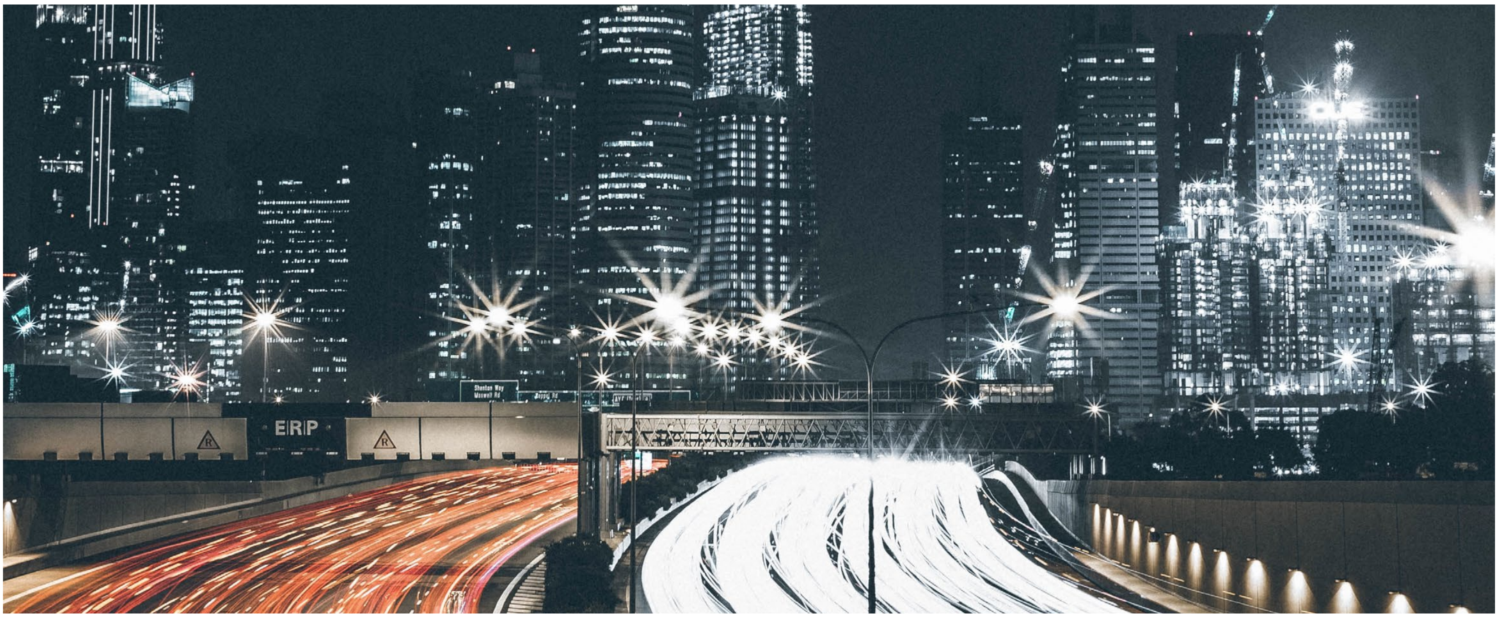
INFRASTRUCTURE



I. MARKET OVERVIEW

Despite its impressive economic growth story, the Philippines continues to be fraught with major gaps in key infrastructure requirements such as roads, ports, airports, urban mass transit, water, and energy due to past years of underinvestment and delays in implementing public capital expenditures. One of the most problematic factors for doing business in the country is the inadequate supply of infrastructure. The World Economic Forum Global Competitiveness Report 2015–2016 paints a relatively unfavorable picture of the Philippines, which earned a poor ranking of 106/140 in terms of the quality of overall infrastructure.

To address the country's infrastructure deficits, efforts have been made to increase public infrastructure spending from 3% of GDP in 2014 to 5% by 2016, while at the same time encouraging Public-Private Partnership (PPP) projects. Immediate priorities include the implementation of a mass transport system in Metro Manila and improvements in major airports, road connectivity, and seaports across the archipelago.

Infrastructure spending in the Philippines is expected to grow at approximately 10% a year in the next decade, to €22,43 billion annually by 2025. The demand for infrastructure stems from a need to keep pace with the country's rapid economic growth in recent years. For this reason, the Philippines boasts having one of the fast expanding infrastructure markets in Southeast Asia, thereby presenting huge market opportunities for major infrastructure development projects.

The key market locations include Metro Manila and other parts of Luzon. Most of the major infrastructures are located in Metro Manila where various modes of transportation (e.g. LRT, MRT, buses, and taxis) are available. Many of the prominent construction and infrastructure companies are headquartered in Metro Manila such as MPIC, Ayala, DMCI, and SMCC Philippines, among others. In addition, the Subic-Clark zone has a potential for major airport expansion, aircraft and ship assembly and maintenance, and tourism that could host many jobs.

Other growth opportunities are also present in other regions, given the goals of the present administration

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to further advance development outcomes in the Visayas and Mindanao regions.

II. MAIN LEGISLATIVE AND REGULATORY FRAMEWORK

To promote sustainable development through private sector investments, two primary laws have been enacted: Republic Act No. 9184 or the Government Procurement Reform Act for the procurement of goods, supplies and services, and Republic Act No. 6957 as amended by Republic Act No. 7718 or the Philippine Build-Operate-and-Transfer (BOT) Law for a more focused framework in PPP infrastructure development.

The Construction Industry Authority of the Philippines (CIAP) promotes, accelerates, and regulates the construction industry. Its implementing boards are the Philippine Contractors Accreditation Board (PCAB), Philippine Overseas Construction Board (POCB), the Philippine Domestic Construction Board (PDCB), and the Construction Industry Arbitration Commission (CIAC).

III. MAJOR OPPORTUNITIES FOR EU BUSINESSES

Although the significant gaps in infrastructure unfavorably affects its capacity to consolidate the country's economic competitiveness, addressing these structural insufficiencies will by itself be a vital impetus for growth.

Key market opportunities exist in the public infrastructure & logistics sector as well as PPP projects as these economic activities are listed in the current Investment Priorities Plan (IPP) 2014–2016 as preferred investment areas. Eligible infrastructure activities include, among others:

- Development of airports and seaports (includes RO-RO ports) for cargo and passenger;
- Operation of passenger and/or cargo air transport for commercial purposes;
- Use of land mass transport using brand new buses that run on electric batteries, and/or compressed natural gas;
- Domestic or inter-island shipping, i.e. pure cargo, passenger, and passenger-cargo vessel operations;
- Mass rail transport system for passengers and cargoes;
- Establishment and operation of natural gas storage and regasification facilities; and
- Bulk water treatment and supply.

As such, these projects, when registered with the Board of Investments, can enjoy the tax incentives provided for under the Omnibus Investment Code of the Philippines:

- Income tax holiday of six years for projects with pioneer status and for projects located in a Less Developed Area; four years for new projects for expansion or modernisation projects;
- Duty exemption on imported capital equipment, spare parts and accessories;
- Exemption from wharfage dues and any export tax, duty, impost and fees;
- Tax exemption on breeding stocks and genetic materials;
- Tax credits on imported raw materials;
- Tax and duty-fee importation of consigned equipment;
- Additional deduction for labor expense;
- Employment of foreign nationals;
- Simplification of customs procedures; and
- Access to bonded manufacturing warehouse.

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