnibus Investments Code shall be governed by such code including the incentives granted under the same.

On the other hand, some infrastructure projects funded by international organizations allow for the Philippine taxes associated with these projects to be assumed by the executing government agencies or paid by subsidies granted by the government. The details of the arrangement should be looked into to determine the tax implications, including the coverage (i.e., whether all tax types) of the tax assumption or subsidy.

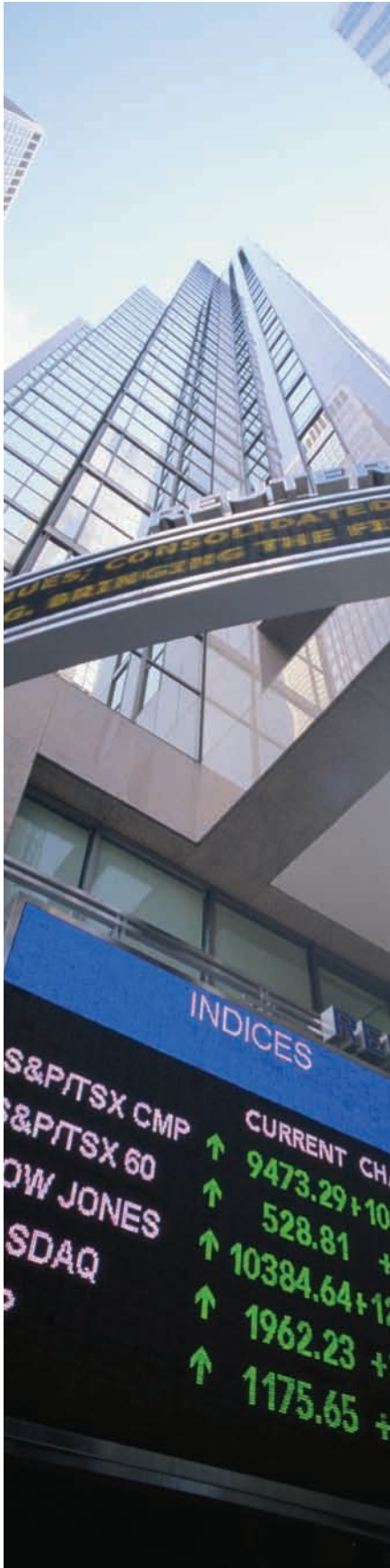
Lastly, given the thrust of the BIR to limit the availment of the tax incentives to qualified persons, the foreign investor should be aware of the formalities required for the continuing availment of the tax incentives. These formalities extend beyond the initial registration of the operating entity with the BOI or other government agencies and may impose applications/reports to be filed/submitted on a regular basis.

Doing Business in the Philippines

In this Chapter:

- Choice of Corporate Vehicle
- Capitalization Requirements
- Foreign Ownership Restrictions/Requirements
- Classification of Shares
- Choice of Location for the Investor
- Project Financing/Funding Requirements
- Registration with Government Agencies

Manabat Sanagustin & Co.



On top of business considerations, foreign corporate investors are faced with various regulatory or tax matters that affect decisions to do business in the Philippines. Structuring investments or operations in the Philippines necessarily requires a consideration of the appropriate Philippine corporate vehicle, capitalization requirements, ownership restrictions, project financing or funding options, investor nationality, ownership structures and share classifications, and of course the requisite registrations with Philippine government agencies.

A. Choice of Corporate Vehicle

Several corporate vehicle types are available to foreign investors intending to do business in the Philippines. Common choices for a Philippine corporate vehicle are subsidiaries and branch offices. While the registration requirements and costs for setting-up either a branch or a subsidiary are practically the same, some differences between a subsidiary and a branch are often decisive factors in selecting which vehicle to set-up.

A subsidiary is a corporation incorporated and existing under Philippine laws. Often, the subsidiary is either wholly-owned or at least majority-owned by a foreign “parent” corporation (subject to restrictions on foreign ownership applicable to certain industries). It is a domestic corporation for tax purposes notwithstanding that it is owned by a foreign corporation. A branch office is considered as an extension of its head office and through which the head office is considered for Philippine tax purposes as a resident foreign corporation.

Both subsidiaries and branch offices are subject to the income tax based on their taxable income. As a domestic corporation, however, the subsidiary is taxable on its income derived from worldwide sources. The branch office, however, is taxable only on income derived from Philippines sources.

Remittances of profits by both a subsidiary and a branch office to their foreign corporate investors or head office are generally subject to tax. In the case of dividends remitted by a subsidiary, these are generally subject to 30% final withholding tax on the gross amount of the dividend. The tax may be reduced to 15% by the application of the tax sparing provision under Philippine tax laws. Preferential tax treatment may also be available under tax treaties entered into by the Philippines with other countries. On the other hand, profit remittances of the branch to its head office are generally subject to 15% withholding tax on the gross amount of remittance. In some instances, preferential tax treatment may also be available under tax treaties. However, such withholding tax on profit remittances will not apply if the branch office is registered with the Philippine Economic Zone Authority (PEZA). A subsidiary does not enjoy such an exemption from the withholding tax on dividends notwithstanding its registration with PEZA.

Tax implications of the future day-to-day operations of the business should be also considered to allow foreign investors to do tax planning, for example, with respect to certain tax assets such as unused or excess credits or net operating loss carry-over or availment of tax exemptions.

Other than subsidiaries or branch offices, the option of setting-up Regional Operating Headquarters (ROHQ), Regional or Area Headquarters (RHQ), or Representative Offices (RO) is provided to foreign investors. ROHQs enjoy a preferential tax rate of 10% on their taxable income, but are allowed to derive income in the Philippines by performing only specified qualifying services to its affiliates.

RHQs and ROs on the other hand are not allowed to derive income from the Philippines and are not therefore subject to income tax. RHQs act merely as administrative branches of multinational companies engaged in international trade which principally serves as a supervision, communications and coordination center for its affiliates. ROs are limited to perform liaison activities such information dissemination, communication center functions, or product promotions.

The possibility of setting-up more than one corporate vehicle in the Philippines should be evaluated. This matter is relevant when a foreign investor considers having another layer of ownership over a Philippine corporate vehicle as possible means to comply



with foreign ownership restrictions. This could also be an option where, for instance, an investors' group intend to avail of tax incentives that are available to exporters. To meet a certain ratio of export and domestic sales, one entity may be dedicated to cater to the Philippine market and another entity dedicated to export sales.

There could also be the scenario where the foreign corporate investor may have to enter into joint ventures or partnerships with other corporations, domestic or foreign. These joint ventures may be common in construction projects or in the energy sector.

B. Capitalization Requirements

Philippine minimum capitalization requirements largely depend on industries involved as well as the on foreign equity ownership.

It is advisable, however, for investors to consider planning capitalization in relation to possible availment of tax incentives. For instance, registration with PEZA or the Board of Investments (BOI) for purposes of availing of incentives requires infusion of capitalization which may be in excess of the minimum paid-up capital requirements.

C. Foreign Ownership Restrictions/ Requirements

Certain industries are regulated in the Philippines and are effectively reserved for Philippine nationals. Failure to consider in the early planning stages such nationality ownership restrictions could make a proposed structure open to legal challenge.

D. Classification of Shares

Subject to the business considerations of the investors, structuring options may include the classification of shares of a proposed Philippine subsidiary.

The classification of shares is specifically allowed under Philippine corporate laws such that the shares of stock may be divided into classes or series of shares, or both, any of which classes may have such rights, privileges or restrictions as may be stated in the articles of incorporation. The shares of stock may have a mixture of common or preferred or redeemable.

Preferred or redeemable shares may be created and which shares may be deprived of voting rights (except for some matters), given preference over dividends or assets in liquidation, and/or be made redeemable or convertible.

Shares may be also issued with varying par values. For instance, Class "A" shares (reserved for Philippine nationals only) may be set with lower par value and Class "B" shares (reserved for foreigners) may be set with higher par value.

E. Choice of Location for the Investor

Managing Philippine tax implications on outbound income payments (business profits, dividends, interests, or royalties) requires a careful consideration of the jurisdiction where the foreign investor may be located. This is especially so since Philippine tax implications on repatriation of Philippine sourced income payments may take a toll on the investors with tax rates ranging from 15% to 30% on such remittances.

Tax treaties, to which the Philippines is a signatory, provide for preferential tax treatments on specified forms of income repatriation. A strategic planning for the possible availment of such preferential tax treatment should be performed and necessarily a determination of an appropriate jurisdiction where the investor may be located should be had.

The Philippines now has tax treaties with 37 countries, these are: Australia;

SEC Registration Requirements Minimum Paid-Up Capital Requirement

Based on Industry:

Break Bulk Agent	Php	250,000
Cargo Consolidator	Php	400,000
Financing Company		
Metro Manila and other First Class Cities	Php	10,000,000
Other Classes Cities	Php	5,000,000
Municipalities	Php	2,500,000
Freight Forwarders		
Domestic	Php	250,000
International	Php	2,000,000
Health Maintenance Organization	Php	10,000,000
Insurance		
Insurance Broker	Php	20,000,000
Reinsurance Broker	Php	20,000,000
Insurance Broker and Reinsurance Broker	Php	50,000,000
Life Insurance Company	Php	1,000,000,000
Non-Life Insurance Company	Php	1,000,000,000
Reinsurance Company	Php	2,000,000,000
Investment Adviser/Manager	Php	10,000,000
Investment Company	Php	50,000,000
Investment House	Php	300,000,000
Mining	Php	2,500,000
Non-Vessel operating common carrier	Php	4,000,000
Pawnshop	Php	100,000

Pre-need Plan Issuer	Php	100,000,000
Pre-need Plan Agent	Php	5,000,000
Recruitment for Local Employment		
Corporation	Php	500,000
Partnership	Php	200,000
Recruitment for Overseas Employment	Php	2,000,000
Retail: Trade with Foreign Equity	Php	2,500,000
School (for stock corporations)		
Elementary Education	Php	1,000,000
Elementary and Secondary Education	Php	2,500,000
Elementary, Secondary, Tertiary, Post/ Graduate Education	Php	5,000,000
Security Agency	Php	500,000
Securities Broker/Dealer (New/ SRO member)	Php	100,000,000
Securities Broker/Dealer (Existing/ SRO member)	Php	10,000,000
Securities Broker/ Dealer in Proprietary Shares (Non-SRO member)	Php	5,000,000
Special Purpose Vehicles	Php	31,250,000
Special Purpose Corporation	Php	5,000,000
Transfer Agent	Php	1,000,000

Based on Foreign Equity:

Domestic Corporation with more than 40% Foreign Equity		
Domestic Market Enterprise	US\$	200,000
Export Market Enterprise	Php	5,000
Foreign Branch Office		
Domestic Market Enterprise		
Export Market Enterprise	US\$	200,000
Partnership with Foreign Partner	Php	5,000
Domestic Market Enterprise	US\$	200,000
Export Market Enterprise	Php	3,000
Foreign Representative Office	US\$	30,000
Regional Area Headquarters (RHQ)	US\$	50,000
Regional Operating Headquarters (ROHQ)	US\$	200,000

Austria; Bahrain; Bangladesh; Belgium; Brazil; Canada; China; Czech; Denmark; Finland; France; Germany; Hungary; India; Indonesia; Israel; Italy; Japan, Korea; Malaysia; Netherlands; New Zealand; Norway; Pakistan; Poland; Romania; Russia; Singapore; Spain; Sweden; Switzerland; Thailand; United Arab Emirates; United Kingdom of Great Britain and London, United Kingdom of Northern Ireland; United States of America; and Vietnam.

F. Project Financing / Funding Requirements

Foreign investors may opt to have a suitable mixture of equity or debt financing. The choice, however, of the source of funding are often influenced by the tax implications on such funding source.

Infusion of equity in the Philippines does not have Philippine tax implications. However, dividend distributions or profit remittances will ordinarily trigger imposition of withholding taxes.

As to debt funding, the repayment of the principal loan amount is treated for Philippine tax purposes as mere return of capital and is considered a non-taxable event. On the other hand, the interest payments on foreign loans paid to non-resident foreign corporations are generally subject to a 20% final withholding tax. Reduced tax rates may apply as may be provided under applicable tax treaties.

On the other hand, funding through Official Development Assistance ("ODA") and International Financial Institutions ("IFI") may also be considered especially in view of the preferential tax treatments on interest payments to ODAs and IFIs.

It should be noted that the Philippines does not have thin capitalization rules. However, in practice, government agencies have observed a debt-to-equity ratio of three is to one (3:1).

Regardless, however, of the funding structure to be adopted, investors should take into account the possible registration requirements of such funding with the Bangko Sentral ng Pilipinas ("BSP") [i.e., the Philippine Central Bank]. This applies if foreign currency requirements for the repatriation of interest or dividends will be sourced from Philippine banks.

More details as to the general documentary requirements for setting-up may be gathered from the websites of these agencies, as follows:

Securities and Exchange Commission	www.sec.gov.ph
Bureau of Internal Revenue	www.bir.gov.ph
Board of Investments	www.boi.gov.ph
Philippine Economic Zone Authority	www.peza.gov.ph
Philippine Health Insurance Corporation	www.philhealth.gov.ph
Social Security System	www.sss.gov.ph
Home Development Mutual Fund	www.pagibigfund.gov.ph
	www.pagibigfundservices.com

G. Other Relevant Matters

Foreign investors may also have to consider other matters depending on the nature or structure of their proposed businesses in the Philippines. These other matters may pertain to treatment of pre-operating expenses. For Philippine tax purposes, these pre-operating expenses are often considered as capital expenditures and are, therefore, not deductible in the year they are paid or incurred.

Other matters to be considered will be the tax treatment of transactions that the businesses will normally have such as supply agreements for machinery and equipment and services for infrastructure projects.

Taxation on exit strategy should also be considered.

H. Registration with government agencies

The setting-up of a Philippine corporate vehicle necessarily entails compliance with the registration requirements with various government agencies. Registration must be obtained from the Securities and Exchange Commission, the Bureau of Internal Revenue, the respective Local Government Units, and the social welfare agencies. For purposes of availing of certain tax incentives, registration with additional government agencies, such as the PEZA or the BOI, may be required.

The timeline for setting up from the SEC phase up to the registration with the social welfare agencies is usually three to four months.

However, the Philippines is now gearing

towards a simplified and unified system of registration processes across these various government agencies. The Philippine Business Registry ("PBR"), for instance, has already been launched and is functioning in its initial stages. The PBR is an automated system that aims to be a one – stop shop for investors who wish to establish their businesses in the Philippines. While not at its optimum functionality yet, the PBR seeks to make possible the business registration-related transactions much easier by linking the services of these government agencies.

The BIR has likewise recently issued its revised guidelines on registration, registration updates, and cancellation. Notable changes brought about by these recent guidelines focus on simplification of registration requirements.

Such changes should be welcome to prospective foreign investors, especially for those who are rushing the completion in view of previously set target dates for recruitment and training of employees, procurements, and start of commercial operations or for synchronizing the Philippine operations with global business plans.

Moving-Forward

Setting up a business in the Philippines may turn out to be overwhelming to the unprepared foreign investor. However, with careful study and planning and insightful management of the implementation for setting up, the foreign investor may see his business set up in no time at all and enjoy the rewards of investing in the Philippines.

REGULAR FOREIGN INVESTMENT NEGATIVE LIST

LIST A. *FOREIGN OWNERSHIP IS LIMITED BY MANDATE OF THE CONSTITUTION AND SPECIFIC LAWS*

No Foreign Equity

1. Mass media except recording (Art. XVI, Sec. 11 of the Constitution; Presidential Memorandum dated 04 May 1994)
2. Practice of all professions
 - a. Engineering
 - i. Aeronautical engineering
 - ii. Agricultural engineering
 - iii. Chemical engineering
 - iv. Civil engineering
 - v. Electrical engineering
 - vi. Electronics and communication engineering
 - vii. Geodetic engineering
 - viii. Mechanical engineering
 - ix. Metallurgical engineering
 - x. Mining engineering
 - xi. Naval architecture and marine engineering
 - xii. Sanitary engineering
 - b. Medicine and allied professions
 - i. Medicine
 - ii. Medical technology
 - iii. Dentistry
 - iv. Midwifery
 - v. Nursing
 - vi. Nutrition and dietetics
 - vii. Optometry
 - viii. Pharmacy
 - ix. Physical and occupational therapy
 - x. Radiologic and x-ray technology
 - xi. Veterinary medicine
 - c. Accountancy
 - i. Architecture
 - ii. Criminology
 - iii. Chemistry
 - iv. Customs brokerage
 - v. Environmental planning
 - vi. Forestry
 - vii. Geology
 - viii. Interior design
 - ix. Landscape architecture
 - x. Law
 - xi. Librarianship
 - xii. Marine deck officers
 - xiii. Marine engine officers
 - xiv. Master plumbing
 - xv. Sugar technology
 - xvi. Social Work
 - xvii. Teaching
 - xviii. Agriculture
 - xix. Fisheries
3. Retail trade enterprises with paid-up capital of less than US\$2,500,000 (Sec. 5 of RA 8762) Full foreign participation is allowed for retail trade enterprises:
 - (a) with paid-up capital of US\$2,500,000 or more provided that investments for establishing a store is not less than US\$830,000; or
 - (b) specializing in high end or luxury products, provided that the paidup capital per store is not less than US\$250,000
4. Cooperatives (Ch. III, Art. 26 of RA 6938)
5. Private security agencies (Sec. 4 of RA 5487)
6. Small-scale mining (Sec. 3 of RA 7076)
7. Utilization of marine resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small-scale utilization of natural resources in rivers, lakes, bays and lagoons (Art. XII, Sec. 2 of the Constitution)
8. Ownership, operation, and management of cockpits (Sec. 5 of PD 449)

9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons (Art. II, Sec. 8 of the Constitution)
10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons and anti-personnel mines (various treaties to which the Philippines is a signatory and conventions supported by the Philippines)
11. Manufacture of firecrackers and other pyrotechnic devices (Sec. 5 of RA 7183)

Up to Twenty Percent (20%) Foreign Equity

12. Private radio communications network (RA 3846)

Up to Twenty-Five Percent (25%) Foreign Equity

13. Private recruitment, whether for local or overseas employment (Art. 27 of PD 442)
14. Contracts for the construction and repair of locally-funded public works (Sec. 1 of Commonwealth Act No. 541, Letter of Instruction No. 630) except:
 - a. Infrastructure/development projects covered in RA 7718; and
 - b. Projects which are foreign-funded or assisted and required to undergo international competitive bidding (Sec. 2 (a) of RA 7718).
15. Contracts for the construction of defense-related structures (Sec. 1 of CA 541)

Up to Thirty Percent (30%) Foreign Equity

16. Advertising (Art. XVI, Sec. 11 of the Constitution)

Up to Forty Percent (40%) Foreign Equity

17. Exploration, development and utilization of natural resources (Art. XII, Sec. 2 of the Constitution)
Full foreign participation is allowed through financial or technical assistance agreement with the President
18. Ownership of private lands (Art. XII, Sec. 7 of the Constitution; Ch. 5, Sec. 22 of CA 141; Sec.4 of RA 9182)
19. Operation and management of public utilities (Art. XII, Sec. 11 of the Constitution; Sec. 16 of CA 146)
20. Ownership/establishment and administration of educational institutions (Art. XIV, Sec. 4 of the Constitution)
21. Culture, production, milling, processing, trading excepting retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the byproducts thereof (Sec. 5 of PD 194; Sec. 15 of RA 8762) Full foreign participation is allowed provided that within the 30-year period from start of operation, the foreign investor shall divest a minimum of 60 percent of their equity to Filipino citizens (Sec. 5 of PD 194; NFA Council Resolution No. 193 s. 1998)
22. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation (Sec. 1 of RA 5183)
23. Project Proponent and Facility Operator of a BOT project requiring a public utilities franchise (Art. XII, Sec. 11 of the Constitution; Sec. 2a of RA 7718)
24. Operation of deep sea commercial fishing vessels (Sec. 27 of RA 8550)
25. Adjustment Companies (Sec. 323 of PD 612 as amended by PD 1814)
26. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation (Sec. 5 of RA 4726)

Up to Sixty Percent (60%) Foreign Equity

27. Financing companies regulated by the Securities and Exchange Commission
28. Investment houses regulated by the SEC
(Sec. 6 of RA 5980 as amended by RA 8556; PD 129 as amended by RA 8366) No foreign national may be allowed to own stock in financing companies or investment houses unless the country of which he is a national accords the same reciprocal rights to Filipinos

LIST B. FOREIGN OWNERSHIP IS LIMITED FOR REASONS OF SECURITY, DEFENSE, RISK TO HEALTH AND MORALS AND PROTECTION OF SMALL- AND MEDIUM-SCALE ENTERPRISES

Up to Forty Percent (40 %) Foreign Equity

1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance:
 - a) Firearms (handguns to shotguns), parts of firearms and ammunition therefor, instruments or implements used or intended to be used in the manufacture of firearms
 - b) Gunpowder
 - c) Dynamite
 - d) Blasting supplies
 - e) Ingredients used in making explosives:
 - i. Chlorates of potassium and sodium
 - ii. Nitrates of ammonium, potassium, sodium, barium, copper (11), lead (11), calcium and cuprite
 - iii. Nitric acid
 - iv. Nitrocellulose
 - v. Perchlorates of ammonium, potassium and sodium
 - vi. Dinitrocellulose
 - vii. Glycerol
 - viii. Amorphous phosphorus
 - ix. Hydrogen peroxide
 - x. Strontium nitrate powder
 - xi. Toluene
 - f) Telescopic sights, sniper scope and other similar devices

However, the manufacture or repair of these items may be authorized by the Chief of the PNP to non-Philippine nationals; Provided that a substantial percentage of output, as determined by the said agency, is exported. Provided further that the extent of foreign equity ownership allowed shall be specified in the said authority/clearance (RA 7042 as amended by RA 8179)

2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense (DND) clearance:
 - a) Guns and ammunition for warfare
 - b) Military ordnance and parts thereof (e.g., torpedoes, depth charges, bombs, grenades, missiles)
 - c) Gunnery, bombing and fire control systems and components
 - d) Guided missiles/missile systems and components
 - e) Tactical aircraft (fixed and rotarywinged), parts and components thereof
 - f) Space vehicles and component systems
 - g) Combat vessels (air, land and naval) and auxiliaries
 - h) Weapons repair and maintenance equipment
 - i) Military communications equipment
 - j) Night vision equipment
 - k) Stimulated coherent radiation devices, components and accessories
 - l) Armament training devices
 - m) Other as may be determined by the Secretary of the DND

However, the manufacture or repair of these items may be authorized by the Secretary of the DND to non-Philippine nationals; Provided that a substantial percentage of output, as determined by the said agency, is exported. Provided further that the extent of foreign equity ownership allowed shall be specified in the said authority/clearance (RA 7042 as amended by RA 8179).

3. Manufacture and distribution of dangerous drugs
4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals
5. All forms of gambling, e.g. race track operation
6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US\$200,000
7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-in equity capital of less than the equivalent of US\$100,000 (RA 7042 as amended by RA 8179)

The investment climate is also influenced by other laws such as the Intellectual Property Act of 1997, the E-commerce Act, The Retail Trade Liberalization Act of 2000, and the New Revised Securities Act.



Investment Incentives

Various Philippine laws provide for incentives that may be availed of by investors, subject to specific conditions and requirements set forth by the applicable laws and the corresponding rules and guidelines.

Most common systems of incentives are those granted to entities registered with the Board of Investments ("BOI") or with the Philippine Economic Zone Authority ("PEZA").

The BOI and PEZA incentives include both fiscal and non fiscal incentives, which incentives are granted on a case to case basis depending on the specific circumstances of the registrant. Fiscal incentives range from the grant of income tax holiday, certain tax credits and/or tax and duty exemptions on purchases of raw materials, equipment, and spare parts. Non-fiscal incentives, on the other hand, include allowance of employment of foreign nationals and simplified customs procedures.

BOI or PEZA registered enterprises generally seek to avail of the income tax holiday incentive when the registered activity of the registered enterprise is made exempt from payment of income tax. PEZA registered entities likewise seek for availment of a 5% preferential tax, which is in lieu of all taxes, after the lapse of the period for income tax holiday.

Export oriented enterprises may opt to locate within designated Philippine economic zones and apply for PEZA registration and availment of incentives available to PEZA registered entities.

Nevertheless, there are other economic zones that have been set up under special laws and administered by agencies other than PEZA. Examples could be Subic Bay Freeport Zone and the Cagayan Economic Zone.

On the other hand, enterprises engaged in activities which are covered by the Investments Priorities Plan ("IPP") may opt to register and apply for the grant of incentives with the BOI.

The IPP is issued every year by the BOI and the list of activities entitled to incentives is specified in such IPP as either Preferred Activities or as part of the Mandatory List. The list of Preferred Activities is more dynamic and reflective of the activities or industries being focused on by the Philippines. The Mandatory List, on the other hand, while still subject to change annually is more static since this list pertains to activities already covered by Philippine laws such as the following:

IPP Mandatory List

Revised Forestry Code of the Philippines	This covers extensive plantation of forest land of tree crops (except fruit trees) for commercial and industrial purposes.
Philippine Mining Act of 1995	This covers the exploration and development of mineral resources, mining/quarrying and processing of metallic and non-metallic minerals.
Book Publishing Industry Development Act	This covers printing, re-printing, publication and content development of books or textbooks.
Downstream Oil Industry Deregulation Act of 1998	This covers refining, storage, distribution, and marketing of petroleum products.
Ecological Solid Waste Management Act of 2001	This covers the establishment of waste recycling facilities.
Philippine Clean Water Act of 2004	This covers the establishment of wastewater treatment facilities, and sewage collection integrated with treatment facilities and the adoption of water pollution control technology, cleaner production and waste minimization.
Magna Carta for Persons with Disability	This covers the manufacture of technical aids and appliances for the use and/or rehabilitation of persons with disability, and the establishment of special schools, homes, residential communities or retirement villages solely to suit the needs and requirements of persons with disability.
Renewable Energy Act of 2008	This covers developers of renewable energy facilities, including hybrid systems. This also covers manufacturers, fabricators and suppliers of locally-produced renewable energy (RE) equipment and components.

*This Mandatory List is lifted from the 2011 IPP. The 2012 IPP has not been issued as of the date of this publication.

The Philippines offers a system of incentives available to enterprises that register with the Board of Investments (BOI) or with the Philippine Economic Zone Authority (PEZA). The nature and extent of incentives received by enterprises will depend on the nature of their business activities in the Philippines.

Investment incentives are available to the following enterprises registered with the BOI:

- Enterprises engaged in preferred projects listed under the current Investment Priorities Plan (IPP)
- Multinational companies establishing regional or area headquarters in the Philippines
- Multinationals setting up regional operating headquarters
- Multinational companies establishing regional warehouses in the Philippines
- Enterprises located in less developed areas; and
- Enterprises located in special economic zones.

The following incentives are available to BOI -registered enterprises

Fiscal Incentives

BOI-registered firms are given a number of incentives in the form of tax exemptions and concessions.





More specifically, the fiscal incentives include the following:

- Income Tax holiday - exemption from the payment of income taxes counted from the start of commercial operations
6 years - for new projects with pioneer status
4 years - for new projects with non-pioneer status
3 years - for expansion projects
- Tax credit for taxes and duties on raw materials used in the manufacture, processing or production of export
- Additional deduction for labor expense
- Tax and duty free importation of breeding stocks and genetic materials
- Tax credit on domestic breeding stocks and genetic materials
- Tax credit for taxes and duties on raw materials, supplies and semi-manufactured products and forming part thereof
- Exemption for wharfage dues and any export tax, duty, impost and fees
- Tax and duty exemption of imported spare parts and supplies

BOI-registered enterprises may import machineries, equipment, spare parts, and accessories provided the following conditions are met:

- The machinery, equipment, spare parts and accessories to be imported are not manufactured domestically in sufficient quantity, of comparable quality and at reasonable prices;

Said machinery, equipment, spare parts, and accessories are reasonably needed and will be used exclusively by the enterprise in the registered activity. The BOI under some instances, may authorize the temporary use of machinery or equipment in a non-registered activity to maximize usage thereof or its permanent use in a non-registered activity, upon payment of the proportionate duties thereon;

- The approval of the BOI was obtained by the registered enterprise for the importation of such machinery, equipment, spare parts, and accessories before the purchase order is made or before the corresponding letters of credits were opened; and the rated capacity of the machinery or equipment, if applicable, to be imported is within the registered capacity of the registered enterprise.

Non-Fiscal Incentives

BOI-registered enterprises are also entitled to the following non-fiscal incentives:

- Employment of foreign nationals
- Simplified customs procedures
- Unlimited use of consigned equipment
- Access to bonded manufacturing/trading warehouse system
- Government assistance on manpower training

Incentives for BOI-Registered Enterprises Engaged in Activities Not Listed in the IPP

An enterprise may still be entitled to the incentives listed above even if the activity is not listed in the IPP so long as:

- At least 50 percent of its production is for export – if Filipino-owned enterprise

- At least 70 percent of its production is for export – if majority foreign-owned (more than 40% foreign equity)

Additional Incentives for Enterprises Located in Less Developed Areas

For BOI-registered enterprises locating in less developed areas, (whether proposed or in an existing venture geared for expansion), the following additional incentives are available:

- The same set of incentives given to pioneer registered enterprises.
- 100 percent of the expenses for necessary and major infrastructure undertaken in the course of operation shall be allowed as deduction from taxable income.
- An additional deduction from taxable income of 100 percent of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year is observed.

Export Processing Zones

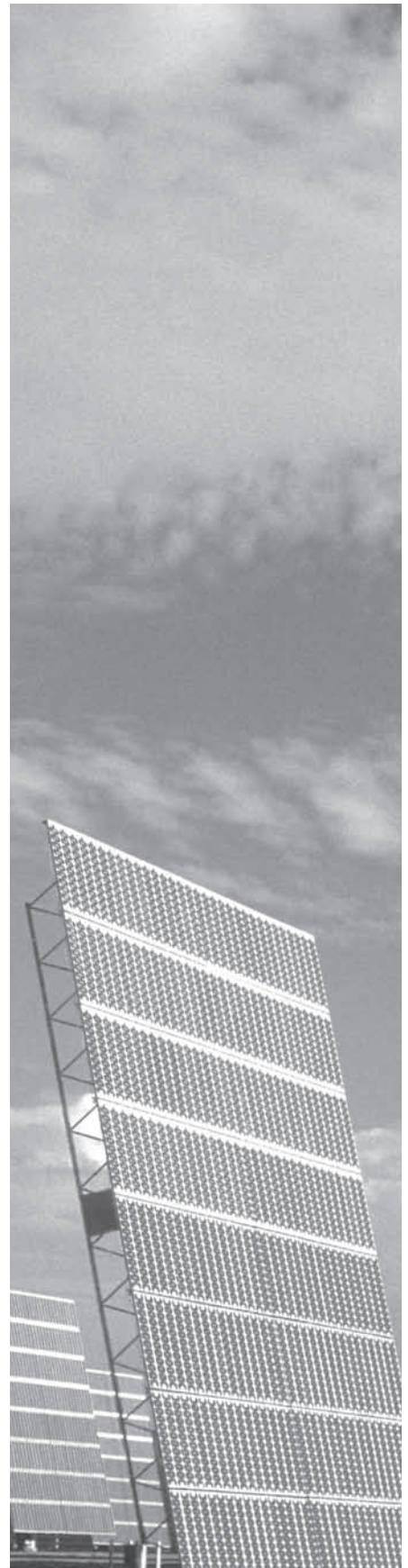
For investors registered with the Philippine Economic Zone Authority (PEZA), 100% foreign ownership is allowed. However, total production must be entirely for export. In certain instances, and subject to the approval of the PEZA, up to 30% of the production may be sold in the domestic market.

PEZA-registered export and free trade enterprises are given the following incentives:

- Corporate income tax exemption for four (4) years to a maximum of eight (8) years
- Exemption from duties and taxes on imported capital equipment, spare parts, materials, and supplies
- After the lapse of the Income Tax Holiday (ITH), in lieu of all national and local taxes, except real estate taxes on land owned by developers, a special 5 percent tax rate based in gross income
- Exemption from wharfage dues, export tax impost, and fees
- Tax credit on domestic capital equipment
- Tax and duty-free importation of breeding stocks and genetic materials
- Additional deduction for training expenses (labor and management)
- Permanent resident status for foreign investors and immediate members of the family
- Employment of foreign nationals
- Additional deduction for labor expense (50 percent of wages corresponding to increment in number of direct labor subject to certain conditions)
- Simplified import-export procedure

Currently, the government-owned Export Processing Zones (“EPZs”) are:

1. Bataan Export Processing Zone (BEPZ) – Mariveles, Bataan
2. Baguio City Economic Zone (BCEZ) – Loakan Road, Baguio City
3. Mactan Economic Zone (MEZ) – Lapu-Lapu City, Mactan, Cebu
4. Cavite Economic Zone (CEZ) – Rosario, Cavite
5. Cagayan Economic Zone (CEZ) – Santa Ana and Aparri
6. Zamboanga City Special Economic Zone (ZCSEZ) – Zamboanga City





Special Economic Zones

The Philippine government has vested specific areas with special status to attract investors. These areas, referred to as special economic zones or ecozones, were created for industrial expansion, employment generation, promotion of export products, foreign exchange generation and transfer of technology.

Ecozone developers, operators, facilities, utilities, tourism and domestic market enterprises are given the following incentives:

- Exemption from national and local taxes except real estate taxes on land owned by developers, in lieu thereof, special tax of 5 percent based on gross income
- Additional deduction for training expense (labor and management)
- Permanent resident status for foreign investor and family
- Other incentives available under the Investments Code as may be determined by the PEZA Board.

The following types of ecozones have been organized:

- Free Trade Zones ("FTZ"). FTZs are designated areas adjacent to a port of entry. Goods may be unloaded for immediate transshipment or stored, repackaged, sorted, or otherwise processed without being subject to import duties. However, goods become taxable the moment they are transferred from the FTZ to a non-free trade area.
- Export Processing Zones ("EPZ"). EPZs are specialized industrial estates located physically and administratively outside customs territories. Activities in these estates are largely export-oriented industries. Enterprises located in EPZs are allowed to import capital equipment and raw materials free from duties, taxes, and other import restrictions.
- Industrial Estates. Industrial estates are designated areas that are subdivided and developed according to a comprehensive plan under single management. These estates also have provisions for basic infrastructure and utilities, with available factory buildings and facilities.
- Tourist/Recreational Centers. These are areas within an ecozone where tourist facilities such as hotels, apartelles, tourist inns, pensions, resorts, sports and/or recreational facilities are provided for both local and foreign tourists, travelers, and investors.

Subic Bay Freeport

Among other special economic zones are two of the more attractive investment locations – the Subic Bay Freeport Zone and the Clark Special Economic Zone. The Subic Bay Freeport ("SBF") is a special economic and free port area established under the "Bases Conversion and Development Act of 1992." The Act provides for a comprehensive economic development program for the Subic Bay area. The SBF is located Northwest of Manila. Its harbor opens to the South China Sea. It covers approximately 60,000 hectares and includes the former U.S. Subic Naval Base.

The following special tax and non-tax incentives have been drawn up for both domestic and foreign investors who operate within the SBF:

- *Liberal tax laws.* Investors are exempted from all national and local taxes except for a 5 percent tax on gross income. Gross income is defined as sales less the cost of direct salaries, raw materials, intermediate goods, finished goods, supplies and fuel used for production, depreciation, lease payments or other expenditures on equipment used in production, financing charges associated with fixed assets, and rent and utility charges.
- *Foreign exchange.* Investors are allowed full repatriation of profits.



- *Special customs territory.* The SBF is classified as a special customs territory allowing the free movement of goods and capital. Tax and duty-free importation of raw materials, capital, and equipment are allowed in the SBF.
- *Permanent resident status.* In cases when an investment of US\$250,000 or more is made, the foreign investor, spouse and unmarried children below 21 years old will be granted permanent residency status.
- *Liberalized banking and financial markets.* Banking and finance regulations have been liberalized with the establishment of foreign currency deposit units within the SBF. Exchange transactions have also been relaxed, allowing free markets for foreign exchange, gold, securities, and futures.

Clark Special Economic Zone

In 1993, then President Fidel V. Ramos created the Clark Development Corporation (CDC) to oversee the conversion of the former US Air Base in Clark Field into an international aviation complex and special economic zone. Dubbed as the "Clark Special Economic Zone" (CSEZ), it is located in the provinces of Pampanga and Tarlac, about 80 km north of Manila and about 70 km from Subic Bay and covers an area of around 28,000 hectares.

The CSEZ has extensive infrastructure and support facilities ideal for an international aviation complex. In addition, land is available for industrial and agro-industrial development. Infrastructure projects such as telecommunications, power, international airport, housing and industrial units have been developed.

Enterprises located in the CSEZ enjoy similar liberal tax laws as those provided within the SBF.

Other incentives include the free flow or movement of goods and capital, tax and duty-free importation of machineries, equipment, raw materials, supplies and all other articles including finished goods and other incentives applicable in Economic Processing Zones.

Tourism Enterprise Zone

Investors may establish tourism enterprises such as: travel and tour services, tourist transport services, tour guides, adventure sports services, convention organizers, accommodation establishments, tourism estate management services, restaurants, shops and department stores, sports and recreational centers, spas, museums and galleries, theme parks, convention centers, and zoos.

New enterprises and existing enterprises in Tourism Zones are entitled to an income tax holiday for a period of six (6) years from the start of business operations. The income tax holiday may be extended if the enterprise undertakes a substantial expansion or upgrade of its facilities prior to the expiration of the first six (6) years. The extension shall consider the cost of such expansion or upgrade in relation to the original investment, but shall in no case exceed an additional six (6) years.

Tourism enterprises shall be allowed to carry over as deduction from the gross income for the next six (6) consecutive years immediately following the year of the loss, their net operating losses for any taxable year immediately preceding the current taxable year which had not been previously offset as deduction from gross income.

After the ITH, new enterprises shall be liable to a tax of 5 % on its gross income which shall be in lieu of all other national taxes, license fees, imposts and assessments, except real estate taxes and such fees as may be imposed by Tourism Infrastructure and Enterprise Zone Authority ("TIEZA").

Tourism enterprises shall likewise be entitled to a 100 % exemption from all other taxes and customs duties on importation of capital equipment, transportation and accompanying spare parts and goods actually consumed in the course of services actually rendered by or through registered enterprises within a TEZ.



Work Regulations

All employees are entitled to a minimum wage fixed by the Regional Wage Boards, with wages varying with the skill and experience of the workers and the location of the workers (see page 58 for average monthly wage rates of selected occupations in selected non-agricultural industries in Metro Manila).

Employees are also entitled to the following benefits mandated by the Labor Code of the Philippines:

- 13th month salary
- minimum retirement benefits
- service incentive leave
- overtime pay
- holiday pay
- night shift differential and other entitlements

In addition, large establishments sometimes provide sick, vacation, and holiday leaves, private pension plans, year-end bonuses, subsidized meals, rice and transportation allowances, uniforms and group hospitalization, and life insurance benefits. An employee may be required to work for a maximum period of eight (8) hours a day or 48 hours a week. Regulations provide for an overtime premium ranging from 10 percent to 200 percent, depending on the overtime hours undertaken if regular overtime (25 percent), on a night shift (10 percent), or on a holiday-related leave (200 percent). The law also provides for paid maternity and paternity leaves. Further, no employer may terminate a regular employee except for a just or authorized cause. If termination is due to retrenchment, ill health, or certain other causes, the employee is entitled to separation pay.

Employees and employers regularly share contributions to the Social Security System, Employees' Compensation Program, PhilHealth (formerly Medicare), and Home Development Mutual Fund or Pag-Ibig Fund. The majority of workers in the manufacturing sector are organized into trade unions. As a result, there is a significant protection for workers that includes the right for workers to organize unions, conduct strikes, and collaborate in collective bargaining agreements. The major instrument in resolving labor disputes has been collective bargaining.



Visas and Work Permits

Generally, foreign visitors, whether on business or pleasure, are not required to secure a visa if they will stay in the Philippines for a period not exceeding 21 days, have a return travel ticket or a ticket to their next port of destination and their passports are valid for a period at least six (6) months beyond their contemplated period of stay. Should a foreign visitor without a visa need to stay longer, he may request an extension from the Bureau of Immigration.

Foreign visitors may obtain a pre-arranged visa from the Philippine embassy or consulate in their country of origin. Temporary visitor visas grant a foreign visitor to stay in the Philippines for a period of 59 days. Such period may be extended through the Bureau of Immigration. Foreign visitors may also avail of the Pre-Arranged Visa Upon Arrival program of the Philippine Bureau of Immigration. In case of the latter, foreign visitors are required to coordinate with legitimate Philippine organizations which will vouch for their character and assist them in filing the necessary applications with the Bureau of Immigration. Applicants are then informed whether they would be able to receive a single or multiple entry visa upon their arrival in the Philippines.

Foreign citizens intending to work in the Philippines generally need to obtain a work permits from the Department of Labor and Employment and the corresponding work visas.

Specific laws also grant visa incentives to investors or specific types of foreign employees.

For instance, a foreign citizen intending to invest in the Philippines may apply for a Special Investors Resident Visa (SIRV) if such investor commits to invest at least US\$75,000.00 and who can meet the following other requirements:

- He has not been convicted of a crime involving moral turpitude
- He is not afflicted with any dangerous or contagious disease
- He has not been institutionalized for any mental disorder or disability

A foreign citizen may also receive the Special Visa for Employment Generation (SVEG) if he is able to employ at least ten (10) Filipino citizens in a lawful and sustainable trade, enterprise or industry. The visa privileges may extend to the qualified foreigner's spouse and dependent unmarried child/children below eighteen (18) years of age whether legitimate, illegitimate or adopted. The foreign citizen must meet the following requirements:

- The foreigner shall actually, directly or exclusively engage in viable and sustainable commercial investment/enterprise in the Philippines, exercises/performs management acts or has the authority to hire, promote and dismiss employees;
- He evinces a genuine intention to indefinitely remain in the Philippines,
- He is not a risk to national security.
- The foreigner's commercial investment/enterprise must provide actual employment to at least ten (10) Filipinos in accordance with Philippine labor laws and other applicable special laws.

The above-mentioned requirements must be continually satisfied by the foreigner for him/her to continue to be a holder of the SVEG.

It may also be important to note that foreign citizens employed by Regional Headquarters or Regional Operating Headquarters, their spouses and unmarried children below 21 years of age are entitled to receive multiple-entry visas, valid for one year, extendible on a yearly basis.

Statutory Holidays

Fixed dates

January 1	- New Year's Day
April 9	- Araw ng Kagitingan
May 1	- Labor Day
June 12	- Independence Day
November 1	- All Saints' Day
November 30	- Andres Bonifacio Day
December 25	- Christmas Day
December 30	- Rizal Day
December 31	- Last day of the year

National Heroes' Day - Last Monday of August

End of Ramadan (Eid'l-Fitr) - Usually held in November

Maunder Thursday, Good Friday and Black Saturday

Also included in the list of nationwide special non-working days are February 25 (Anniversary of EDSA People Power Revolution) and August 21 (Martyrdom of Benigno Aquino). There are a number of non-working or unscheduled holidays that may also be announced on short notice.

General Tips in Doing Business in the Philippines

- The greater Manila area accounts for about 70 percent of the Philippines' main consumer market. Manila is the principal commercial, industrial and financial center.
- Apart from Manila, the other main inter-regional centers are Cebu, Davao, Zamboanga and Iloilo.
- Large trading companies in the Philippines handle a high percentage of import orders. However, as each trading house may represent several hundred overseas companies, they are not able to carry extensive stocks and also act as indentors and agents.
- In business negotiations, all the essential details should be discussed and documented to avoid any future misunderstandings. Try to include an arbitration clause or other method for settling disputes.
- The best months to travel to the Philippines are from October to November and January to March. Try to avoid traveling two weeks before and after Christmas and the week before and after Easter.
- Business hours are generally from 8:00 a.m. to 5:00 p.m., Monday to Friday, for both government and private offices, with many companies adding a 1/2 working day on Saturdays.



Accounting, Auditing and Taxation

In this Chapter:

- Books of Accounts and Records
- SEC Requirements
- Audit of Accounts
- Tax Administration
- Income Taxes
- Value Added Tax
- Local Taxes
- Land and Property Tax
- Philippine Trade and Customs Environment
- Transfer Pricing

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Books of Accounts and Records

In the Philippines, all natural and juridical persons required by law to pay internal revenue taxes shall maintain and keep proper books of accounts and records of all business transactions. These books and records include, among others, business transactions, correspondences, books of inventories and balances, contracts, journals, ledgers, income tax returns, financial statements and other subsidiary books as required by business.

For taxation purposes, all books of accounts are required to be preserved for a period of three (3) years after the last day prescribed by law for filing the return, or provided that in a case where a return is filed beyond the period prescribed by law, the three year period shall be counted from the day the return was filed. Philippine internal revenue officers are authorized to inspect books of accounts. The inspection is generally made only once in a taxable year. The authority to do so is limited to the same period.

Philippine laws, under certain conditions, provide any director, trustee, stockholder or member of a corporation the right to inspect corporate books and records. Books and records of a corporation are ordinarily kept in the custody of the corporate secretary.

Generally Accepted Accounting Principles

Generally accepted accounting principles in the Philippines (Philippine GAAP) are currently based on International Financial Reporting Standards (IFRS) which are issued by the International Accounting Standards Board (IASB).

IFRS have been gradually phased into the Philippine financial reporting system. Full adoption of IFRS came in 2005. The Financial Reporting Standards Council (FRSC), the accounting-standard setting body in the Philippines, issues standards in a series of pronouncements called Philippine Financial Reporting Standards (PFRS). PFRS consist of PFRS [which correspond to IFRS], Philippine Accounting Standards (PAS) [which correspond to International Accounting Standards (IAS)] and Philippine Interpretations. Among others, the Philippine Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP) adopted, as part of their rules, these IASB-prescribed standards effective 2005. As a result, Philippine companies, particularly those dealing with the investing public, prepare their financial statements in accordance with the new financial reporting framework based on IFRS.

While the goal or strategy was for all Philippine companies to be 100 percent IFRS-compliant or to adopt the international standards as is, some companies or specific industries needed more time to adopt some of these new accounting standards while others needed specific exemptions. Some of these are the following:

- Non-publicly Accountable Entities or NPAEs– Philippine version of Small and Medium-sized Entities or SMEs allowed an option of not adopting IFRS.
- On pension accounting, upon first-time adoption of PFRS, companies allowed to amortize pension transition obligation over up to five years, as opposed to an immediate hit to retained earnings.
- Exemption from applying tainting rule for a specific set of financial instruments. For example, the Exchange Bond program of the Philippine government.
- Commodity derivative contracts of mining companies as of January 1, 2005 “grandfathered” and exempted from the fair value requirements of IAS 39 if all certain conditions are met.
- Pre-need companies allowed to use another comprehensive set of accounting principles.

- Deviation from IFRS of certain BSP-prescribed accounting rules for banks. For example, banks provide for bad debts based on rules prescribed by the BSP including expected losses while IFRS considers the present value of projected cash flows and only incurred losses; losses from sales of non-performing assets under the Philippine Special Purpose Vehicle law are amortized over a period of time while IFRS would recognize those losses in the year of sale; and investment properties are valued at cost while IFRS allows either cost or fair value.

SEC Requirements

As a rule, the SEC requires all corporations with gross sales or revenue of PHP 10 million and above to file, among others, four (4) copies and a diskette of the Audited Financial Statements, duly stamped as "received" by the BIR within 120 days from the end of the fiscal year indicated in the corporate By-Laws. For corporations whose securities are registered under the Securities Regulation Code, the due date shall be 105 days from the end of their operating period. A certification that the diskette containing the Audited Financial Statements has the basic and material data in the Audited Financial Statements, executed under oath by the corporate treasurer, shall also be submitted.

Within the same period, corporations with less than PHP 10 million gross sales or revenue have the option to file the Audited Financial Statements with diskettes. Otherwise, they shall file printed copies of the said documents, among others.

Audit of Accounts

Corporations, companies or persons whose gross quarterly sales, earnings, receipts or output exceed One Hundred Fifty Thousand Pesos (PHP150,000), may file their annual income tax returns accompanied by balance sheets, profit and loss statements, schedules listing income-producing properties and the corresponding income therefrom, and other relevant statements duly certified by an independent CPA, which shall be considered as sufficient compliance with the filing and accomplishment of the Account Formation Return required by law.

Regulated entities, such as banks, insurance companies, public utilities, and other corporations in specialized activities, are required to submit audited financial statements to their respective government regulatory agencies in addition to the SEC filing. Generally, foreign corporations duly licensed to do business in the Philippines are required to submit annual reports of their operations, as well as financial statements showing assets, liabilities and net worth within 120 days after the end of the fiscal year of the licensee. Foreign corporations are also required to comply with reportorial requirements prescribed by other government bodies under whose jurisdiction they fall.

Tax Administration

Philippine taxes are imposed on two levels – at the national government level and the local government level (i.e., provinces, cities and municipalities). Taxes at the national level are collected under the National Internal Revenue Code (NIRC), the Tariff and Customs Code (TCC), and under other special laws. The NIRC is administered by the BIR while the TCC is administered by the Bureau of Customs (BOC). Both bureaus are under the administrative supervision of the Department of Finance. Local government taxes are governed by the Local Government Code and is administered by the Treasurer and Assessor's Offices of the local government unit concerned.

The different taxes collected under the NIRC are:

- | | |
|--------------------|---------------------------|
| 1. Income tax | 4. Estate and donor's tax |
| 2. Value added tax | 5. Other percentage taxes |
| 3. Excise tax | 6. Documentary stamp tax |



Income Taxes

The definition of taxable income and the applicable tax rates depend on the category of the taxpayer.

Domestic corporations

A corporation is deemed to be a domestic corporation if it is organized under the laws of the Philippines. Domestic corporations are taxed on net income derived from sources within and outside the Philippines. The regular corporate income tax rate is 30 percent.

In determining its taxable income, a domestic corporation may reduce its gross income by the deductions allowed under the NIRC or by the optional standard deduction of 40 percent of its gross income.

Domestic corporations are liable for a 2 percent Minimum Corporate Income Tax (MCIT) on its gross income beginning on the fourth year after it commences business operations, when such MCIT is greater than tax computed under the regular corporate income tax regime. Any excess of the MCIT over the regular corporate income tax shall be carried forward and credited against the regular income tax for the three immediately succeeding taxable years.

Foreign corporations

Corporations not organized under the laws of the Philippines are classified as foreign corporations. They may either be a resident foreign corporation – one that is engaged in trade or business in the Philippines – or a nonresident foreign corporation.

Resident foreign corporations are taxed on their net income derived from sources within the Philippines at the rate of 30 percent.

In determining its taxable income, a resident foreign corporation may reduce its gross income by the deductions allowed under the NIRC or by the optional standard deduction of 40 percent of its gross income.

In addition to the regular corporate income tax, a resident foreign corporation is also liable for the branch profit tax. Profits remitted out of the Philippines by a branch to its head office are generally subject to a branch profit tax of 15 percent. This rate may be reduced if the nonresident foreign corporation is able to claim the benefit of a tax treaty. Profits remitted by a branch registered with the Philippine Economic Zone Authority (PEZA) and other special economic zones are exempt from the branch profits remittance tax.

Resident foreign corporations are also liable for the MCIT in the same manner as domestic corporations.

Certain resident foreign corporations are subject to different income tax regimes: Income derived by offshore banking units (OBUs) from foreign currency transactions with nonresidents, other OBUs and local commercial banks are exempt from all types of taxes except the final tax of 10 percent on their interest income derived from foreign currency loans granted to residents other than OBUs or local commercial banks. International carriers are subject to a 2.5 percent final tax based on gross Philippine billings unless reduced by the application of a tax treaty

Nonresident foreign corporations are taxed on their gross income from Philippine sources at the rate of 30 percent.

Certain nonresident foreign corporations are subject to different income tax regimes. Nonresident cinematographic film owners, lessors or distributors are subject to 25 percent final withholding tax on their gross income from Philippine sources. The gross rentals, lease or charter fees of nonresident owners or lessors of vessels chartered by Philippine nationals from leases or charters as approved by the Maritime Industry



Authority are subject to 4.5 percent final withholding tax. Non-resident lessors of aircraft, machineries and other equipment are subject to a 7.5 percent final withholding tax unless reduced by the application of a tax treaty.

Individuals

Resident Philippine citizens are taxed on their worldwide income. Individual nonresident Philippine citizens and Philippine citizens classified as overseas contract workers, including seamen, are taxed only on income from Philippine sources. Resident and nonresident aliens are taxed only on income from sources in the Philippines.

Philippine citizens, resident aliens and nonresident aliens engaged in trade or business in the Philippines are generally taxed under a progressive scale between 5 percent to 32 percent after the application of deductions and exemptions enumerated by the NIRC. In determining their taxable income, individual taxpayers who are not purely compensation earners, except nonresident aliens, may reduce their gross income by the optional standard deduction of 40 percent of their gross income or gross receipts.

Certain passive incomes are not subject to the general personal income tax rate but to final taxes.

Some resident aliens may avail of special tax rates under the NIRC or under special laws. For example, alien individuals employed by Regional or Area Headquarters or Regional Operating Headquarters, Offshore Banking Units and Petroleum Service Contractor and Subcontractor are taxed at a rate of 15 percent of their salaries and remuneration. Filipinos occupying the same positions may be taxed similarly.

Treatment of Dividends, Royalties and Interest Income

Dividends received by domestic corporations or resident foreign corporations from domestic corporations are not taxed.

Cash dividends and property dividends received by non-resident foreign corporations from domestic corporations are subject to a 30 percent withholding tax. This tax may be reduced to 15 percent if the country of the nonresident foreign corporate shareholder allows as a tax credit the taxes deemed to have been paid in the Philippines equivalent to 15 percent.

Gross dividends in cash or property received by Philippine citizens and resident alien individuals are subject to tax at 10 percent. Cash or property dividends from domestic corporations received by nonresident alien individuals engaged in Philippine trade or business are subject to a 20 percent final withholding tax while those received by nonresident aliens not engaged in trade or business in the Philippines is subject to a 25 percent final withholding tax.

Royalties received by domestic and resident foreign corporations are normally subject to a 20 percent final withholding tax, except royalties from books, other literary works, and musical compositions where the final withholding tax is 10 percent. Royalties received by non-resident foreign corporations are generally subject to a final withholding tax of 30 percent unless reduced by the application of a tax treaty.

Royalties received by Philippine citizens, resident alien individuals, nonresident alien individuals engaged in trade or business in the Philippines are subject to a 20 percent final withholding tax, except royalties from books, other literary works, and musical compositions where the final withholding tax is 10%. Royalties received by nonresident aliens not engaged in trade or business in the Philippines are subject to a final withholding tax of 25 percent. The rate imposed on nonresident aliens may be reduced by the application of a tax treaty.

Interest received by domestic and resident foreign corporations are normally subject to a 20 percent final withholding tax, except that interest received from a depository bank under the expanded foreign currency deposit system shall be subject to a final withholding tax of 7.5 percent. Interest on foreign loans received by nonresident



foreign corporations is subject to a 20 percent final withholding tax unless reduced by an applicable tax treaty.

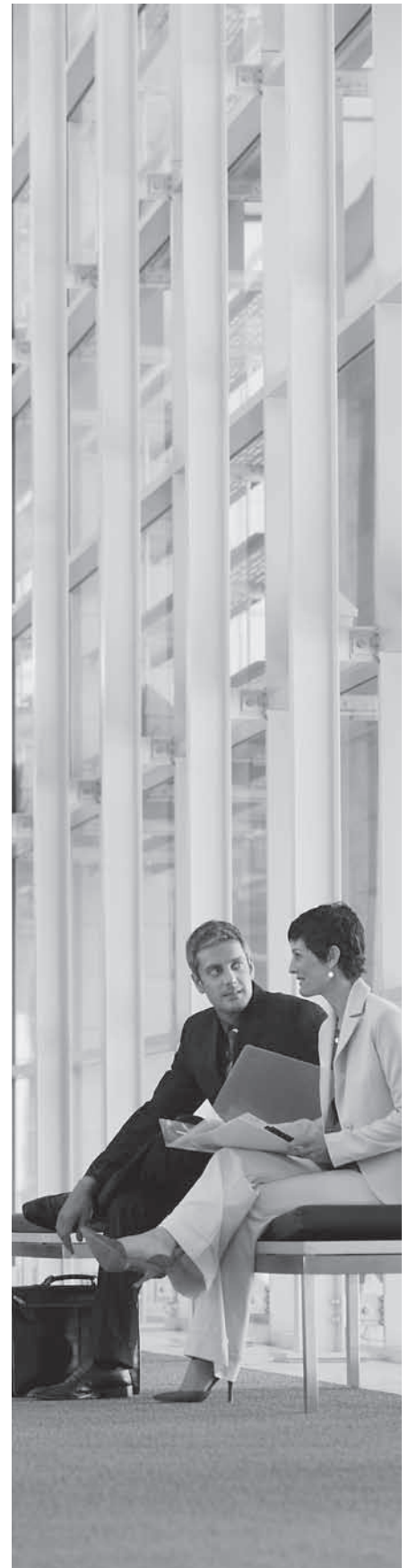
Interest received by Philippine citizens, resident alien individuals and nonresident aliens engaged in Philippine trade or business are normally subject to a 20 percent final withholding tax, except that interest received from a depository bank under the expanded foreign currency deposit system shall be subject to a final withholding tax of 7.5 percent. Interest received by nonresident aliens not engaged in trade or business in the Philippines is subject to a 25 percent final withholding tax. The rate imposed on nonresident aliens may be reduced by the application of a tax treaty.

Treatment of Capital Gains

Capital gains realized by domestic, resident and non-resident foreign corporations are generally subject to the normal corporate tax rate of 30 percent. Capital gains realized by Philippine citizens, resident aliens and non-resident aliens engaged in trade or business in the Philippines are generally subject to the progressive scale of 5 to 32 percent. Capital gains realized by nonresident aliens not engaged in trade or business in the Philippines are subject to a 25 percent withholding tax.

Net capital gains realized by domestic corporations, resident foreign corporations and nonresident foreign corporations are subject to a capital gains tax of 5 percent for net capital gains not over PhP 100,000 and 10 percent on any amount in excess of PhP 100,000. However, shares of stock which are treated as capital assets listed and traded through the Philippine Stock Exchange are not subject to capital gains tax. Instead, a transaction tax of $\frac{1}{2}$ of 1 percent is imposed on the gross selling price or gross value of the shares of stock sold. The same rule applies to Philippine citizens, resident aliens and nonresident aliens (whether or not engaged in trade or business in the Philippines).

Capital gains from the sale, exchange or disposition of real property treated as capital assets of domestic corporations are subject to a 6 percent tax based on gross selling price or fair market value of the real property sold, whichever is higher. The same rule applies to Philippine citizens, resident aliens and nonresident aliens (whether or not engaged in trade or business in the Philippines).





Value Added Tax

Any person who, in the course of trade or business, sells, barter, exchanges, leases goods or properties, renders services and imports goods shall be subject to VAT at the rate of either 12 percent or zero percent. Some transactions are VAT exempt.

The VAT is imposed on the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, or the gross receipts derived from the sale or exchange of services, including lease of properties. In the case of importation, the tax is based on the total value used by the Bureau of Customs (BOC) in determining tariff and customs duties plus excise taxes and other charges, provided that where the customs duties are determined on the basis of the quantity or volume of the goods, the VAT shall be based on the landed cost plus excise taxes, if any.

VAT is an indirect tax which may be passed on to the buyer, transferee or lessee of the goods, properties or services. A VAT payer is generally able to use the VAT on its purchases (Input VAT) as a credit to offset its VAT liabilities arising from the sale of its goods or service (Output VAT).

Zero rated transactions

If a transaction is categorized as zero rated for VAT purposes, the VAT-registered seller is entitled to a refund or tax credit of input tax paid on his purchases related to the zero-rated transaction. These transactions are:

- Export sales
- Foreign currency denominated sales
- Sales to persons or entities whose exemption under special laws or international agreements to which the Philippines is a signatory effectively subjects such sales to zero rate.

VAT-exempt transactions

If a transaction is categorized as an exempt transaction, the seller does not impose VAT on the sale of the goods. It is also not able to use any VAT that it paid from its purchases related to the exempt transaction as a credit against its Output VAT. Neither is the taxpayer able to claim a refund for the Input VAT related to its VAT exempt sales.

Local Taxes

Local government units may create their own sources of revenue by levying taxes, fees, and charges provided that the taxes so imposed are uniform, equitable, and devoted to a public purpose which will inure to the benefit of the collecting local government unit. Business transactions which may be subject to local taxation include manufacturers, traders, exporters, banks, financial institutions, insurance companies, as well as contractors performing all kinds of services within the territorial jurisdiction of the collecting local government unit, such as but not limited to general engineering services, publishing, quarrying, dressmaking, lessors, retail or wholesale distributors, and persons engaged in the exercise or practice of a profession requiring government examination.

Land and Property Taxes

Owners or administrators of land, as well as buildings and improvements erected thereon, are assessed a property tax by the local government unit of the place where the property is located. A percentage of the fair market value, based on the classification of the property, is used as a tax base. The rates vary depending on the locality and classification or use of the property being assessed. However, the total rates shall not exceed 3 percent of the assessed value of the real property.

Philippine Trade and Customs Environment

The primary enforcement agency with respect to cross border trade is the Philippine Bureau of Customs (BoC).

As a member of the World Trade Organization (WTO), the country uses the transaction value method as the primary basis for the valuation of imported goods for customs purposes. It is also a member of the World Customs Organization (WCO) and uses the Harmonized System for the tariff classification of its imports and exports.

Although tariffs in the Philippines are already considerably low (having a weighted average tariff rate of 3.2 percent in 2006), non-tariff barriers such as import restrictions, import licensing requirements, labeling, complex customs regulations, and other administrative requirements continue to remain a concern for companies.

Customs rules can be complex in the Philippines and certain details can be overlooked at the border which can later on be uncovered during an audit, and result in substantial costs.

The BoC is now more aggressively conducting post-entry audits in the Philippines, but allows companies to undertake a voluntary disclosure for a waiver of penalties.

Various duty savings opportunities may be leveraged in the Philippines from a clear understanding of Customs rules and practice.

Basis of Duties and Taxes

Duties are assessed in the Philippines on a Cost-Insurance-Freight (CIF) basis.

The primary mode of customs valuation in the Philippines is the transaction value. Any doubts cast by the BoC on the said value may lead to the use of other valuation methodologies under the WTO appraisal hierarchy.

Excise taxes apply to importation of certain commodities such as alcohol, cigarettes, fuel, and automobiles. The excise tax rate and base varies from product to product.

A 12 percent Value Added Tax is imposed on importations based on the landed cost (i.e. value of goods + duties + excise + post import charges)

Regulated commodities

A number of commodities require special permits and licenses from certain government agencies prior to their importation to Philippines. Examples of these are food and medicines, animal products, plant products, refrigerators / air-conditioners, and construction materials.

Filing an import entry

Import entries are filed with the BoC regardless of whether the imported articles are subject to duties or not. Entries should be covered by a verifiable evidence of payment (e.g. Letter of Credit). A customs broker generally undertakes the filing process and accomplishes the Import Entry and Internal Revenue Declaration (IEIRD). Payment of duties and taxes are usually coursed through authorized agent banks.

Current risks to companies

Philippine customs rules are complex, frequently amended and, oftentimes, subject to varying interpretations. The BoC Post Entry Audit Group is becoming more active and is expected to issue more audit notification letters to companies in the future.

Voluntary Disclosure Program

The BoC is currently extending an opportunity for companies that have not yet been audited to voluntarily disclose erroneous declarations and pay the deficiency taxes and duties in order to avail of a waiver of penalties and be granted least priority status in future audit selections.

Conditionally duty free importations

Subject to certain conditions (among them the posting of bonds) a number of items may be imported free of duty into the country such as exhibit pieces, demonstration units, and articles for repair to be re-exported thereafter. Articles previously exported from the

Philippines that did not undergo any processing abroad may also be imported free of duty subject to certain conditions.

Duty drawback and bonded warehousing

Duties paid on imported materials that were used in the production of an exported product may be reclaimed, usually in the form of tax credit certificates. Customs bonded warehouses are also available for export oriented enterprises to avail of duty exemptions on importer raw materials for their export production. Currently, however, there is a prevailing moratorium on the establishment of additional bonded warehouses. Instead, companies may enlist for allocations under existing common bonded warehouses.

Free Trade Agreements

The Philippines is party to various FTAs which include the ASEAN Free Trade Agreement (AFTA), the ASEAN-China FTA, the ASEAN-Australia/New Zealand FTA and the Japan-Philippines Economic Partnership Agreement (JPEPA). Negotiations are underway for more possible FTA arrangements which would offer lower duty rates.

In order to qualify for preferential duty rates, a company must comply with the rules of origin for that particular FTA. These rules have varied criteria (e.g. regional value added content, change in tariff classification) which apply to different products under different FTAs.

Investment Incentives

Companies that are registered with the Philippine Board of Investments (BOI) may be allowed to import capital equipment and spare parts duty free if these are pertinent to its registered business activity.

Special Economic Zones

Export oriented locators in Special Economic Zones under the Philippine Economic Zone Authority (PEZA) are allowed to import raw materials and capital equipment free of duties and taxes. In order to be a locator, these enterprises are required to export at least 70 percent of their total production.



Transfer Pricing

Section 50 of Tax Code provides that in the case of two or more organization, trades or businesses (whether or not incorporated and whether or not organized in the Philippines) owned or controlled directly or indirectly by the same interests, the Commissioner of Internal Revenue is authorized to distribute, apportion or allocate gross income or deductions between or among such organization, trade or business, if he determines that such distribution, apportionment or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any such organization, trade or business.

The Bureau of Internal Revenue (BIR) has recognized that Section 50 places a controlled taxpayer in tax parity with an uncontrolled taxpayer by determining the arm's-length price of inter-company transactions.

However, while Section 50 has been cited as the basis for transfer pricing rules, to date, the Philippines does not have transfer pricing regulations. The BIR has not imposed requirements in relation to transfer pricing documentation and/or transfer pricing-related disclosures in the tax returns. Neither has the BIR conducted transfer pricing audits.

Nevertheless, a draft of the transfer pricing regulations has been made as early as 2006. The draft is pending revisions.

Moreover, the BIR has stated that as a matter of policy, it subscribes to the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, issued by the Organization for Economic Cooperation

and Development. Accordingly, until the said transfer pricing regulations are issued, any and all concerns shall be resolved in accordance with the principles laid down by the said guidelines.

The BIR has also applied Section 50 of the Tax Code for inter-company loans or advances. Where one member of a group of controlled entities makes a loan or advances directly or indirectly, or otherwise becomes a creditor of another member of such group, and charges no interest, or charges interest at a rate which is not equal to an arm's-length rate, the Commissioner of Internal Revenue may make appropriate allocations to reflect an arm's-length interest rate for the use of such loan or advance. The arm's length interest rate shall be the rate of interest which was charged or would have been charged at the time the indebtedness arose in independent transaction with or between unrelated parties under similar circumstances. All relevant factors will be considered, including the amount and duration of the loan, the security involved, the credit standing of the borrower, and the interest rate prevailing at the situs of the lender or creditor for comparable loans. For purposes of determining the arm's length rate in domestic transactions, the interest rate to be used is the Bank Reference Rate prescribed by the Bangko Sentral ng Pilipinas (the Philippine Central Bank).

About Manabat Sanagustin & Co.

In this Chapter:

- About Manabat Sanagustin & Co.
- History
- Services
 - Audit Services*
 - Tax Services*
 - Advisory Services*

Manabat Sanagustin & Co.

About Manabat Sanagustin & Co., CPAs

Manabat Sanagustin & Co., CPAs is the Philippine member firm of KPMG International, a Swiss cooperative, and is one of the fastest growing practices in the Asia Pacific. We offer Audit, Tax and Advisory services to our clients and work closely with them to help them in their business.

History

The partnership of Manabat Sanagustin & Co. and KPMG International began with a vision. Spurred by the desire to bring the country's professional services to global renown, Dr. Jaime Laya and Mario Mananghaya entered into an affiliation with KPMG International in 1998.

Spurred by an ambitious vision to create the ultimate firm choice and offer the highest quality of professional business services, they further steered the business to grow to a strong 300-man firm in 2004. Dr. Jaime Laya retired in that same year while Mr. Mananghaya continued to manage the business until his retirement in 2006.

In 2007, led by new and dynamic leaders, **Roberto G. Manabat (Chairman & CEO)**, **Emmanuel P. Bonoan (Chief Operating Officer, Vice Chair for Tax)** and **Jorge Ma. S. Sanagustin (Vice Chair for Audit)**, Manabat Sanagustin & Co. took on the exciting challenge to bring about more innovation in a very competitive industry. Today, dedication, drive and unflinching adherence to the tenets of quality burn in the hearts and minds of more than 800 men and women whose professionalism and passion for achievement cut them above the rest.

The success of the business strategies conceptualized by the new leaders with the support of the firm's partners, principals and professionals has been recognized both locally and in the international scene. Recently, the firm was recognized by *BusinessWorld's Top 1000 Corporations of the Philippines* as the fastest growing audit firm in the country based on the number of clients within the Top 1000 ranking. Meanwhile, the firm's tax practice was classified as a Tier 1 Tax practice in the Philippines by the prestigious *International Tax Review*. The firm's Advisory practice has also been recognized by KPMG Asia Pacific as one of the fastest growing in the region.

The pioneering vision of its leaders continue to live on. . .

Manabat Sanagustin & Co., as the Philippine member firm of the KPMG network of independent firms, takes immense pride in this partnership. More than the prestige it lends to the firm, this global link enables Manabat Sanagustin & Co. to access resources and expertise to provide service beyond the extra mile.

Services

Manabat Sanagustin & Co., CPAs is one of the fastest growing KPMG member firms in the Asia-Pacific and one of the country's leading professional services providers. The firm brings to its clients technical skills, solid practical experience and wide industry and sector knowledge which help clients develop a competitive edge. The Firm applies a rigorous approach in providing audit, tax, and advisory services to assist its clients in defining their business, business goals or investments and works with them to achieve those objectives.

We work closely with other regional KPMG member-firm offices to bring the wealth of experience closer to our clients and at the same time deliver value-added services to them as needed.

We understand that each industry has its own issues and special challenges. Through education, industry focused training and years of firsthand experience, our professionals have gained an in-depth understanding of a wide range of key industries and issues faced by each industry.





Audit

Our Audit practice provides independent and objective assurance on information, transactions and processes. We offer Financial Statement Audits and Attestation Services. Audit quality is our top priority.

Our partners and professionals are trained to look closely at various aspects of financial reporting so they are able to isolate risk. Integrity, quality and independence are the building blocks of KPMG's approach.

Our audit process does more than assess the financial information. It enables our professionals to give appropriate consideration to the unique elements of the business whose financial statements are being audited, its culture, the industry in which it competes, competitive pressure, and the risk inherent within those elements.

In our commitment to share industry relevant experience and knowledge, we have a separate audit group devoted to servicing the needs of financial institutions clients.

Tax

Attitudes to tax are changing. Organizations of all sizes are ever more exposed to new trends in tax regulation, not just locally but globally. By thinking beyond the present and beyond borders to deliver long-lasting value, our member firms' understanding of tax governance, specialist skills and deep industry knowledge help our clients to stay competitive and compliant.

Business Tax

- Corporate and Business Tax
- International Corporate Tax
- Indirect Tax
- Mergers & Acquisitions
- Transfer Pricing
- Global Tax Management
- Legal Services
- Bookkeeping services
- Payroll Services

Personal Tax

- Taxation Services to Individuals (excluding IES)
- International Executive Services

Advisory

Business is a series of decisions, some of which can make or break an organization. All of them have the potential to affect performance and competitiveness.

Quality and timely business decisions result from adequate information, careful analysis and a realistic appreciation of risk.

The quality of decision making (including strategy formulation) and the effectiveness of its execution feeds directly into performance levels, the creation and preservation of value and governance standards.

Of course, organizations are always responsible for their own business decisions. However, many choose to augment their internal resources with the knowledge, experience, market insights and judgment of skilled and trusted advisers.

Transactions and Restructuring

To help make your company more robust, it may be worth considering divesting struggling and non-core assets and take advantage of lower prices to make strategic acquisitions. You might also be considering expanding into other markets, either domestically or internationally.

Given the difficult business conditions of recent times, a change of approach may be needed as previously good clients may have become bad debts, credit not being readily

available and some suppliers no longer able to supply. Equally, for some businesses, the tougher business conditions have resulted in underperformance from either an operational or financial perspective. Now is the time to address such issues to position your business for any upturn.

Services Offered

<div>Corporate Finance</div> <ul style="list-style-type: none"> • Mergers & Acquisition Advice • Financing • Valuations • Projects 	<div>Restructuring</div> <ul style="list-style-type: none"> • Operational Restructuring • Financial Restructuring • Insolvency • Turnaround Executive Management • Crisis management • Cash management 	<div>Non-core Advisory Services</div> <ul style="list-style-type: none"> • Bookkeeping and Payroll Services • Systems and ERP Implementation
<div>Transaction Services</div> <ul style="list-style-type: none"> • Buy-side Assistance • Sell-side Assistance 		

Performance and Technology

Successful organizations, whether they are businesses or public sector entities continually examine their performance, cost and policy drivers, seeking out opportunities to enhance their efficiency and take advantage of opportunities arising from technological innovation and changes in regulation, consumer behaviours, demographic trends and economic conditions.

Effective business and government leaders typically concentrate on key value drivers.

Services Offered

<div>Business Performance Services</div> <ul style="list-style-type: none"> • Financial Management • Business Effectiveness • People and Change 	<div>IT Advisory</div> <ul style="list-style-type: none"> • ERP Advisory • IT Attestation • IT Project Advisory • IRM in External Audit • IRM in Internal Audit 	<ul style="list-style-type: none"> • IT Strategy & Performance • IT Sourcing Advisory • Information Protection and Business Continuity Advisory
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Risk and Compliance

Risk management can't be boiled down to a single metric or key performance indicator. Yet that doesn't mean that a disciplined and inclusive approach to risk management isn't one of the keys to sustainable organizational success.

Organizations of all kinds are being expected to get better at identifying, understanding and managing the risks they face. To varying degrees, all organizations are exposed to risks.

Given the breadth and complexity of the typical organizational risk profile, it's increasingly recognized that risk management can't be the responsibility of a single individual or department — rather it has to be embedded across the organization, starting with the board and the CEO.

Services Offered

<div>Accounting Advisory Services</div> <ul style="list-style-type: none"> • Financial Reporting Advisory • Financial Reporting Processes Advisory 	<div>Financial Risk Management</div> <ul style="list-style-type: none"> • Credit Risk • Market Risk • Capital Adequacy & Regulatory Services • Financial Instruments 	<ul style="list-style-type: none"> • Actuarial Services & Financial Statement Support • Operational Risk • Insurance Risk • Economic Capital Management Accounting
<div>Internal Audit Risk & Compliance Services</div> <ul style="list-style-type: none"> • Internal Audit • Enterprise Risk Management • Contract Compliance • Governance, Regulatory & Compliance • Sustainability 		
<div>Forensic</div> <ul style="list-style-type: none"> • Investigations Fraud • Regulatory Compliance (including Anti-money laundering and anti bribery and corruption • Corporate Intelligence 		
<ul style="list-style-type: none"> • Fraud Risk Management • Intellectual property and Contract Governance • Dispute Advisory Services • Forencsic Technology service 		

Appendix

In this Chapter:

- Recent History: Democratization
- Language
- Geography
- Climate
- Population
- Education
- Political and Legal System
- Contact Information of Government Agencies
- Directory of Partners and Principals

Manabat Sanagustin & Co.



Recent History: Democratization

- The Philippines officially became a Republic in 1946
- The year 1986 was a landmark year in the country's efforts to become a self-governing, full-fledged democratic country when President Ferdinand Marcos was ousted from power and President Corazon Aquino assumed the presidency
- The Aquino Presidency (1986-1992) was marked by a revival of democratic institutions and the restoration of civil liberties
- National reconciliation was the highlight of the Ramos Presidency (1992-1998) as well as continuing political and economic reforms initiated by the previous administration
- The short lived Estrada Presidency (1998-2001) governed via a platform of populism with poverty alleviation as its centerpiece.
- Former President Gloria Macapagal-Arroyo's presidency (2001-2010) has made the economy the focus of her presidency. Economic growth in terms of GDP averaged 4.6 percent during the Arroyo presidency from 2001 up to the end of 2003, to 5.5 percent in 2006. 2007 saw the country's GDP grow by 7.3 percent growth as continuing fiscal reforms allowed the government to make headway in its development initiatives. The country's economic growth for 2009 is 4.6 percent.
- Benigno Aquino III, who was elected on 10 May 2010, is the current President of the Republic of the Philippines. His main platform is good governance and the elimination of corrupt practices in the government. Under his administration, the overall financial strength of the government has improved, owing to a more efficient tax administration and responsible government spending.

Languages

- Over 87 languages and dialects belonging to the Malayo-Polynesian linguistic family
- Three principal languages: Cebuano, Tagalog, and Ilocano. Filipino is the official language
- English is the language of business and government
- GlobalEnglish, an independent research group, ranked the Philippines number 1 in the world in terms of proficiency in business English for its 2012 study

Geography

- Located in Southeast Asia
- Area: 300,000 sq. km. (117,187 square miles)
- Three major geographical areas: Luzon, Vizayas, Mindanao
- Major cities (2005 estimate): Capital - Manila (pop. 27.8 million in the metropolitan area);
- Other Cities - Davao City (1.33 million); Cebu City (0.82 million)
- Terrain: Archipelago composed of 7,107 Islands, 65% mountainous, with narrow coastal lowlands





Climate

- Tropical, sitting astride a typhoon belt.
- Three seasons: Rainy (June to October); Cool and Dry (November to February); Hot and Dry (March-May)
- Average Temperature: 27 degrees Celsius (81 degrees Fahrenheit); Average Humidity: 78 percent.
- Year-round Average Temperature Range: 23-32 degrees Celsius.

Population

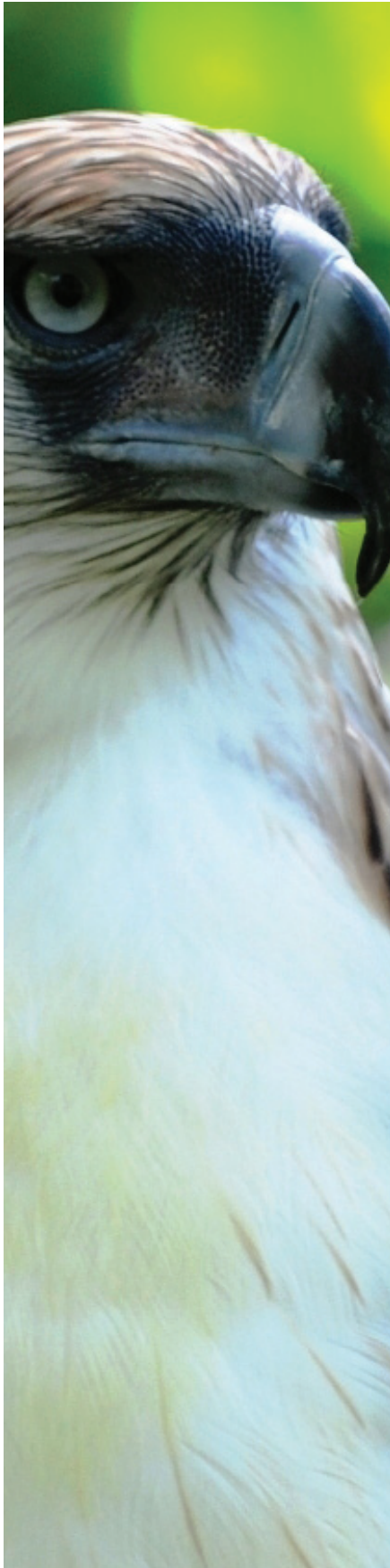
- 103.7 million (National Statistics Office, July 2012 estimate)
- Population growth rate of 1.873% per year (2012 estimate)
- Literacy Rate: 88.6% of total population – the highest in Southeast Asia (Hong Kong and Taiwan included)

Education

- K-12: universal kindergarten, 6 years of elementary education (Grades 1-6), 4 years of junior high school with additional 2 years for senior high school (Grades 11 to 12 or 5th year to 6th year)
- Public Elementary and High School education subsidized by the government
- English is part of the curriculum and is the medium of instruction for most subjects
- One of the highest literacy rates in Asia : Simple Literacy Rate: 88.6 percent: Functional Literacy Rate: 84.1 percent (2003 FLEMMS, National Statistics Office, Department of Education)

Political and Legal System

- Type: Republic
- Independence: 1946
- Current constitution: Ratified on 11 February 1987
- Branches: Executive; Legislative - Bicameral legislature; Judiciary
- Administrative Subdivisions: 17 regions including Metro Manila (National Capital Region), 80 provinces, 138 cities
- Suffrage: Universal, but not compulsory, at age 18



Directory of government agencies

Bangko Sentral ng Pilipinas (BSP)
Central Bank Building, A Mabini St., Malate, Manila
Tel. No.: +63 2 524 7011
Fax No.: +63 2 523 6210
Website: <http://www.bsp.gov.ph>

Board of Investments (BOI)
Industry and Investments Building, 385 Sen. Gil Puyat Ave., Makati City
Tel. Nos.: +63 2 897 6682 , 890 1332 and 895 3641
Fax No.: +63 2 895 3512
Website: <http://www.boi.gov.ph>

Bureau of Labour and Employment Statistics
3F, DOLE Building, Gen. Luna cor. Muralla Sts., Intramuros, Manila
Tel. No.: +63 2 527 3000 loc. 315
Fax No.: +63 2 527 5506
Website: <http://www.bles.dole.gov.ph>

Clark Development Corporation
Building 2122 Elpidio Quirino St., Clark Special Economic Zone, Clark Field, Pampanga
Tel. No.: +63 45 599 9000
Website: <http://www.clark.com.ph>

Department of Trade and Industry
DTI International Building, 375 Senator Gil Puyat Avenue, Makati City
Tel. No.: +63 2 751 0384
Fax No.: +63 2 895 6487
Website: <http://www.dti.gov.ph>

Export Assistance Network
Bureau of Export Trade Promotion, Department of Trade and Industry
DTI International Building, 375 Sen. Gil Puyat Ave., Makati City
Tel. No.: +63 2 890 4723 and 890 4693
Fax No.: +63 2 899 0111
Website: <http://www.dti.gov.ph/contentment/66/68/59.jsp>

Intellectual Property Office (IPO)
IPO Building, 351 Senator Gil Puyat Ave, Makati, Metro Manila
Tel. Nos.: +63 2 752 5450 to 65
Fax No.: +63 2 897-1724
Website: <http://www.ipophil.gov.ph>

International Tax Affairs Division of the Bureau of Internal Revenue
Room 811, National Office Building, Bureau of Internal Revenue, Diliman, Quezon City
Tel. Nos.: +63 2 927 0022 and 926 5729
Fax No.: +63 2 926 3420
Website: <http://www.bir.gov.ph>

National Economic and Development Authority (NEDA)
NEDA sa Pasig Building, Blessed Maria Escriva Drive, Pasig City
Tel. Nos.: +63 2 631 0945 to 68
Fax No.: +63 2 631 3747
Website: <http://www.neda.gov.ph>

National Statistical Coordination Board (NSCB)
Midland Buendia Building, 403 Senator Gil Puyat Ave, Makati City
Tel. Nos.: +63 2 895 2436 or 2767
Fax No.: +63 2 890 8456
Website: <http://www.nscb.gov.ph>

National Statistics Office (NSO)
Solicareld Bldg., R. Magsaysay Blvd, Sta. Mesa, Manila
Tel. Nos.: +63 2 716 0807 or 0734
Fax No.: +63 2 713 7074
Website: <http://www.census.gov.ph>



Optical Media Board (OMB)
35 Scout Limbaga Street, Quezon City
Tel. No.: +63 2 374 0176
Fax No.: +63 2 374 0217

Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, 355 Sen. Gil Puyat Avenue, Makati City
Tel. No.: +63 2 896 4549
Fax No.: +63 2 899 1727
Website: <http://www.philippinechamber.com>

Philippine Economic Zone Authority (PEZA)
6F Almeda Building III, Roxas Blvd cor. San Luis St., Pasay City
Tel. Nos.: +63 2 551 3454 or 3455
Fax No.: +63 2 891 6380
Website: <http://www.peza.gov.ph>

Philippine Export-Import Credit Agency (PHILEXIM) and
Trade and Investment Development Corporation of the Philippines (TIDCORP)
4F Citibank Plaza, 8741 Paseo de Roxas, Makati City
Tel. No.: +63 2 893 4204
Fax No.: +63 2 893 4852
Website: <http://www.philexim.gov.ph>

Privatization Council
Department of Finance Building, BSP Complex, A Mabini St., Malate, Manila
Tel. No.: +63 2 524 1633 and 524 5727
Fax No.: +63 2 523-5143

Privatization Management Office
Privatization Management Office Building, 104 Gamboa St, Legaspi Village, Makati City
Tel. No.: +63 2 893 1209 and 893 2383
Fax No.: +63 2 893 3453
Website: <http://www.dof.gov.ph/eservices.asp?id=10>.

Securities and Exchange Commission (SEC)
SEC Building, EDSA near Ortigas Ave, Greenhills, Mandaluyong, Metro Manila
Tel. Nos.: +63 2 584 7256 and 584 1119
Fax No.: +63 2 725 5239
Website: <http://www.sec.gov.ph>

Small Business Guarantee and Finance Corp (SBGFC)
17F 139 Corporate Center, 139 Valero St., Salcedo Village, Makati City
Tel. No.: +63 2 751 1888
Fax No.: +63 2 813 5726
Website: <http://www.sbgfc.org.ph>

Subic Bay Metropolitan Authority (SBMA)
Building 229, Waterfront Road, Subic Bay Freeport Zone
Tel. No.: +63 47 252 4895, 252 4381, 252 4382, 252 4000 and 252 4004
Fax No.: +63 47 252 3014
Website: <http://www.sbma.com>



Directory of Partners and Principals

Roberto G. Manabat
Chairman & Chief Executive Officer
 rgmanabat@kpmg.com

Emmanuel P. Bonoan
Chief Operating Officer
Vice Chair for Tax
 ebonoan@kpmg.com

Jorge Ma. S. Sanagustin
Vice Chair for Audit
 jsanagustin@kpmg.com

Henry D. Antonio
 hantonio@kpmg.com

Imelda H. Corros
 icorros@kpmg.com

Ricardo G. Manabat
 rmanabat@kpmg.com

Jimmy S. Quiñones
 jquinones@kpmg.com

Emerald Anne C. Bagnes
 ebagnes@kpmg.com

Sharon G. Dayoan
 sdayoan@kpmg.com

Virgilio L. Manguilimotan
 vmanguilimotan@kpmg.com

Manuel P. Salvador III
 msalvadoriii@kpmg.com

Carmel Lynne M. Balde
 cbalde@kpmg.com

Yoshiaki Endo
 yendo1@kpmg.com

Maria Myla S. Maralit
 mmaralit@kpmg.com

Vicente Julian A. Sarza
 vsarza@kpmg.com

Enrico E. Baluyut
 ebaluyut@kpmg.com

Michael Arcatomy H. Guarin
 mguarin@kpmg.com

Ador C. Mejia
 acmejia@kpmg.com

Ma. Georgina J. Soberano
 gsoberano@kpmg.com

Oliver C. Bucao
 obucao@kpmg.com

Dennis I. Ilan
 dilan@kpmg.com

John Molina
 johnmolina@kpmg.com

Roberto L. Tan
 rltan@kpmg.com

Joan C. Cariño
 jcarino@kpmg.com

Jose P. Javier Jr.
 jpjavier@kpmg.com

Herminigildo G. Murakami
 hmurakami@kpmg.com

Pacifico M. Castañeda
 pcastaneda@kpmg.com

Arthur Z. Machacon
 amachacon@kpmg.com

Wilfredo Z. Palad
 wpalad@kpmg.com

Alicia Columbres
 acolumbres@kpmg.com

Tomas G. Mahinay
 tmahinay@kpmg.com

Ma. Carmela M. Peralta
 mperalta@kpmg.com

Manabat Sanagustin & Co.

Our Values

We lead by example

We work together

We respect the individual

We seek the facts and provide insight

We are open and honest in our communication

We are committed to our communities

Above all, we act with integrity

The Infrastructure Issue

A Guide for Businessmen and
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Vicente A. Sarza
Michael Arcatomy H. Guarin
Atty. Herminigildo G. Murakami
Atty. Maria Carmela M. Peralta
Jerome Andrew H. Garcia
Paul Patrick R. Afable
Jose Mari C. Tan Cha
Mylene G. Mercado
Atty. Jeri Alanz A. Banta
Atty. Leilani M. Cuneta
Writers

Emmanuel P. Bonoan
Editor-in-Chief

Ruby B. Tan
Assistant Editor

Karlo Ramil S. Oliquino
Creative Direction and Layout

Manila North Tollways Corporation
Jones Lang Lasalle
Photo Contributors

kpmg.com.ph

For more information please contact:

Manabat Sanagustin & Co.

Roberto G. Manabat
Chairman & CEO

Emmanuel P. Bonoan
Chief Operating Officer
Vice Chair for Tax

Jorge Ma. S. Sanagustin
Vice Chair for Audit

Manila - Head Office:

9th/F KPMG Center
6787 Ayala Avenue
Makati City 1226, Metro Manila

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
E-mail manila@kpmg.com.ph

Cebu Office:

Unit 502, 5th Floor
Keppel Center
Samar Loop corner
Cardinal Rosales Avenue
Cebu Business Park
Cebu City 6000

Telephone +63 (32) 233 9339
Telefax +63 (32) 233 9327
E-mail cebu@kpmg.com.ph

Subic Office:

Units 142/144 & 146/148
Ground Flr., Alpha Bldg.
Subic International Hotel Compound
Rizal corner Sta. Rita Roads
Subic Bay Freeport Zone 2222

Telephone +63 (47) 252 2825
+63 (47) 252 2898
Telefax +63 (47) 252 2826
E-mail subic@kpmg.com.ph

Bacolod Office:

Suite 3
Doll Building
6th Street, Bacolod City 6100

Telephone +63 (34) 433 1962
+63 (34) 434 9225
Telefax +63 (34) 434 8015
E-mail bacolod@kpmg.com.ph

Iloilo Office:

3rd Floor, ATM Business Center
Corner Jalandoni - Ledesma Street
Iloilo City 5000
Philippines

Telephone +63 (33) 321 3821
+63 (33) 321 3822
Telefax +63 (33) 321 3823
E-mail iloilo@kpmg.com.ph

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