

Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Metro Pacific Investments Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2019 and 2018, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in a separate schedule is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of Metro Pacific Investments Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic parent company financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.



Marydith C. Miguel

Partner

CPA Certificate No. 65556

SEC Accreditation No. 0087-AR-5 (Group A),

January 10, 2019, valid until January 9, 2022

Tax Identification No. 102-092-270

BIR Accreditation No. 08-001998-55-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125270, January 7, 2020, Makati City

February 26, 2020



METRO PACIFIC INVESTMENTS CORPORATION
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Notes 5, 19 and 20)	₱38,154,974	₱9,048,353
Restricted cash (Notes 5, 19 and 20)	555,594	478,492
Receivables (Notes 6, 19 and 20)	4,154,368	1,479,649
Due from related parties (Notes 10, 19 and 20)	98,972	5,948
Input taxes	317,785	197,772
Other current assets (Note 13)	41,984	579,885
Total Current Assets	43,323,677	11,790,099
Noncurrent Assets		
Investments and advances (Note 6)	202,176,066	193,193,108
Other noncurrent assets (Notes 6, 7, 13, 19 and 20)	511,090	535,660
Total Noncurrent Assets	202,687,156	193,728,768
	₱246,010,833	₱205,518,867
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 8, 19 and 20)	₱3,844,179	₱2,250,880
Due to related parties (Notes 10, 19 and 20)	5,561,050	4,385,495
Current portion of:		
Long-term debt (Notes 9, 19 and 20)	6,666,499	1,707,262
Provisions (Note 6)	185,079	–
Total Current Liabilities	16,256,807	8,343,637
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 9, 19 and 20)	78,531,219	65,294,203
Provisions (Note 6)	2,383,037	–
Due to related parties (Notes 10, 19 and 20)	2,240,081	7,391,763
Deferred tax liabilities (Note 15)	6,856,482	732,779
Other noncurrent liabilities (Notes 13, 19 and 20)	693,976	–
Total Noncurrent Liabilities	90,704,795	73,418,745
Total Liabilities	106,961,602	81,762,382
Equity (Note 11)		
Capital stock	31,660,620	31,632,830
Additional paid-in capital	68,638,256	68,494,364
Treasury shares	(4,055)	(177,603)
Equity reserves	4,290	279,117
Other comprehensive income reserve	15,060	9,894
Retained earnings	38,735,060	23,517,883
Total Equity	139,049,231	123,756,485
	₱246,010,833	₱205,518,867

See accompanying Notes to Parent Company Financial Statements.



METRO PACIFIC INVESTMENTS CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands Except Earnings Per Share Figures)

	Years Ended December 31	
	2019	2018
REVENUES		
Dividend income (Notes 6 and 10)	₱12,416,179	₱9,290,068
Interest income (Note 14)	533,003	366,656
	12,949,182	9,656,724
OPERATING EXPENSES (Note 12)	(1,838,980)	(1,614,688)
INTEREST EXPENSE (Notes 9, 10 and 14)	(5,391,625)	(4,250,067)
OTHER INCOME (EXPENSES) - Net (Note 14)	13,032,575	(674,533)
INCOME BEFORE INCOME TAX	18,751,152	3,117,436
PROVISION FOR FINAL AND CURRENT TAX (Note 15)	95,691	70,438
NET INCOME	18,655,461	3,046,998
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain (loss) on defined benefit plans (Note 13)	3,094	(2,786)
Income tax effect (Notes 13 and 15)	(928)	836
Change in fair value of equity securities at fair value through other comprehensive income (FVOCI) (Notes 20 and 23)	3,000	(43,868)
	5,166	(45,818)
TOTAL COMPREHENSIVE INCOME	₱18,660,627	₱3,001,180
EARNINGS PER SHARE (Note 17)		
Basic Earnings Per Common Share	₱0.591	₱0.096
Diluted Earnings Per Common Share	₱0.591	₱0.096

See accompanying Notes to Parent Company Financial Statements.



METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts in Thousands)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Treasury Shares (Note 11)	Equity Reserves (Note 11)	Other Comprehensive Income Reserve	Retained Earnings (Note 11)	Total
At January 1, 2019	₱31,632,830	₱68,494,364	(₱177,603)	₱279,117	₱9,894	₱23,517,883	₱123,756,485
Total comprehensive income for the year:							
Net income	—	—	—	—	—	18,655,461	18,655,461
Other comprehensive income	—	—	—	—	5,166	—	5,166
Executive Stock Option Plan (ESOP) (Note 16)	27,790	133,948	—	(78,917)	—	45,013	127,834
Restricted Stock Unit Plan (RSUP) (Note 16)	—	10,221	176,394	(195,910)	—	9,295	—
Transaction costs on issuance of shares	—	(277)	—	—	—	—	(277)
Treasury shares	—	—	(2,846)	—	—	—	(2,846)
Cash dividends declared (Note 11)	—	—	—	—	—	(3,492,592)	(3,492,592)
At December 31, 2019	₱31,660,620	₱68,638,256	(₱4,055)	₱4,290	₱15,060	₱38,735,060	₱139,049,231
At January 1, 2018	₱31,625,830	₱68,464,820	(₱167,363)	₱193,303	₱55,712	₱23,962,187	₱124,134,489
Total comprehensive income for the year:							
Net income	—	—	—	—	—	3,046,998	3,046,998
Other comprehensive loss	—	—	—	—	(45,818)	—	(45,818)
ESOP (Note 16)	7,000	29,614	—	19,142	—	—	55,756
RSUP (Note 16)	—	—	—	66,672	—	—	66,672
Transaction costs on issuance of shares	—	(70)	—	—	—	—	(70)
Treasury shares	—	—	(10,240)	—	—	—	(10,240)
Cash dividends declared (Note 11)	—	—	—	—	—	(3,491,302)	(3,491,302)
At December 31, 2018	₱31,632,830	₱68,494,364	(₱177,603)	₱279,117	₱9,894	₱23,517,883	₱123,756,485

See accompanying Notes to Parent Company Financial Statements.



METRO PACIFIC INVESTMENTS CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱18,751,152	₱3,117,436
Adjustments for:		
Gain on dilution of interest (Notes 6 and 14)	(16,553,256)	–
Dividend income (Note 6)	(12,416,179)	(9,290,068)
Interest expense (Note 14)	5,391,625	4,250,067
Provision for impairment of assets (Notes 6 and 14)	3,130,880	755,187
Long Term Incentive Plan (LTIP) expense (Notes 12 and 13)	536,336	190,434
Interest income (Note 14)	(533,003)	(366,656)
Loan prepayment and refinancing costs (Notes 8, 9 and 14)	460,546	–
Depreciation and amortization (Notes 7 and 12)	42,233	25,480
Retirement costs (Note 13)	20,698	19,538
Others	(17,992)	70,223
Operating loss before working capital changes	(1,186,960)	(1,228,359)
Decrease (increase) in:		
Restricted cash	(77,102)	(297,147)
Receivables	8,037	(5,501)
Due from related parties	(93,024)	3,105
Other current assets	417,888	(365,442)
Increase (decrease) in:		
Due to related parties	–	(10,449)
Accrued expenses and other current liabilities	466,787	138,464
Net cash used in operations	(464,374)	(1,765,329)
Dividends received (Note 6)	13,821,869	7,884,378
Interest paid	(4,009,969)	(3,270,393)
Interest received	475,271	350,189
Retirement contributions paid (Note 13)	(22,038)	(20,595)
Income tax paid	(95,694)	(70,296)
Net cash from operating activities	9,705,065	3,107,954

(Forward)



	Years Ended December 31	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 6)	(₱14,667,172)	(₱20,366,154)
Property and equipment (Note 7)	(20,769)	(35,105)
Software costs (Note 7)	(10,004)	(3,733)
Other noncurrent assets	(3,323)	(333)
Payments to related parties (Notes 10 and 21)	(4,451,341)	(4,809,713)
Collections/proceeds from sale of:		
Investments and advances (Note 6)	23,715,417	–
Property and equipment and others (Note 7)	3,746	5,233
Financial assets at FVPL (Note 5)	–	5,450,000
Net cash from (used in) investing activities	4,566,554	(19,759,805)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Loan availment (Notes 9 and 21)	20,000,000	21,400,000
Subscription arising from exercise of stock option (Notes 11 and 16)	127,834	32,200
Payments of/for:		
Long-term debt (Notes 9 and 21)	(1,587,900)	(1,033,900)
Debt issue costs (Notes 9 and 21)	(197,085)	(203,707)
Lease liability (Note 8)	(15,185)	–
Treasury shares (Note 11)	(2,845)	(10,240)
Transaction costs related to issuance of shares (Note 11)	(278)	(70)
Dividends paid (Note 11)	(3,492,592)	(3,491,302)
Increase in other noncurrent assets	–	(65,000)
Net cash from financing activities	14,831,949	16,627,981
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		
 ON CASH AND CASH EQUIVALENTS	53	(1,256)
NET INCREASE (DECREASE) IN CASH AND		
 CASH EQUIVALENTS	29,103,621	(25,126)
CASH AND CASH EQUIVALENTS		
 AT BEGINNING OF YEAR (Note 5)	9,047,353	9,072,479
CASH AND CASH EQUIVALENTS		
 AT END OF YEAR (Note 5)	₱38,150,974	₱9,047,353

See accompanying Notes to Parent Company Financial Statements.



METRO PACIFIC INVESTMENTS CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Metro Pacific Investments Corporation (the Company or MPIC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company. MPIC's common shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). On August 6, 2012, MPIC launched Sponsored Level 1 American Depositary Receipt (ADR) Program with Deutsche Bank as the appointed depository bank in line with the Company's thrust to widen the availability of its shares to investors in the United States.

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued and outstanding common shares of MPIC as at December 31, 2019 and 41.9% of the total issued shares (or 42.0% of the total outstanding common shares) as at December 31, 2018. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2019 and 2018.

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL) (13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group companies in Hong Kong.

The registered office address of the Company is 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

The accompanying parent company financial statements as at and for the years ended December 31, 2019 and 2018 were approved and authorized for issuance by the Board of Directors (BOD) on February 26, 2020.

Company's Operating Segments

The Company's operating segments are as follows:

- *Power*, which primarily relates to the operations of Manila Electric Company (MERALCO) in relation to the distribution, supply and generation of electricity and Global Business Power Corporation (GBPC) in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric Asset Holdings, Inc. (Beacon Electric) while the investment in GBPC is held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI).
- *Toll operations*, which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries, NLEX Corporation (NLEX Corp), Cavitex Infrastructure Corporation (CIC), MPCALA Holdings, Inc. (MPCALA), Cebu Corodova Link Expressway (CCLEC), and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R), Don Muang Tollway Public Ltd (DMT) and PT Nusantara Infrastructure Tbk (PT Nusantara).



- *Water*, which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiary, Maynilad Water Services, Inc. (Maynilad); and other water-related services by MetroPac Water Investments Corporation (MPW) and its foreign investees, B.O.O. Phu Ninh Water Treatment Plant Joint Stock Company (PNW) and Tuan Loc Water Resources Investment Joint Stock Company (TLW).
- *Healthcare*, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by Metro Pacific Hospital Holdings, Inc. (MPHHI) and subsidiaries. MPHHI has been deconsolidated starting December 9, 2019 (see Note 6), and thereafter, investment retained has been classified as an investment in an associate.
- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit Line 1 (LRT-1) and construction of the LRT-1 south extension.
- *Logistics*, which primarily relates to the Company's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiaries.
- *Others*, which represent holding companies and operations of subsidiaries and other investees involved in real estate, provision of services and waste-to-energy projects.

See Note 6 for the complete list of the Company's subsidiaries, associates and joint venture.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The separate or parent company financial statements are prepared on a historical cost basis, except for certain equity financial assets and financial liabilities that are measured at fair value (see Note 20). The parent company financial statements are presented in Philippine Peso, which is the Company's functional currency, and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated. The parent company financial statements are prepared for submission to the Bureau of Internal Revenue (BIR) and the Philippine SEC.

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements, presented in compliance with Philippine Financial Reporting Standards (PFRS). MPIC and its subsidiaries (collectively referred to as the "Group") also files its consolidated financial statements with the Philippine SEC.

Statement of Compliance

The parent company financial statements are prepared in compliance with PFRS. The Company's significant accounting policies are disclosed in Note 23.



3. Management's Use of Judgments and Estimates

The preparation of the parent company financial statements in compliance with PFRS requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, the disclosure of contingent liabilities and other significant disclosures. In preparing the parent company financial statements, management has made its best judgments and estimates of certain amounts, giving due consideration to materiality. The judgments and estimates used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the parent company financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

The Company believes that the following represent a summary of these significant judgments and estimates, related impact and associated risks in the parent company financial statements.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements.

Issuance of Exchangeable Bonds as Equity Transactions. Under PFRS, the treatment of convertible bonds which compel the holder to convert the bond (rather than being at the holder's option) depends on whether the number of shares issued on conversion are variable or fixed:

- If the mandatorily convertible bond can only be settled by the issue of a variable amount of ordinary shares calculated to equal a fixed amount in the issuer's functional currency (that is, there is a repayment of principal, albeit in shares), the instrument is a liability.
- If the mandatorily convertible bond can only be settled by the issue of a fixed number of ordinary shares, that part of the instrument is an equity component.

In 2014 and 2019, MPIC issued Exchangeable Bonds with aggregate principal amount of ₱36.6 billion. These Exchangeable Bonds are instruments that, at a certain time in the future, mandatorily convert into a fixed number of MPHHI common shares (see Note 6). The Exchangeable Bonds are forward contracts to deliver fixed number of shares for which consideration has been received in advance, and hence, are effectively accounted for as equity transactions in the Parent Company's financial statements.

Accounting for Arrangements as a Single Transaction. In determining whether to account for the arrangements as a single transaction, an entity considers all the terms and conditions of the arrangements and their economic effects. One or more of the following circumstances indicate that it is appropriate for a parent to account for multiple arrangements as a single transaction:

- they are entered into at the same time or in contemplation of each other;
- they form a single transaction designed to achieve an overall commercial effect;
- the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement; or
- one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is a disposal of shares priced below market and is compensated by a subsequent disposal priced above market.



The indicators clarify that arrangements that are part of a package are accounted for as a single transaction.

The series of transactions entered into by MPIC together with MPHHI for the investment and entry of KKR and Co. (“KKR”), alongside Arran Investments Private Limited (“Arran”), in and to MPHHI, were assessed to be linked agreements and thus, were accounted for as a single transaction that resulted to the deconsolidation of MPHHI considering MPIC’s loss of control over MPHHI with the remaining interest accounted for as investment in associate. Management’s judgments in concluding the loss of control over MPHHI and accounting for the remaining investment are discussed in Note 6.

Definition of Default and Credit-impaired Financial Assets upon Adoption of PFRS 9, Financial Instruments. The Company defines a financial instrument ‘in default’, which is fully aligned with the definition of ‘credit-impaired’, when the borrower is more than 180 days past due on its contractual payments (i.e. principal and/or interest) or when the borrower is experiencing financial difficulty.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of ‘in default’ used for internal credit risk management purposes. A financial instrument is no longer in default (i.e. to have cured) when the counterparty has exhibited a satisfactory track record evidencing strong capacity to meet its contractual obligations in the near term.

Estimates

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

Determination of Fair Value of Financial Instruments. The Company initially records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities that are not quoted in an active market. Where valuation techniques are used to determine fair values (e.g., discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the persons that initiated the transactions. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Company or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Company uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments would affect either the parent company statement of comprehensive income or parent company statement of changes in equity.

Fair values of financial instruments are presented in Note 20.

Incorporation of Forward-looking Information. To capture the effect of changes to the economic environment in the future, the computation of Probability of Default (PD), Loss Given Default (LGD) and Expected Credit Loss (ECL), incorporates forward-looking information; assumptions on the path of economic variables that are likely to have an effect on the repayment ability of the Company’s counterparties. The starting point for the projections of economic variables is based on



management's view, which underlies the plan to deliver the Company's strategy and ensures it has sufficient capital over the medium term. Management's view covers a core set of economic variables required to set the strategic plan, namely inflation, unemployment rate, gross domestic product and peso-dollar exchange rate.

Provision for ECL. The Company has the following financial assets that are subject to the ECL model: (i) cash and cash equivalents and short-term deposits; (ii) restricted cash; (iii) receivables; and (iv) due from related parties.

Carrying value of financial assets as at December 31, 2019 and 2018 are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Cash and cash equivalents (see Note 5)	₱38,150,974	₱9,047,353
Short-term deposits (see Note 5)	4,000	1,000
Restricted cash (see Note 5)	555,594	478,492
Receivables	4,154,368	1,479,649
Due from related parties (see Note 10)	98,972	5,948

While cash and cash equivalents, short-term deposits and restricted cash are also subject to the impairment requirements of PFRS 9, the impairment loss was deemed immaterial.

The Company assessed that the provision for ECL of receivables and due from related parties amounted to nil and ₱52.8 million, respectively, for the years ended December 31, 2019 and 2018.

The information about the ECLs on the Company's receivables and due from related parties is disclosed in Note 19.

Impairment of Investments and Advances. Impairment review is performed when certain impairment indicators are present. In addition to the impairment indicators discussed in Note 6, receipt of dividend from the Company's subsidiaries, associates and joint ventures that meets the following conditions may be an internal indicator that the investments and advances are impaired. Impairment testing is required when a dividend is received and:

- there is evidence available that the carrying amount of the investments in the Company's separate financial statements exceeds the carrying amount of subsidiaries, associates and joint ventures net assets; or,
- the dividend exceeds the total comprehensive income of subsidiaries, associates and joint ventures.

The carrying value of the investments and advances amounted to ₱202,176.1 million and ₱193,193.1 million as at December 31, 2019 and 2018, respectively (see Note 6). Accumulated impairment amounted to ₱5,291.1 million and ₱2,219.1 million as at December 31, 2019 and 2018, respectively. Impairment losses on investments and advances recognized for the years ended December 31, 2019 and 2018 amounted to ₱3,130.9 million and ₱755.2 million, respectively (see Note 6).

Realizability of Deferred Income Tax Assets. The Company reviews the carrying amounts of unrecognized deferred income taxes at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.



Deferred income tax assets have not been recognized as at December 31, 2019 and 2018 because management believes that the Company may not have sufficient future taxable profits available to allow all or part of the deferred income tax assets to be utilized in the near future.

The Company has deductible temporary differences, unused tax credits from minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), aggregating to ₱21,814.3 million and ₱12,981.0 million as at December 31, 2019 and 2018, respectively, for which no deferred tax assets have been recognized (see Note 15).

Retirement Costs. The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions, described in Note 13, are reviewed at each reporting date.

Retirement cost for the years ended December 31, 2019 and 2018 amounted to ₱20.7 million and ₱19.5 million, respectively (see Note 13).

Share-based Payments. The Company measures the cost of cash and equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 16. The Company recognizes expenses based on the estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and estimated liability.

Total equity-based compensation expense recognized in 2019 and 2018 under "Equity reserve" from ESOP and RSUP amounted to nil and ₱90.2 million, respectively (see Notes 12 and 16).

LTIP. The LTIP for key executives of the Company and certain subsidiaries was approved by the Executive Compensation Committee and the BOD which is based on profit targets for the covered performance cycle. The cost of LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While management's assumptions are believed to be reasonable and appropriate, significant differences in actual results or changes in assumptions may materially affect the Company's long-term incentive benefits.

LTIP expense for the years ended December 31, 2019 and 2018 amounted to ₱536.3 million and ₱190.4 million, respectively. LTIP payable presented under "Other noncurrent liabilities" and "Accrued expenses and other current liabilities" as at December 31, 2019 and 2018 amounted to ₱536.3 million and ₱570.7 million, respectively (see Notes 8, 12 and 13).

Provisions. The Company recognizes provisions based on estimates of whether it is probable that an outflow of resources will be required to settle an obligation. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the financial performance in the current period in which such determination is made. Provisions mainly consist of estimated tax warranties and indemnities relating to dilution of interest in MPHHI (see Note 6).



4. Operating Segment Information

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available.

For management purposes, the Company is organized into the following segments based on services and products namely: power, toll operations, water, healthcare, rail, logistics and others (see Note 1). However, given that the logistics business does not yet meet the quantitative thresholds to qualify as an operating segment, the results of the logistics operations are included in the 'other businesses' column.

Segment Performance and Monitoring. The Company's chief operating decision maker is the BOD. The BOD monitors the operating results of each business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on: consolidated net income for the year; earnings before interest, taxes and depreciation and amortization, or Core EBITDA; Core EBITDA margin; and core income. Net income for the year is measured consistent with consolidated net income in the Company's consolidated financial statements.

Core EBITDA is measured as net income excluding depreciation and amortization of property and equipment and intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity in net earnings (losses) of associates and joint ventures, net foreign exchange gains (losses), net gains (losses) on derivative financial instruments, provision for (benefit from) income tax and other non-recurring gains (losses). Core EBITDA margin pertains to Core EBITDA divided by service revenues.

Performance of the operating segments is also assessed based on a measure of recurring profit or core income. Core income is measured as net income attributable to owners of the Company excluding the effects of foreign exchange and derivative gains or losses and non-recurring items (NRI), net of tax effect of aforementioned. NRI represent gains or losses that, through occurrence or size, are not considered usual operating items.

Segment expenses and segment results exclude transfers or charges between business segments. These transfers are also eliminated for purposes of the consolidated financial statements.

There are no revenue transactions with a single customer that accounted for 10% or more of the Group's consolidated revenues and no material inter-segment revenue transactions for the years ended December 31, 2019 and 2018. The Group's revenue substantially comprises of services which revenue recognition is over time.

Segment capital expenditure is the total cost incurred during the period to acquire service concession assets, property and equipment, and intangible assets other than goodwill. For the consolidated statements of financial position, difference between the combined segment assets and the consolidated assets consist of adjustments and eliminations comprising of goodwill, deferred tax and derivative assets. Difference between the combined segment liabilities and the consolidated liabilities largely consists of deferred tax.



The segment revenues, core income, assets, liabilities, and other segment information of MPIC Group's reportable operating segments as at and for the years ended December 31, 2019 and 2018 are detailed in the following tables. The following table presents consolidated information on core income and certain assets and liabilities regarding business segments:

	Year Ended December 31, 2019 (In Millions)								
	Power	Toll Operations	Water	Rail	Other Businesses	Adjustments/ Eliminations	Continuing Operations	Healthcare	Consolidated
Total revenue from external sales	₱24,648	₱18,503	₱25,469	₱3,287	₱1,592	₱-	₱73,499	₱14,658	₱88,157
Cost of sales and services	(16,018)	(6,524)	(8,544)	(2,042)	(1,698)	-	(34,826)	(8,895)	(43,721)
Gross Margin	8,630	11,979	16,925	1,245	(106)	-	38,673	5,763	44,436
General and administrative expenses	(2,354)	(2,046)	(4,153)	(767)	(1,796)	-	(11,116)	(3,663)	(14,779)
Other income (charges) – net	380	691	(932)	87	102	-	328	327	655
Profit before Financing Charges	6,656	10,624	11,840	565	(1,800)	-	27,885	2,427	30,312
Interest expense – net	(2,204)	(2,027)	(1,639)	112	(3,753)	-	(9,511)	(147)	(9,658)
Profit before NCI and Income Tax	4,452	8,597	10,201	677	(5,553)	-	18,374	2,280	20,654
Non-controlling interest	(2,436)	(1,857)	(3,470)	(261)	-	-	(8,024)	(906)	(8,930)
Provision for income tax	(1,171)	(2,256)	(3,048)	(97)	(461)	-	(7,033)	(745)	(7,778)
Contribution from Subsidiaries	845	4,484	3,683	319	(6,014)	-	3,317	629	3,946
Share in net earnings (losses) of equity method investees	10,824	605	(64)	-	53	-	11,418	238	11,656
Contribution from Operations - Core Income (Loss)	11,669	5,089	3,619	319	(5,961)	-	14,735	867	15,602
Non-recurring charges	(304)	(331)	(12,752)	(18)	(4,178)	-	(17,583)	25,837	8,254
Segment Income (Loss) Attributable to owners of the Parent Company	₱11,365	₱4,758	₱(9,133)	₱301	₱(10,139)	₱-	₱(2,848)	₱26,704	₱23,856
Core EBITDA	₱10,020	₱12,643	₱16,344	₱678	₱(1,205)	₱-	₱38,480	₱3,780	₱42,260
Core EBITDA Margin	41%	68%	64%	21%	-%	-%	52%	26%	48%
Non-recurring Charges	(₱219)	(₱184)	(₱20,106)	(₱36)	(₱4,250)	₱-	(₱24,795)	₱31,915	₱7,120
Provision for (benefit from) income tax	(58)	(172)	2,504	3	12	-	2,289	(6,123)	(3,834)
Non-controlling interest	(27)	25	4,850	15	60	-	4,923	45	4,968
Net Non-recurring Charges	(₱304)	(₱331)	(₱12,752)	(₱18)	(₱4,178)	₱-	(₱17,583)	₱25,837	₱8,254
Assets and Liabilities									
Segment assets	₱78,137	₱136,080	₱130,466	₱30,870	₱50,530	₱16,603	₱442,686	₱-	₱442,686
Investments and advances	132,156	16,031	2,131	-	2,079	-	152,397	16,695	169,092
Consolidated Total Assets	₱210,293	₱152,111	₱132,597	₱30,870	₱52,609	₱16,603	₱595,083	₱16,695	₱611,778
Segment Liabilities	₱55,448	₱102,398	₱73,162	₱17,291	₱103,264	₱14,170	₱365,733	₱-	₱365,733
Other Segment Information									
Capital expenditures -									
Service concession assets and property, plant and equipment	₱939	₱23,796	₱16,432	₱7,593	₱103	₱-	₱48,863	₱1,806	₱50,669
Depreciation and amortization	3,364	2,019	4,504	113	595	-	10,595	1,353	11,948



Year Ended December 31, 2018 (In Millions)

	Power	Toll Operations	Water	Rail	Other Businesses	Adjustments/ Eliminations	Continuing Operations	Healthcare	Consolidated
Total revenue from external sales	₱27,026	₱15,486	₱22,894	₱3,310	₱1,363	₱-	₱70,079	₱12,950	₱83,029
Cost of sales and services	(18,968)	(5,345)	(7,527)	(1,900)	(1,455)	-	(35,195)	(7,512)	(42,707)
Gross Margin	8,058	10,141	15,367	1,410	(92)	-	34,884	5,438	40,322
General and administrative expenses	(2,622)	(2,103)	(3,409)	(669)	(1,752)	-	(10,555)	(3,818)	(14,373)
Other income (charges) – net	614	602	(102)	154	1	-	1,269	328	1,597
Profit before Financing Charges	6,050	8,640	11,856	895	(1,843)	-	25,598	1,948	27,546
Interest expense – net	(2,394)	(1,667)	(1,602)	(10)	(3,108)	-	(8,781)	(113)	(8,894)
Profit before NCI and Income Tax	3,656	6,973	10,254	885	(4,951)	-	16,817	1,835	18,652
Non-controlling interest	(2,068)	(1,572)	(3,478)	(322)	5	-	(7,435)	(735)	(8,170)
Provision for income tax	(1,068)	(1,823)	(2,933)	(169)	(329)	-	(6,322)	(611)	(6,933)
Contribution from Subsidiaries	520	3,578	3,843	394	(5,275)	-	3,060	489	3,549
Share in net earnings (losses) of equity method investees	10,382	816	(20)	-	51	-	11,229	282	11,511
Contribution from Operations - Core Income (Loss)	10,902	4,394	3,823	394	(5,224)	-	14,289	771	15,060
Non-recurring charges	292	(184)	(301)	(63)	(812)	-	(1,068)	138	(930)
Segment Income (Loss) Attributable to owners of the Parent Company	₱11,194	₱4,210	₱3,522	₱331	(₱6,036)	₱-	₱13,221	₱909	₱14,130
Core EBITDA	₱9,652	₱10,072	₱15,518	₱987	(₱1,592)	₱-	₱34,637	₱3,028	₱37,665
Core EBITDA Margin	36%	65%	68%	30%	-%	-%	49%	23%	45%
Non-recurring Charges	₱301	(₱109)	(₱472)	(₱121)	(₱810)	₱-	(₱1,211)	₱233	(₱978)
Provision for (benefit from) income tax	(6)	(76)	(1)	11	(1)	-	(73)	(2)	(75)
Non-controlling interest	(3)	1	172	47	(1)	-	216	(93)	123
Net Non-recurring Charges	₱292	(₱184)	(₱301)	(₱63)	(₱812)	₱-	(₱1,068)	₱138	(₱930)
Assets and Liabilities									
Segment assets	₱83,428	₱107,777	₱126,789	₱21,372	₱16,775	₱29,126	₱385,267	₱19,686	₱404,953
Investments and advances	131,444	14,125	3,110	-	1,580	-	150,259	2,734	152,993
Consolidated Total Assets	₱214,872	₱121,902	₱129,899	₱21,372	₱18,355	₱29,126	₱535,526	₱22,420	₱557,946
Segment Liabilities	₱67,167	₱77,877	₱61,608	₱12,125	₱83,137	₱9,930	₱311,844	₱7,099	₱318,943
Other Segment Information									
Capital expenditures -									
Service concession assets and property, plant and equipment	₱1,115	₱8,347	₱12,747	₱6,233	₱1,562	₱-	₱30,004	₱2,692	₱32,696
Depreciation and amortization	3,602	1,433	3,665	92	250	-	9,042	1,077	10,119



The following table shows the reconciliation of MPIC Group's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2019 and 2018.

	2019	2018
	<i>(In Millions)</i>	
Consolidated Core EBITDA	₱42,260	₱37,665
Depreciation and amortization	(11,948)	(10,119)
Consolidated operating profit for the year	30,312	27,546
Adjustments to reconcile with consolidated net income:		
Interest income	2,291	1,494
Share in net earnings of equity method investees	11,656	11,511
Interest expense	(11,949)	(10,388)
Nonrecurring expenses – net	3,286	(1,053)
Provision for income tax	(7,778)	(6,933)
Consolidated net income for the year	₱27,818	₱22,177

The following table shows the reconciliation of MPIC Group's consolidated core income to consolidated net income for the years ended December 31, 2019 and 2018.

	2019	2018
	<i>(In Millions)</i>	
Consolidated core income for the year	₱15,602	₱15,060
Non-recurring income (expenses) – net	8,254	(930)
Net income for the year attributable to owners of the Parent Company	23,856	14,130
Net income for the year attributable to non-controlling interest	3,962	8,047
Consolidated net income for the year	₱27,818	₱22,177



The following table shows the analysis and allocation of the consolidated results of operations of MPIC Group to core and NRI, the manner by which MPIC Group reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2019 and 2018 and is provided to reconcile the preceding consolidated segment information, amounts and balances with MPIC Group's consolidated statements of income:

	2019				2018			
	Core	NRI	Reclassification	Consolidated	Core	NRI	Reclassification	Consolidated
	<i>(In Millions)</i>							
OPERATING REVENUES								
Power and coal sales	₱24,648	₱-	₱-	₱24,648	₱27,026	₱-	₱-	₱27,026
Water and sewerage services revenue	25,469	-	(418)	25,051	22,894	-	(319)	22,575
Toll fees	18,503	-	-	18,503	15,486	-	-	15,486
Rail revenue	3,287	-	-	3,287	3,310	-	-	3,310
Logistics and other revenues	1,592	-	418	2,010	1,363	-	319	1,682
	73,499	-	-	73,499	70,079	-	-	70,079
COST OF SALES AND SERVICES	(34,826)	1	-	(34,825)	(35,195)	(7)	-	(35,202)
GROSS PROFIT (LOSS)	38,673	1	-	38,674	34,884	(7)	-	34,877
General and administrative expenses	(11,116)	(1,380)	-	(12,496)	(10,555)	(597)	-	(11,152)
Interest expense	(11,755)	(45)	-	(11,800)	(10,230)	-	-	(10,230)
Share in net earnings (losses) of equity method investees	11,425	(253)	-	11,172	11,229	(438)	-	10,791
Dividend income	66	-	-	66	172	-	-	172
Interest income	2,244	13	-	2,257	1,448	3	-	1,451
Construction revenue	42,795	-	-	42,795	27,363	-	-	27,363
Construction costs	(42,795)	-	-	(42,795)	(27,362)	-	-	(27,362)
Others	262	(23,134)	-	(22,872)	1,097	(172)	-	925
INCOME (LOSS) FROM CONTINUING OPERATIONS								
BEFORE INCOME TAX	29,799	(24,798)	-	5,001	28,046	(1,211)	-	26,835
PROVISION FOR (BENEFIT FROM) INCOME TAX	7,033	(2,290)	-	4,743	6,322	73	-	6,395
Net income (loss) from continuing operations	22,766	(22,508)	-	258	₱21,724	(₱1,284)	₱-	₱20,440
Net income from discontinued operations	1,766	25,794	-	27,560	1,506	231	-	1,737
NET INCOME (LOSS)	₱24,532	₱3,286	-	₱27,818	₱23,230	(₱1,053)	₱-	₱22,177
Net Income (Loss) Attributable to:								
Owners of the Parent Company	₱15,602	₱8,254	₱-	₱23,856	₱15,060	(₱930)	₱-	₱14,130
Non-controlling interest	8,930	(4,968)	-	3,962	8,170	(123)	-	8,047
	₱24,532	₱3,286	₱-	₱27,818	₱23,230	(₱1,053)	₱-	₱22,177



By Geographical Market

While the Company's geographic focus is still predominantly the Philippines, MPIC has started increasing its presence in Southeast Asia with its subsidiaries' investments in Indonesia, Thailand and Vietnam (see Note 6). Amounts shown below are based on the Company's consolidated financial statements:

	2019	2018
	<i>(In Millions)</i>	
Operating revenue:		
Philippines	₱71,341	₱68,971
Indonesia	2,153	1,108
Vietnam	5	-
	73,499	70,079
From Discontinued Operations - Philippines	14,658	12,950
	₱88,157	₱83,029
Share in net earnings (losses) of equity method investees:		
Philippines	₱10,652	₱10,724
Indonesia	217	(479)
Thailand	445	593
Vietnam	(142)	(47)
	11,172	10,791
From Discontinued Operations		
Philippines	230	282
	₱11,402	₱11,073
Noncurrent assets ^(a) :		
Philippines	₱466,177	₱440,608
Indonesia	25,728	21,172
Thailand	8,079	6,852
Vietnam	3,482	5,542
	₱503,466	₱474,174

^(a) Excluding financial instruments and deferred tax assets.

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2019 and 2018.

	2019		
	Consolidated	Subsidiaries, Associates and Joint Ventures	Parent Company
	<i>(In Millions)</i>		
Operating revenues:			
From continuing operations	₱73,499	₱73,499	₱-
From discontinued operations	14,658	14,658	-
Net income (loss) for the year attributable to owners of the parent company:			
From continuing operations	(2,844)	(4,946)	2,102
From discontinued operations	26,700	10,147	16,553
Total assets	611,778	365,767	246,011
Total liabilities	365,733	258,771	106,962
Capital expenditures	50,669	50,648	21



	2018		
	Consolidated	Subsidiaries, Associates and Joint Ventures	Parent Company
	<i>(In Millions)</i>		
Operating revenues	₱83,029	₱83,029	₱-
Net income for the year attributable to owners of the parent company	14,130	11,083	3,047
Total assets	557,946	352,427	205,519
Total liabilities	318,943	237,181	81,762
Capital expenditures	32,696	32,662	34

5. Cash and Cash Equivalents, Short-Term Deposits and Restricted Cash

As at December 31, this account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Cash and cash equivalents	₱38,150,974	₱9,047,353
Short-term deposits	4,000	1,000
	₱38,154,974	₱9,048,353

Cash and Cash Equivalents. Cash and cash equivalents include cash in banks and temporary placements that are made for varying periods of up to three months depending on the immediate cash requirements of the Company. Cash in banks and temporary placements earn interest at the prevailing bank and temporary placements rates, respectively.

Short-term Deposits. Short-term deposits are deposits with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term deposits rates.

For the purpose of the statements of cash flows, cash and cash equivalents comprise of the following as at December 31:

	2019	2018
	<i>(In Thousands)</i>	
Cash on hand and in banks	₱1,072,445	₱53,164
Short-term deposits that qualify as cash equivalents	37,078,529	8,994,189
	₱38,150,974	₱9,047,353

Restricted Cash. Restricted cash classified under current assets pertains to sinking fund or debt service account (DSA) representing amounts set aside for semi-annual principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements (see Note 9). Restricted cash as of December 31, 2019 and 2018, amounted to ₱555.6 million and ₱478.5 million, respectively.

Interest earned from cash and cash equivalents, short-term deposits and restricted cash amounted to ₱527.2 million and ₱354.1 million for the years ended December 31, 2019 and 2018, respectively (see Note 14).



6. Investments and Advances

As at December 31, the Company's direct subsidiaries, joint venture and associates are as follows:

Investee	Principal Activity	Direct MPIC Ownership Interest	
		2019	2018
Subsidiaries:			
Beacon Electric	Investment holding	100.0	100.0
MPTC	Investment holding	99.9	99.9
MWHC	Investment holding	51.3	51.3
Maynilad	Utilities	5.2	5.2
MPW	Investment holding	100.0	100.0
MPLRC	Investment holding	100.0	100.0
MPHHI ^(a)	Investment holding	—	85.6
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	100.0	100.0
Fragrant Cedar Holdings, Inc. (FCHI)	Property lessor	100.0	100.0
Metro Global Green Waste, Inc. (MGGW)	Under liquidation	70.0	70.0
MPLC	Investment holding	100.0	100.0
Metro Pacific Resource Recovery Corp. (MPRRRC) ^(b)	Investment holding	100.0	100.0
MetPower Venture Partners Holdings, Inc. (MVPHI)	Investment holding	100.0	100.0
Metro Vantage Properties, Inc. (Metro Vantage)	Investment holding/real estate	100.0	100.0
Neo Oracle Holdings, Inc. (NOHI)	Under liquidation	96.6	96.6
Porrovia Corporation (Porrovia)	Under liquidation	50.0	50.0
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Under liquidation	58.8	58.8
Joint venture:			
Landco Pacific Corporation (Landco)	Real estate	38.1	38.1
Associates:			
MERALCO	Power distribution	10.5	10.5
Indra Philippines, Inc. (Indra Phils.)	Management and IT consultancy	25.0	25.0
MPHHI ^(b)	Healthcare	20.0	—
MetroPac Apollo Holdings, Inc. (Apollo) ^(c)	Investment holding	65.0	—
AF Payments, Inc. (AFPI)	Operator of contactless payment system	20.0	20.0
First Gen Northern Electric Corp. (FGNEC)	Under liquidation	33.3	33.3

(a) Ownership interest reflects economic interest on a fully diluted basis (see discussion below).

(b) Formerly MetroPac Clean Energy Holdings Corporation.

(c) Ownership interest reflects interest prior to call option exercise (see discussion below).

All of the above investees were incorporated in the Philippines, except for MIHL which was incorporated in British Virgin Islands.

As at December 31, the carrying value of the Company's investments and advances follows:

	2019	2018
	<i>(In Thousands)</i>	
Investments in subsidiaries:		
Beacon Electric	₱94,268,143	₱88,068,143
MPTC	42,721,751	39,979,051
MWHC	12,276,767	12,276,767
MPW	9,014,050	8,514,050
MPLRC	6,005,710	4,015,710
MPLC	3,204,110	2,448,001

(Forward)



	2019	2018
	<i>(In Thousands)</i>	
Investments in subsidiaries:		
Maynilad	₱2,071,042	₱2,071,042
MVPHI	293,813	293,813
MGGW	264,624	264,624
NOHI	230,132	230,132
MPRRC	217,500	40,000
FCHI	207,437	199,437
Metro Vantage	125,000	31,250
Porrovia	10,000	10,000
MPIC-JGS	953	953
MPHHI	–	4,007,533
	170,911,032	162,450,506
Investments in associates:		
MERALCO	27,427,458	27,427,458
MPHHI	1,426,396	–
Indra Phils.	326,525	326,525
Apollo	55,335	–
FGNEC	250	250
AFPI	–	95,735
	29,235,964	27,849,968
Advances to investees	2,029,070	2,892,634
	₱202,176,066	₱193,193,108

Movements of investments and advances are as follows:

	December 31, 2019			
	Subsidiaries	Associates	Joint Venture	Total
	<i>(In Thousands)</i>			
Investments:				
Balance at beginning of year	₱162,450,506	₱27,849,968	₱–	₱190,300,474
Additions:				
Equity funding into existing or newly incorporated entities	9,261,450	125,335	–	9,386,785
Application of advances	6,143,951	–	–	6,143,951
Subscription payable	63,538	–	–	63,538
Less:				
Impairment (see Note 14)	(3,000,880)	(130,000)	–	(3,130,880)
Dilution of investment in MPHHI	(2,581,137)	–	–	(2,581,137)
Other adjustment	–	(35,735)	–	(35,735)
Reclassification	(1,426,396)	1,426,396	–	–
	170,911,032	29,235,964	–	200,146,996
Advances:				
Balance at beginning of year	2,401,267	–	491,367	2,892,634
Additional advances during the year	4,728,387	–	552,000	5,280,387
Less: Application of advances	(6,143,951)	–	–	(6,143,951)
	985,703	–	1,043,367	2,029,070
	₱171,896,735	₱29,235,964	₱1,043,367	₱202,176,066



December 31, 2018				
	Subsidiaries	Associates	Joint Ventures	Total
<i>(In Thousands)</i>				
Investments:				
Balance at beginning of year	₱144,496,032	₱27,789,968	₱–	₱172,286,000
Additions:				
Equity funding into existing or newly incorporated entities	17,904,374	60,000	–	17,964,374
Application of advances	50,100	–	–	50,100
	162,450,506	27,849,968	–	190,300,474
Advances:				
Balance at beginning of year	468,041	–	828,100	1,296,141
Additional advances during the year	1,983,326	–	418,454	2,401,780
Less:				
Application of advances	(50,100)	–	–	(50,100)
Impairment (see Note 14)	–	–	(755,187)	(755,187)
	2,401,267	–	491,367	2,892,634
	₱164,851,773	₱27,849,968	₱491,367	₱193,193,108

Dividends

Dividend income are as follows:

	2019	2018
<i>(In Thousands)</i>		
Subsidiaries:		
Beacon Electric	₱5,470,251	₱4,317,690
MWHC	2,377,619	1,430,571
MPTC	2,345,517	1,791,866
Maynilad	259,715	155,730
MPHHI	–	10,963
Associates:		
MERALCO	1,900,702	1,583,248
Indra Phils.	62,375	–
	₱12,416,179	₱9,290,068

Dividend receivables amounted to nil and ₱1,405.7 million as of December 31, 2019 and 2018 and are recorded under the “Receivables” account in the parent company statements of financial position.

MERALCO and Beacon Electric

Beacon Electric. Beacon Electric holds investments in MERALCO and BPHI.

In 2019, the Company increased its investment in Beacon Electric by ₱6.2 billion. The capital infusion was used by Beacon Electric to prepay all its outstanding loan facilities. All these loan facilities are secured by MERALCO shares. Pursuant to the Pledge Agreement, the pledge shall be terminated upon full and final discharge of the obligation under the notes facility agreement.

MERALCO. MERALCO is the Philippines’ largest electric power distribution company. MERALCO holds a congressional franchise under Republic Act (RA) No. 9209 effective June 28, 2003. RA No. 9209 grants MERALCO a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission (ERC), granted MERALCO a consolidated Certificate of Public



Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of MERALCO's congressional franchise. MERALCO's participation in Retail Electricity Supply (RES) is through its local RES unit, Mpower. In 2017, the ERC granted MERALCO's wholly owned subsidiary, Vantage Energy Solutions and Management, Inc. (VESM), Solvre, Inc., a wholly owned subsidiary of Meralco PowerGen Corporation, and MeridianX Inc., a wholly owned subsidiary of Comstech Integration Alliance, Inc., distinct RES licenses to operate as retail electricity suppliers in Luzon and Visayas.

MERALCO is a Philippine corporation with its shares listed on the Philippine Stock Exchange.

MPIC's effective interest in MERALCO held indirectly through Beacon Electric is at 34.96% as at December 31, 2019 and 2018. MPIC also has direct interest in MERALCO at 10.5% as at December 31, 2019 and 2018. Thus, the Company's combined effective interest in MERALCO is at 45.5%. The fair value of the Company's effective investment in MERALCO at 45.5% as at December 31, 2019 and 2018 based on quoted prices of ₱315.30 and ₱385.00 per share amounted to ₱161.6 billion and ₱197.3 billion, respectively.

BPHI. In May 2016, BPHI entered into a Share Purchase Agreement with GT Capital Holdings, Inc. (GTCHI) to acquire an aggregate of 56% of the ordinary and issued share capital of GBPC for a total consideration of ₱22.06 billion. The consideration was settled as ₱11.03 billion in cash on closing and the balance via a vendor financing facility, which was replaced with long-term bank debt in August 2016. GBPC, a holding company which, through its subsidiaries, is one of the leading independent power producers in the Visayas region and Mindoro Island.

GBPC's power generation facilities consist of: (i) 246 megawatt (MW) clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation (CEDC); (ii) 164 MW and 150 MW clean coal-fired power plants in Iloilo City, which is operated by Panay Energy Development Corporation (PEDC); (iii) 60 MW coal facility, an 82 MW clean coal fired power plant and a 40 MW fuel oil facility operated by Toledo Power Co. (TPC); (iv) a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation (PPC); and (v) 7.5 MW fuel oil facility operated by GBH Power Resources Inc.

GBPC also has a 50% less one share stake in ATEC. ATEC has ownership in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 105 MW baseload coal-fired plant already in operation and another 105 MW under construction in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. (SRPI) which is developing a 105 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation. The second 105 MW unit in Sarangani Province declared commercial operations on October 10, 2019.

BPHI's loan facility is secured by a pledge on GBPC shares owned by BPHI. Other covenants include maintenance of reserve account and achievement of certain financial ratios such as (i) DSCR at a minimum of 1.1x; and (ii) DSCR before any restricted payments at 1.3x.

As at December 31, 2019 and 2018, BPHI is in compliance with the required financial ratios and other loan covenants.

MPTC

MPTC was acquired by MPIC in 2008. MPTC's subsidiaries, held through various holding companies, included NLEX Corp, CIC, MPCALA Holdings, Inc. (MPCALA) and Cebu Cordova Link Expressway Corporation (CCLEC), which were granted concession rights for the construction, operation and management of certain toll projects.



NLEX Corp holds the concession rights for the North Luzon Expressway (NLEX) up to 2037; the Subic-Clark-Tarlac Expressway (SCTEX) up to 2043; and NLEX-South Luzon Expressway (SLEX) Connector Road Project (Connector Road).

CIC holds the concession for the Manila - Cavite Expressway (CAVITEX), which concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension.

MPCALA holds the concession for the Cavite Laguna Expressway (CALAEX) with a 35-year concession period. The CALAEX is a closed-system tolled expressway connecting the CAVITEX and the SLEX. The first 10.7 kms of the CALAEX opened to the public on October 30, 2019. Certain portions of the CALAEX is still under construction as of February 26, 2020. The project is expected to be completed and fully operational by 2023.

CCLEC holds the concession agreement for the Cebu Cordova Link Expressway (CCLEX) with a 35-year concession period. The CCLEC construction contract award was made in November 2017 and completion is targeted by 2021.

MPTC, through various foreign holding companies, also has investments in entities domiciled and operating outside the Philippines, namely CII B&R, DMT and PT Nusantara.

PT Nusantara is a publicly listed limited liability company duly established and existing under the laws of the Republic of Indonesia. Its infrastructure portfolio in Indonesia includes toll roads (which is 80% of its core income), ports, energy and water. PT Nusantara's concession assets comprise of toll roads and water concession rights. Toll road concession rights cover the following toll road sections: (a) Tallo-Hasudin Airport; (b) Soekarno Hatta Port – Pettarani; (c) Pondok Ranji and Pondok Aren. The water concession rights pertain to right to treat and distribute clean water in the Serang District, Banten in Indonesia.

DMT, a major toll road operator in Bangkok, Thailand holds a toll concession that runs until 2034 for the operation of a 21.9-km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok.

MPTC holds a significant minority equity interest equal to about 45% of the outstanding capital of CII B&R. CII B&R has various road and bridge projects in and around Ho Chi Minh City in Vietnam.

MWHC and Maynilad

MWHC owns 92.9% in Maynilad as at December 31, 2019 and 2018.

Maynilad holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System (MWSS), on behalf of the Philippine Government, to provide water and sewerage services in the western area of Metro Manila up to 2037. Maynilad also holds investment in Phil Hydro, Inc. (PHI) which engages in water distribution business in certain areas in central and southern Luzon. PHI is granted the sole right to distribute water in these areas under certain concession agreements granted by the Philippine government for 25 years until 2035.

With the onset of El Niño in June 2019, southern portions of Maynilad's concession area (West Service Area) began experiencing intermittent water interruptions brought about by the diminishing raw water allocation from Angat Dam, aggravated by a protracted algal bloom that affected Laguna Lake which has served as Maynilad's raw water source to augment its supply from Angat Dam.

As the water crisis and the concomitant water interruptions stretched throughout the summer months, Congress initiated hearings in aid of legislation to determine and address the cause of the water crisis.



The Concession Agreements were brought into sharp focus when news broke out on November 2019 of the Other Operator's award in an arbitration against the Republic of the Philippines (ROP) (ordering the Government to compensate the Other Operator for unimplemented rates beginning 2015).

Subsequently, MWSS issued Resolution No. 2019-201-CO on December 11, 2019, revoking Resolution No.2009-180 dated September 10, 2009 pertaining to the Extension of the Concession Agreement of Maynilad from May 7, 2022 to May 6, 2037.

Matters quickly escalated when the Government identified supposedly "onerous provisions" in the Concession Agreement and ordered its review and amendment. On December 9, 2019, Maynilad received a letter from MWSS informing Maynilad that MWSS was directed to perform a review of the Concession Agreement. The amendments to the provisions of the Concession Agreement may affect, among others, future tariff increases and service commitments, and the concession period. Any future amendments to the provisions of the Concession Agreement will be reflected in the financial statements as these are determined.

On December 20, 2019, MWSS released a press statement clarifying Resolution No. 2019-201-CO and confirming that the action of the MWSS BOT did not result in the rescission or outright cancellation of the Concession Agreement.

On December 23, 2019, Maynilad received a letter from MWSS RO confirming that the 25-year CA from 1997 to 2022 and the Memorandum of Agreement (MOA) between Maynilad and the MWSS providing the 15-year extension from 2022 to 2037 have not yet been cancelled.

Because of the surrounding uncertainties in the continuity of the Concession Agreement under the existing terms, management performed an impairment test on its investment in MWHC (including the direct interest in Maynilad). The recoverable amount of the investment in MWHC used the results of the group impairment tests of the underlying cash generating units (CGUs) comprising of Maynilad and PHI.

The Company's effective share in the aggregate value in use of the CGUs was compared with the sum of the investments in MWHC and Maynilad. The value in use calculation involved discounting estimates of free cash flows by the pre-tax discount rate of 11.1% to 16.0%. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining concession terms. Based on the assessment, the Company's share in the aggregate recoverable amount exceeded the total carrying value of the investments in MWHC and Maynilad as of December 31, 2019.

Any changes in the value in use calculation will greatly depend on the final agreed terms of the amendment to Maynilad's Concession Agreement. As of February 26, 2020, the review of the Concession Agreement is still ongoing and Maynilad has not been advised of any amendments to the provisions of the Concession Agreement.

MPW

On August 17, 2011, the Company incorporated MPW to carry on the general business of operating, managing, maintaining and rehabilitating waterworks, sewerage and sanitation systems and services, and to invest, purchase, acquire or own and dispose property of every kind in a corporation engaged in business or activities with the same purpose as MPW.



MPW's subsidiaries include: (i) Metro Iloilo Bulk Water Supply Corporation (MIBWSC) which holds the concession for the 170 Million Liters per Day (MLD) Bulk Water Supply Project with the Metro Iloilo Water District (MIWD); (ii) Eco-System Technologies International, Inc. (ESTII), engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities; (iii) Cagayan De Oro Bulk Water, Inc. (COBI), the legal vehicle to carry out the 100 MLD Bulk Water Supply Project with Cagayan De Oro Water District; and (iv) Metro Pacific Iloilo Water Inc., which holds the concession for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and provision of sanitation services. MPW also has subsidiaries domiciled outside of the Philippines, namely Metro Pacific Water International Limited (MPWIL) and Metro Pacific TL Water International Limited. These foreign subsidiaries hold the investments in water companies outside of the Philippines.

MPW also has interests in the following associates: (i) 39.0% in Manila Water Consortium Inc. which has 70.6% economic interest in Cebu Manila Water Development, Inc., concessionaire for the 20-year Water Purchase Agreement with the Metropolitan Cebu Water District; (ii) 30% in EquiPacific HoldCo Inc., which has 90% stake in Laguna Water District Aquatech Resources Corp., the joint venture company responsible for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Laguna Water District's water supply system; and (iii) 49% ownership in Watergy Business Solutions, Inc., a party to the Contractual Joint Venture Agreement which purpose was to develop a bulk water supply project to be sourced from the Maragondon River.

MPW also has investments domiciled and operating outside the Philippines, namely BOO Phu Ninh Water Treatment Plant Joint Stock Company (PNW) and Tuan Loc Water Resources Investment Joint Stock Company (TLW).

PNW holds the license to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province pursuant to a 50-year Build-Own-Operate contract with the Chu Lai Open Economic Zone Authority. As at December 31, 2018, MPW's interest in PNW is at 45%, accounted for as investment in an associate. In 2019, pursuant to a conditional Share Subscription Agreement dated March 21, 2019 which was completed on September 5, 2019, MPW acquired an additional 7.549% ownership interest in PNW for ₱78 million which increased its shareholding from 45.0% to 52.549%. Hence, PNW is accounted for as a subsidiary beginning September 5, 2019.

TLW is one of the largest water companies in Vietnam, with 310 MLD of installed capacity and a billed volume of approximately 102 MLD. MPW's interest in TLW as at December 31, 2019 and 2018 is at 49%.

MPLRC

MPLRC's subsidiary, LRMC (effective ownership interest at 55% as at December 31, 2019 and 2018) signed together with the Department of Transportation and Communications (DOTC now Department of Transportation – DOTr) and the Light Rail Transit Authority (LRTA) the 32-year Concession Agreement for the Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (LRT-1 Project). On September 12, 2015, LRMC took over the operations and maintenance of LRT-1 from DOTC and LRTA.

In 2016, LRMC signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions (collectively, as "Lenders") amounting to ₱24.0 billion, ₱15.3 billion of which is allocated for the Cavite Extension and ₱8.7 billion for the rehabilitation of the existing LRT-1 system. Cumulative drawn amount from this facility as at December 31, 2019 and 2018 amounted to ₱11,983.1 million and ₱8,072.9 million, respectively. The loan has a sponsors' funding commitment



wherein for each drawdown until end of the construction period, the sponsors/shareholders shall infuse additional equity or extend debt to LRMC in an amount necessary to meet the debt-to-equity ratio. Total equity investment of the sponsors per OLSA ₱15,346.0 million, of which ₱8,440.0 million is effectively allocated to MPLRC. As at December 31, 2019, total equity from the sponsors is ₱10,650.0 million of which ₱5,857.5 million is from MPLRC.

As at February 26, 2020, the LRT-1 existing system is undergoing rehabilitation while construction is on-going for Phase 1 of the Cavite Extension.

MPHHI

MPHHI is MPIC's holding company for its investment in the healthcare segment. As at December 31, 2019, MPHHI and its subsidiaries, operates the following full-service hospitals:

- In Metro Manila: Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital, De Los Santos Medical Center, Marikina Valley Medical Center and Dr. Jesus C. Delgado Memorial Hospital; and
- In other parts of the Philippines: Riverside Medical Center in Bacolod, Central Luzon Doctors Hospital in Tarlac, West Metro Medical Center in Zamboanga, Sacred Heart Hospital of Malolos Inc. in Bulacan, Saint Elizabeth Hospital Inc. in General Santos City, Davao Doctors Hospital in Davao and Manuel J. Santos Hospital in Butuan City. In February 2020, MPHHI completed the Investment Agreement for a 51% equity interest in Los Baños Doctors Hospital and Medical Center, Incorporated in Laguna.
- MPHHI also has equity stake in Makati Medical Center and Manila Doctors Hospital.

Issuance of Exchangeable Bond to GIC Private Limited (GIC). On July 2, 2014, GIC, through Arran Investment Private Limited ("Arran"), invested ₱3.7 billion for a 14.4% stake in MPHHI and paid ₱6.5 billion as consideration for an Exchangeable Bond issued by MPIC which can be exchanged, in the future, into 158,137,590 shares of ₱10.0 par value Class A common shares of MPHHI representing 25.51% ownership interest, subject to certain conditions (the "Arran Exchangeable Bonds"). The Exchangeable Bond is subject to a fixed interest rate applicable per annum which, for the first year shall be equivalent to 0.27% and shall be repriced annually thereafter at a rate to be mutually agreed by MPIC and GIC. Final maturity date of the Exchangeable Bond is on December 31, 2019. With the Exchangeable Bond, GIC is entitled to 39.89% effective ownership interest in MPHHI.

In 2019, GIC agreed to restructure its current investment in MPHHI and re-invest alongside the said KKR and Co. ("KKR") subsidiary. The transaction involved the acquisition by KKR of the Exchangeable Bond and Arran's directly owned shares in MPHHI (see disclosure below).

KKR's investment in MPHHI. On October 14, 2019 (the "Signing Date"), MPIC, together with MPHHI, entered into a series of transactions for the investment and entry of global investment firm KKR, alongside Arran, in and to, MPHHI, to wit:

- MPHHI and Buhay (SG) Investments Pte. Ltd ("Buhay SG"), a subsidiary of KKR, entered into a Share Subscription Agreement (SS Agreement) pursuant to which the parties agreed that on the Completion Date (as defined in the SS Agreement) and subject to the terms and upon the fulfillment of the conditions specified therein, MPHHI shall issue to Buhay SG, and Buhay SG shall subscribe to, 41,366,178 common shares to be issued out of the existing authorized and unissued capital stock of MPHHI ("Subject Shares"), at the aggregate price of ₱5.2 billion. The Subject Shares shall, immediately after their issuance, represent approximately 2.74% of the



resulting outstanding capital stock of MPHHI, entitled to vote, and approximately 6.25% of the aggregate par value of MPHHI.

- Apollo, a Philippine registered company (in which MPIC has 60% ownership prior to the deconsolidation) which owns and holds all the outstanding voting preferred shares issued by MPHHI, entered into an agreement with Buhay SG for the issuance by Apollo of new common shares to the Buhay SG (“Apollo Shares”), subject to the terms and upon the fulfillment of the conditions specified therein. Upon their issuance, the Apollo Shares are expected to represent less than 35% of the resulting outstanding capital stock shares of Apollo. MPIC, on the other hand, shall own 65% of the outstanding capital stock of Apollo upon completion of this transaction.
- Related to this and as part of MPIC’s wider financing arrangements, MPIC and Buhay SG entered into an Exchangeable Bond Subscription Agreement (“EBSA”) under the provisions of which MPIC agreed to create and issue to Buhay SG, and Buhay SG agreed to subscribe to, a mandatorily exchangeable bond, at the principal issue value of ₱30.1 billion (the “Buhay Exchangeable Bond”). The Buhay Exchangeable Bond relates to 239,932,962 common shares of MPHHI owned and held by MPIC (“Underlying Shares”), which Underlying Shares represent approximately 15.88% of the issued and outstanding capital stock of MPHHI, entitled to vote, on a fully-diluted basis.

By virtue of such Exchangeable Bond, Buhay SG shall be entitled, among others, to exchange the Exchangeable Bond for all of the Underlying Shares on the earlier of (i) thirty (30) days after the date the common shares of MPHHI, including the Underlying Shares, are first listed on the PSE following its initial public offering of shares and (ii) the date that is 10 years from the issue date of the Exchangeable Bond (“Mandatory Exchange Date”). Interest applicable to the Buhay Exchangeable Bond shall be equivalent to the actual dividend yield of the Underlying Shares.

The Buhay Exchangeable Bond’s subscription price shall be settled: (i) ₱26,091 million on Completion Date; (ii) ₱1,602 million one hundred eighty (180) days after the Completion Date; and (iii) ₱2,404 million on the first anniversary of the completion date. As at December 31, 2019, receivable from Buhay SG for portion of the subscription price amounted to ₱3,872.5 million and is included under the “Receivables” account in the statement of financial position.

- As part of KKR’s investment in MPHHI, MPIC shall grant in favor of KKR the following options (“Call Options”): (i) an irrevocable option, exercisable after the completion of this transaction, to require MPIC to sell to the Investor (and/or one or more of its designees) all or a portion of MPIC’s shares in Apollo; and (ii) an irrevocable option, exercisable after Signing date, to require MPIC to sell to one or more newly established Philippine domestic companies or investment vehicles, each of which is wholly and beneficially owned by Filipino citizens who have relevant expertise and experience beneficial to the business of MPHHI.
- Separately, GIC, has agreed to restructure its current investment in MPHHI and re-invest alongside Buhay SG.
- On a fully-diluted basis, MPIC will hold 132,592,496 common shares of MPHHI representing 20% of the resulting outstanding common capital stock of MPHHI.



On November 21, 2019, Buhay SG assigned all its rights in the abovementioned agreements, to its wholly owned subsidiary, Buhay Ventures Holdings (PH) Inc., a corporation organized and existing under the laws of the Republic of the Philippines. The above described transactions were completed on December 9, 2019 (the “Completion Date”).

As discussed in Note 3, the abovementioned series of transactions which provided Buhay SG an economic interest of approximately 80%, on fully diluted basis post conversion of the Exchangeable Bonds, was accounted for as an equity transaction. The Exchangeable Bond is an instrument that, at a certain time in the future, converts into a fixed number of shares of MPHHI. Moreover, the principal of Exchangeable Bond is in Philippine Peso, the same currency as the functional currency of MPIC as the issuing entity. Thus, the Exchangeable Bonds qualify as equity instruments such that the proceeds from the Exchangeable Bond together with the share subscriptions in MPHHI, were accounted for as a single equity transaction.

Gain on dilution of interest in MPHHI computed as follows:

	<i>(In Thousands)</i>
Consideration received or receivable:	
Gross proceeds from the Exchangeable Bond	₱30,097,345
Less: Provisions	(2,568,116)
Transaction costs	(2,216,785)
Discount on deferred settlement	(133,749)
	<hr/> 25,178,695
Less: Carrying amount of the Underlying Shares	(2,581,137)
Option liability	(43,049)
Add: Derecognition of the interest payable under the Arran Exchangeable Bond	<hr/> 121,523
Gain on sale before deferred taxes	22,676,032
Deferred tax expense	(6,122,776)
	<hr/> <hr/> ₱16,553,256

The provisions included estimated tax warranties and indemnities.

While the gain on dilution of interest in MPHHI was recognized for accounting purposes for the year ended December 31, 2019, the taxable gain shall be recognized upon actual conversion of the Exchangeable Bond, hence the recognition of the deferred tax expense.

The Call Options are accounted for as derivatives, measured at fair value through profit or loss.

The fair value of the call options was estimated at the Call Option Agreement date using a binomial pricing model, taking into account the terms and conditions on which the options were granted. The exercise price is calculated based on the formula set forth in the Call Option Agreement. The Call Options can be exercised anytime up to ten years. As at Signing Date, the Call Options are deemed in the money, with estimated fair value of ₱43.0 million. As at December 31, 2019, fair value of the Call Options estimated at ₱46.0 million.

MPLC

On September 1, 2015, MPLC was incorporated with the primary purpose of engaging in the business of logistics services relating to products, commodities, articles, and goods, including but not limited to, storage, warehousing, warehouse and inventory management, transport and delivery.

MPLC’s subsidiaries include MetroPac Movers Inc. (MMI) and LogisticsPro, Inc.



In 2019, management approved MPLC's business restructuring plan which involved among others, (i) a strategy focusing on offering modern refrigerated and dry warehouse facilities and services with warehouses strategically located in major transport arteries; (ii) scaling down of the trucking business by offering trucking services to clients through subcontractors; and (iii) divestment of the freight forwarding business. As a result of the changes in MPLC's strategy and business focus, MPLC recognized certain impairment of assets and provision for certain onerous contracts. Such recognition of asset write-down and provision triggered an impairment testing as well of the Company's investment in MPLC. The recoverable amount of the investment in MPLC was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the post-tax discount rate of 10.25%. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers five years and the cash flows beyond the five-year period were extrapolated using a growth rate of 3%. Based on the assessment, allowance for decline in value covering the investment in MPLC amounting to ₱3,000.9 million was recognized in 2019.

MVPHI

MVPHI was incorporated in the Philippines and registered with the Philippine SEC on March 10, 2017. On November 19, 2018, MVPHI, through its subsidiary, Surallah Biogas Ventures Corp., finalized and signed the Substrate Conversion Agreements (SCA) with Dole Philippines, Inc. (DPI) to design, construct, and operate biogas facilities specifically for DPI (the "Project").

The Project involves establishing integrated waste-to-energy (WTE) facilities to primarily address the waste disposal concerns of DPI and to use the derived biogas from the processing of the fruit waste to supply a portion of the diesel and power requirements of the canneries of DPI in Surallah and Polomok, both located in South Cotabato. The integrated WTE facility, consisting of a biogas plant and an embedded power generation facility shall be established, owned and operated by a special purpose company within the facilities of the end-user. As at February 26, 2020, the WTE facilities are under construction.

MPRRC

In March 2017, the consortium consisting of MPIC, Covanta Energy, LLC and Macquarie Group, Ltd. was granted Original Proponent Status by the Quezon City Local Government Unit (QC LGU) to design, construct, finance, and operate an Integrated Solid Waste Management Facility Project (ISWM Project). The ISWM facility will be capable of processing and converting up to 3,000 metric tons per day of Quezon City's municipal solid waste into 36 MW (net) of renewable energy, enough to power between 60,000 to 90,000 homes. The ISWM Project will be undertaken through a Joint Venture between QC LGU and the consortium in accordance with QC LGU Ordinance: No. SP-2336, s. 2014 (QC PPP Code).

MPIC intends for MPRRC to be the holding company for its investment in the ISWM Project and similar undertakings.

As at February 26, 2020, the Company is waiting for the issuance of the Notice of Award from the Quezon City Government.

FCHI

On March 23, 2012, the Company incorporated FCHI which main activity is to hold shares of stocks of companies, condominium units and other properties purely for investment purposes only. FCHI acquires real estate properties which are used to house or accommodate consultants and other guests of the Company, its affiliates, subsidiaries and other related companies.



AFPI

AFPI was granted the rights and obligations to design, finance, construct, operate, and maintain the Automated Fare Collection System (AFCS) Project for LRT-1, LRT-2, and Metro Railway Transit Line 3 (MRT-3). The AFCS Project accommodates a contactless smartcard technology for stored value ridership and contactless medium technology for single journey ridership. This system shall be expandable to allow the inclusion of accepted participants and issuers into a generic micropayment solution fulfilling other commercial functions. AFPI had its Full System Acceptance (FSA) on December 16, 2015. Unless otherwise extended or terminated in accordance with the Service Concession Agreement, the concession period shall commence on FSA date and end ten years from the FSA date.

In 2019, due to the lower than expected penetration rate into the micropayments business, the Company recognized additional allowance for decline in value of investment amounting to ₱130.0 million. The recoverable amount of the investment in AFPI was measured using the estimate of the value in use of the investment. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining concession term. The decline in value was recognized as “Other expense” in the statement of comprehensive income for the year ended December 31, 2019 (see Note 14).

Indra Phils.

On October 14, 2015, MPIC acquired from MERALCO 84,012 common shares, comprising 24.95% of the outstanding capital stock of Indra Phils. for an aggregate purchase price of ₱326.5 million. Indra Phils. is one of the leading provider of information technology solutions to various businesses and industries in the Philippines, with engagements in utilities and telecommunications, financial services and public administration.

Landco

Landco is primarily engaged in all aspects of real estate business which includes real estate consultancy encompassing project management and business planning services; dealing in and disposing of all kinds of real estate projects involving commercial, industrial, urban, residential or other kinds of real property; construction, management, operation and leasing tenements of the corporation or other persons; and acting as real estate broker on a commission basis.

The investment in Landco’s common shares was provided for an allowance for decline in value amounting to ₱773.9 million in 2016. Additional allowance for decline in value covering advances to Landco of ₱755.2 million was recognized in 2018 (see Note 14). The decline in the value of the Company’s interest in Landco was due to changes in cash flow forecast attributable to Landco’s legacy projects. The recoverable amount of the investment in Landco was measured using the estimate of the value in use of the investment in joint venture. The valuation analysis involved discounting estimates of free cash flows by the appropriate discount rate that reflects the risk and return profile of Landco as of testing date. The estimates of cash flows comprise revenue projections, related costs and expenses, net working capital requirements and capital expenditures expected to be incurred from Landco’s projects. In 2019, no provision for impairment was recognized for the Company’s advances to Landco.

As at December 31, 2019 and 2018, the carrying value of advances to Landco, after the valuation loss amounted to ₱1,043.4 million and ₱491.4 million as of December 31, 2019 and 2018. The Company also has receivable from ABHC amounting to ₱359.8 million included under the “Other noncurrent assets” account as at December 31, 2019 and 2018.



Metro Vantage

In October 2018, MPIC incorporated Metro Vantage as a holding company for its real estate, hospitality and tourism projects.

On February 19, 2020, MPIC announced the signing of a ₱1.6 billion investment agreement with Dusit International of Thailand (“Dusit”) to develop and manage jointly hospitality and residential properties in the Philippines. The investment agreement is subject to certain specific performance conditions precedent, including the approval of the Philippine Competition Commission.

Entities under liquidation

As at December 31, 2019, the following companies are in the process of liquidation:

- *NOHI*. NOHI became a subsidiary of the Company in 2006 as a result of shares swap between MPHI, Metro Pacific Resources, Inc. (MPRI), Intalink B.V. and FPIL. NOHI was engaged in the business of real estate investments and property development, investment holding and management services. On July 18, 2012, the BOD of NOHI approved the shortening of the corporate life of NOHI to until December 31, 2013. After expiration of NOHI’s corporate life on December 31, 2013, NOHI proceeded immediately to the liquidation phase, which shall take place over the succeeding three years or until the liquidation process is complete and all the Company’s remaining assets have been disposed of and the proceeds divided accordingly among all those with remaining interest in the company, under the management and supervision of an appointed liquidator. NOHI holds investments in properties that have high market values based on latest appraisal and valuation report.
- *FGNEC*. FGNEC participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant but was only declared as the second ranking bidder. On July 22, 2015, the BOD of FGNEC approved the shortening of the corporate life of FGNEC to until December 31, 2016.
- *Porrovia*. Porrovia’s shareholders are MPIC (50%) and MPLRC (50%). On February 1, 2018, Porrovia’s BODs resolved to amend and approve article four of the Articles of Incorporation (AOI) by providing that the term for which Porrovia is to exist is from the date of issuance of certificate of incorporation until March 31, 2019. The amended AOI reflecting the shortening of the Company’s corporate life to until March 31, 2019 was approved by SEC on March 23, 2018.
- *MGGW*. On July 29, 2016, the Company’s Board of Directors (BOD) resolved to amend article four of the Articles of Incorporation (AOI) by providing that the term for which MGGW is to exist is from the date of issuance of certificate of incorporation until December 31, 2017. During the Special Meeting of the Stockholders held on September 19, 2016, the stockholders approved the amendment. The amended AOI reflecting the shortening of the Company’s corporate life to until December 31, 2017 was approved by SEC on December 29, 2016.



7. Property and Equipment and Software Costs

Property and Equipment. The account consists of:

	January 1, 2019	Adoption of New Lease Standard	Additions/ Depreciation	Disposals	December 31, 2019
<i>(In Thousands)</i>					
Cost:					
Transportation equipment	₱81,522	₱-	₱14,595	(₱15,119)	₱80,998
Leasehold improvements	50,068	-	3,325	-	53,393
Office equipment	12,519	-	305	-	12,824
Computer equipment	32,764	-	2,544	(736)	34,572
Furniture and fixtures	9,448	-	-	-	9,448
Right-of-use assets (ROU assets)	-	31,599	18,490	-	50,089
	186,321	31,599	39,259	(15,855)	241,324
Less accumulated depreciation:					
Transportation equipment	35,042	-	15,207	(9,305)	40,944
Leasehold improvements	42,030	-	3,211	-	45,241
Office equipment	7,075	-	423	-	7,498
Computer equipment	23,548	-	4,337	(593)	27,292
Furniture and fixtures	7,489	-	674	-	8,163
Right-of-use asset	-	-	14,606	-	14,606
	115,184	-	38,458	(9,898)	143,744
	₱71,137	₱31,599	₱801	(₱5,957)	₱97,580

	January 1, 2018	Additions/ Depreciation	Disposals	December 31, 2018
<i>(In Thousands)</i>				
Cost:				
Transportation equipment	₱79,484	₱22,714	(₱20,676)	₱81,522
Leasehold improvements	46,847	3,221	-	50,068
Office equipment	12,111	408	-	12,519
Computer equipment	24,835	8,698	(769)	32,764
Furniture and fixtures	9,384	64	-	9,448
	172,661	35,105	(21,445)	186,321
Less accumulated depreciation:				
Transportation equipment	35,339	15,154	(15,451)	35,042
Leasehold improvements	38,299	3,731	-	42,030
Office equipment	6,643	432	-	7,075
Computer equipment	20,792	3,492	(736)	23,548
Furniture and fixtures	6,798	691	-	7,489
	107,871	23,500	(16,187)	115,184
	₱64,790	₱11,605	(₱5,258)	₱71,137

The Company's property and equipment are depreciated over a period of two to five years computed on a straight-line basis or for leasehold improvements and ROU assets, over the term of the lease, whichever is shorter.

The cost of fully depreciated property and equipment still in use as at December 31, 2019 and 2018 amounted to ₱79.5 million and ₱64.4 million, respectively.



Software Cost. Software cost represents costs of the Company’s accounting and reporting system with estimated useful life of 5 years as follows:

	January 1, 2018	Additions/ Amortization	December 31, 2018	Additions/ Amortization	December 31, 2019
	<i>(in Thousands)</i>				
Cost	₱97,373	₱3,733	₱101,106	₱10,004	₱111,110
Less accumulated amortization	92,652	1,980	94,632	3,775	98,407
	₱4,721	₱1,753	₱6,474	₱6,229	₱12,703

The cost of fully amortized software still in use as at December 31, 2019 and 2018 amounted to ₱90.6 million and ₱89.7 million, respectively.

Property and equipment and software costs are reported under “Other noncurrent assets” in the parent company statements of financial position.

8. Accrued Expenses and Other Current Liabilities

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Accrued expenses (see Note 12):		
Personnel costs	₱465,081	₱349,300
Loan prepayment and refinancing costs payable (see Notes 9 and 14)	460,546	–
Fringe benefit tax	75,144	193,049
Professional fees	374,355	38,621
Others	205,601	97,100
Interest payable (see Note 9)	1,540,564	821,833
Statutory payables	468,644	63,901
Subscription payable (see Note 6)	63,538	35,735
Option liability (see Note 6)	45,992	–
Accounts payable	101,410	55,177
Lease liabilities (Note 23)	10,273	–
LTIP payable (see Note 13)	–	570,669
Others	33,031	25,495
	₱3,844,179	₱2,250,880

As at December 31, 2019 and 2018, subscription payable included the amount due to MPRRC and AFPI amounting to ₱63.5 million and ₱35.7 million, respectively (see Note 6).

Other current liabilities include statutory payables which represent government remittances pertaining to VAT payable, expanded withholding taxes and contributions to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund.



9. Long-term Debt

MPIC's long-term debt as at December 31 comprises of the following:

	2019	2018
	<i>(In Thousands)</i>	
Peso-denominated bank loans	₱85,771,600	₱67,359,500
Less unamortized debt issue costs	573,882	358,035
	85,197,718	67,001,465
Less current portion of long-term debt (net of unamortized debt issue costs of ₱63.4 million and ₱38.1 million as at December 31, 2019 and 2018, respectively)	6,666,499	1,707,262
Noncurrent portion of long-term debt	₱78,531,219	₱65,294,203

The unamortized debt issue costs incurred in connection with the availment of long-term debt were deducted against the long-term debt. The movement in debt issue costs in 2019 and 2018 is as follows:

	2019	2018
	<i>(In Thousands)</i>	
Balance at beginning of year	₱358,035	₱172,109
Debt issue costs incurred during the year	262,085	213,436
Amortization during the year (see Note 14)	(46,238)	(27,510)
Balance at end of year	₱573,882	₱358,035

In 2019 and 2018, the Company made additional loan drawdowns amounting to ₱20.0 billion and ₱21.4 billion, respectively. Total interest expenses, excluding amortization of debt issue costs, recognized in 2019 and 2018 amounted to ₱4.9 billion and ₱3.6 billion, respectively (see Note 14).

In December 2019, as part of the Company's plans to reduce its existing debts, MPIC sought consent from all of its lenders as it intended to prepay the outstanding portion of the debt under the ₱6.48 billion, 10-Year Notes Facility Agreement dated June 19, 2013 with BDO Unibank, Inc. MPIC effected and implemented this debt reduction exercise on February 13, 2020. MPIC also sought consent from its lenders for the refinancing of a portion of its long-term debt which it intended to implement by June 2020. In connection with the prepayment and refinancing, the Company recognized estimated prepayment penalties and interests of ₱460.5 million (see Note 14).

At December 31, 2019 and 2018, the Company's borrowings were effectively at fixed rates ranging from 4.9% to 9.2%. Certain of the Company's loans that bear a fixed rate for the first five years are subject to an interest rate repricing on the fifth year (see Note 19, Interest Rate Risk).

The Company has not made any pledges as collateral with respect to the long-term debt as of December 31, 2019 and 2018. The repayments of loans based on existing terms are provided in Note 19.

Covenants. These loans contain, among others, covenants regarding maintenance of reserve account and achieving certain financial ratios such as (1) debt-to-equity ratio not to exceed 70:30; and (2) debt-service coverage ratio (DSCR). These loans contain a negative pledge on all existing and future assets of MPIC. Certain loan facilities were identified to have embedded derivatives such as



prepayment options and interest rate floors. These embedded derivatives, however, are not required to be bifurcated from the host loan since: (1) the exercise price of the prepayment option approximates the carrying amount of the loan at each exercise date; and (2) interest rate floor is out of the money, hence, identified embedded derivatives are clearly and closely related to the host loan.

As at December 31, 2019 and 2018, MPIC has complied with all of its debt covenants.

10. Related Party Transactions

Enterprises and individuals that directly or indirectly, through one or more intermediaries, control, are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close family members of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The following table summarizes the total amount of transactions with related parties for the relevant year:

Relationship	Management Fees (see Note 14)	Dividend Income (see Note 6)	Rent and Utilities Expense (see Note 12)	Donations and Contributions (see Note 12)	Total		
<i>(In Thousands)</i>							
MWHC	Subsidiary	2019	P-	P2,377,619	P-	P-	P2,377,619
		2018	-	1,430,571	-	-	1,430,571
Maynilad	Subsidiary	2019	-	259,715	-	-	259,715
		2018	911	155,730	-	-	156,641
MPTC	Subsidiary	2019	-	2,345,517	-	-	2,345,517
		2018	-	1,791,866	-	-	1,791,866
Beacon Electric	Subsidiary	2019	-	5,470,251	-	-	5,470,251
		2018	-	4,317,690	-	-	4,317,690
MERALCO	Associate	2019	-	1,900,702	-	-	1,900,702
		2018	-	1,583,248	-	-	1,583,248
Indra Phils.	Associate	2019	-	62,375	-	-	62,375
		2018	-	-	-	-	-
MMI	Subsidiary	2019	480	-	-	-	480
		2018	480	-	-	-	480
FCHI	Subsidiary	2019	-	-	1,719	-	1,719
		2018	-	-	1,637	-	1,637
MPHHI	Associate/ Subsidiary	2019	4,323	-	-	-	4,323
		2018	3,750	10,963	-	-	14,713
PLDT	Associate of FPC	2019	-	-	7,745	-	7,745
		2018	-	-	18,766	-	18,766
MVP Sports Foundation	Affiliate*	2019	-	-	-	20,015	20,015
		2018	-	-	-	15,650	15,650
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate*	2019	-	-	-	7,671	7,671
		2018	-	-	-	7,229	7,229
		2019	P4,803	P12,416,179	P9,464	P27,686	P12,458,132
		2018	P5,141	P9,290,068	P20,403	P22,879	P9,338,491

* Affiliates are companies under common control or management.



The Company provides back office functions to its subsidiaries covered by a management agreement. Management fees are non-interest bearing, unsecured, requires cash settlement, and are not impaired. The Company, in the normal course of business, has advances with related parties. Advances are due and demandable, non-interest bearing, unsecured and requires cash settlement. Outstanding balances as at December 31 are carried in the parent company statements of financial position under the accounts listed below.

Nature of Transaction	Due from related parties		Due to related parties		
	2019	2018	2019	2018	
<i>(In Thousands)</i>					
<i>Subsidiaries</i>					
MPHHI	Management fees and advances	₱96,972	₱6,543	₱14	₱14
MMI	Management fees and advances	90	260	–	–
MPTC	Advances	–	551	–	–
Porrovia	Advances	–	–	10,126	10,126
MPW	Advances	50	–	–	–
Maynilad	Advances	1,000	126	–	–
LRMC	Advances	–	126	–	–
<i>Associates</i>					
MERALCO	Advances	10	126	–	–
<i>Other related parties*</i>					
PLDT Communications and Energy Ventures, Inc. (PCEV)	Payable	–	–	7,790,991	11,767,118
FPC	Advances	836	731	–	–
MPIF	Advances	–	210	–	–
Others	Advances	14	47	–	–
		98,972	8,720	7,801,131	11,777,258
Less allowance for ECL		–	2,772	–	–
		98,972	5,948	7,801,131	11,777,258
Less current portion		98,972	5,948	5,561,050	4,385,495
		₱–	₱–	₱2,240,081	₱7,391,763

*Other related parties are affiliates through FPC.

PCEV

Due to PCEV as at December 31, 2019 and 2018 represents the present value of the outstanding amount for the purchase price of Beacon Electric shares acquired in May 2016 and June 2017.

On May 30, 2016, the Company acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares representing 25% economic rights of Beacon Electric for the total consideration of ₱26.2 billion. As at December 31, 2019 and 2018, remaining nominal amount due to PCEV amounted to ₱3.2 billion and ₱5.2 billion, respectively. PCEV shall retain the voting rights over these shares until full payment of the total consideration.

On June 13, 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon Electric for a total purchase price of ₱21.8 billion. As at December 31, 2019 and 2018, remaining nominal amount due to PCEV amounted to ₱4.9 billion and ₱7.4 billion, respectively. PCEV shall retain the voting rights over these shares until full payment of the total consideration.

In 2019 and 2018, the Company has made scheduled payments to PCEV amounting to ₱4.5 billion each. The scheduled payment of the amounts due to PCEV as of December 31, 2019 based on existing terms are provided in Note 19.



MPIF

MPIF is a private nonstock, nonprofit corporation established in the Philippines on April 21, 2009 to support projects, programs and activities for the improvement of community welfare, social education and public health through giving of grants to educational institutions for the establishment of student grants and loan funds, supporting disaster relief rehabilitation programs and activities, and conducting/sponsoring scientific/technical research and development activities for social and economic upliftment. MPIF is the corporate foundation of MPIC.

In October 2018, MPIF obtained its certificate of registration from the Department of Social Welfare and Development. On September 27, 2019, BIR issued certificate of tax exemption to MPIF under Section 30(e) of the National Internal Revenue Code of 1997, as amended. As at February 26, 2020, MPIF is in the process of securing the Philippine Council for NGO Certification (PCNC) accreditation.

MPIC made contributions to MPIF amounting to ₱7.7 million and ₱7.2 million in 2019 and 2018, respectively.

PLDT

PLDT is one of the largest and most diversified telecommunications company in the Philippines which delivers data and multi-media services nationwide. Services rendered by PLDT substantially pertains to rent, utilities (such as telecommunications and internet services) and other services. With the adoption of PFRS 16 beginning January 1, 2019 (see Note 23), arrangement with PLDT for lease of office space was scoped in with recognition of ROU asset and Lease Liability. The rent payments made in 2019 amounting to ₱15.2 million, was accounted for as reduction in lease liability.

Others

Other transactions with related parties are mainly advances to finance various projects as well as intercompany charges for share in certain operating and administrative advances. These intercompany accounts are non-interest bearing and due and demandable.

Compensation of Key Management Personnel

The compensation and benefits of the Company's key management personnel for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Short-term employee benefits	₱340,166	₱327,465
Post-employment benefits - Retirement cost (see Notes 12 and 13)	17,276	15,938
Share-based payment (see Notes 12 and 16)	-	90,228
LTIP expense (see Notes 12 and 13)	536,336	190,434
	₱893,778	₱624,065

Directors' Remuneration

Annual remuneration of the directors amounted to ₱8.6 million and ₱6.3 million for the years ended December 31, 2019 and 2018, respectively (see Note 12). Directors were also allocated common shares under the Company's ESOP and RSUP.

Non-executive directors are entitled to a per diem allowance of ₱100,000 for each attendance in the Company's Board meetings and ₱50,000 for each attendance in the Company's Committee meetings. The Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Company shall be allocated and distributed among the directors of the Company who are not officers



of the Company or its subsidiaries and affiliates, in such manner as the BOD may deem proper. No accrual was made with respect to this scheme for the years ended December 31, 2019 and 2018 in the absence of resolution from the BOD. There are no other special arrangements pursuant to which any director will be compensated.

11. Equity

Details of authorized and issued capital stock follow:

	2019		2018	
	No. of Shares	Amount	No. of Shares	Amount
	<i>(In Thousands except for number of shares and stockholders)</i>			
Authorized common shares - ₱1.00 par value	38,500,000,000	₱38,500,000	38,500,000,000	₱38,500,000
Authorized preferred shares:				
Class A - ₱0.01 par value	20,000,000,000	200,000	20,000,000,000	200,000
Class B - ₱1.00 par value	1,350,000,000	1,350,000	1,350,000,000	1,350,000
Balance at December 31	59,850,000,000	₱40,050,000	59,850,000,000	₱40,050,000
Issued and Outstanding - common shares:				
Balance at beginning of year	31,541,548,752	₱31,541,549	31,534,548,752	₱31,534,549
Exercise of stock option plan	27,790,000	27,790	7,000,000	7,000
Issued - common shares	31,569,338,752	31,569,339	31,541,548,752	31,541,549
Less: Treasury Shares	(600,000)	(600)	(26,100,000)	(26,100)
Balance at end of year	31,568,738,752	₱31,568,739	31,515,448,752	₱31,515,449
Treasury shares - common shares:				
Balance at beginning of year	26,100,000	₱177,603	23,970,000	₱167,363
Share buy-back	600,000	2,846	2,130,000	10,240
Issuance of share grant	(26,100,000)	(176,394)	-	-
Balance at end of year	600,000	₱4,055	26,100,000	₱177,603
Issued - preferred shares - Class A:				
Balance at beginning and end of year	9,128,105,319	₱91,281	9,128,105,319	₱91,281
Total number of stockholders	1,307	-	1,303	-

Common Shares

The increase in common shares for the years ended December 31, 2019 and 2018 resulted from the following transactions:

- At various dates in 2019 and 2018, a total of 27.8 million and 7.0 million common shares, respectively, were issued in connection with the Parent Company stock option plan (see Note 16).
- In June 2019, MPIC's eligible past and present directors and senior officers were granted MPIC shares totaling 26,100,000 common shares pursuant to MPIC's LTIP (see Note 16).

Class A Preferred Shares

Holder of Class A Preferred Shares are entitled to vote and shall receive preferential cash dividends at the rate of 10.0% per annum based on share's par value, upon declaration made at the sole option of the BOD. Dividends on these preferred shares, which shall be paid out of the Company's unrestricted retained earnings, are cumulative whether or not in any period the amount is covered by available unrestricted retained earnings. No dividends or other distributions shall be paid or declared and set apart for payment in respect of the common shares, unless the full accumulated dividends on all Class A Preferred Shares shall have been paid or declared. Holders of Class A Preferred Shares do not have right to participate in any additional dividends declared for common shareholders. MPHI holds all of the Company's Class A Preferred Shares.



There are no undeclared dividends as at December 31, 2019 and 2018.

Class B Preferred Shares

The Company may issue one or more series of Class B Preferred Shares, as the BOD may determine. The BOD shall also determine (a) cash dividend rate of such preferred share, which in no case to exceed 10.0% per annum; and (b) period and manner of conversion to common shares or redemption. Dividends on these preferred shares, which shall be paid out of the Company's unrestricted retained earnings, are cumulative whether or not in any period the amount is covered by available unrestricted retained earnings. No dividends shall be paid or declared and set apart for payment in respect of the common shares or Class A Preferred Shares, unless the full accumulated dividends on all Class B Preferred Shares shall have been paid or declared. Holders of Class B Preferred Shares do not have right to participate in any additional dividends declared for common shareholders.

There were no Class B Preferred Shares issued in 2019 and 2018.

Treasury Shares

On September 1, 2016, MPIC acquired 23,970,000 MPIC common shares, at ₱6.9822 per share from the open market. On December 6, 2018, MPIC acquired additional 2,130,000 MPIC common shares, at ₱4.8075 per share from the open market. On January 9, 2019, MPIC acquired additional 600,000 MPIC common shares, at ₱4.74230 per share from the open market.

The treasury shares were acquired pursuant to the share buy-back plan that covers 26.7 million shares (originally 27.4 million shares) to be granted to the directors and key officers of the Company under the Company's LTIP program, which includes the RSUP (see Note 16).

The RSUP and the implementation thereof which included the share buy-back, was approved by MPIC's Compensation Committee on July 14, 2016, pursuant to the authority granted to it by the MPIC's BOD on March 1, 2016.

The cash portion of the LTIP was paid out in March 2019 while the shares in relation to the RSUP were issued to the grantees in June 2019.

Record of Registration of Securities with the Philippine SEC

In accordance with Revised SRC Rule 68, Annex 68-K, below is a summary of the Company's track record of registration of securities:

Issue	Offer price	Date of SEC approval	Number of registered securities	Number of holders of securities as at December 31,	
				2019	2018
Tender offer to shareholders of Metro Pacific Corporation (MPC) covering subscription warrants relating to common shares of MPIC with par value of ₱1.0 per share	Four (4) MPC shares for one (1) MPIC share plus three (3) warrants	October 25, 2006	Common shares of 56,878,766* Subscription warrants of 170,636,298	1,307	1,303
				-	-

**Covered the 2006 registered shares only*

The shares relating to the transaction above were exchanged in the PSE on December 15, 2006, effectively listing MPIC via listing by way of introduction. Out of the total warrants available for conversion, 143,976,756 warrants were converted as at December 31, 2007 and 2,549,211 warrants expired on December 15, 2007.



Dividends

Dividends declared and paid are as follows:

	2019*	2018*
	<i>(In Thousands)</i>	
Declared and paid:		
Final dividend in respect of the previous financial year declared and paid in the following year:		
Common shareholders (₱0.076 per share as final dividends for the calendar years in 2018 and 2017)	₱2,395,129	₱2,394,956
Class A preferred shareholders	4,564	4,564
Interim dividend declared and paid during the year:		
Common shareholders (₱0.0345 per share in 2019 and 2018)	1,088,335	1,087,218
Class A preferred shareholders	4,564	4,564
	₱3,492,592	₱3,491,302

**Final dividends on both common and Class A preferred shares were declared after December 31 and as such, are not recognized as a liability as at year-end.*

On February 26, 2020, the BOD approved the declaration of the cash dividends of ₱0.076 per common share in favor of the Company's shareholders of record as of the record date at March 12, 2020 with payment date of March 20, 2020. On the same date, the BOD also approved the declaration of cash dividends amounting to a total of ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

Amendment of Articles of Incorporation

On February 8, 2019, MPIC's BOD approved to amend the Company's Articles of Incorporation. The amendment was made to update the primary purpose of the Company consistent with its current business operations. On May 27, 2019, such modification was approved by the stockholders.

After the amendment, the Company's primary purpose is to acquire by purchase, exchange, assignment, gift or otherwise, and to hold, own, and use for investment or otherwise, and to sell, assign, transfer, exchange, lease, let develop, mortgage, pledge, deal in and with and otherwise operate, enjoy and dispose of, any and all properties of every kind and description and wherever situated (except a direct ownership of land in the Philippines), as and to the extent permitted by law, including, but not limited to bonds, debentures, promissory notes, shares of capital stock, or other securities and obligations, created, negotiated or issued by any corporation, association, or other entity, foreign or domestic and while the owner, holder, or possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein, including the right to receive, collect and dispose of, any and all dividends, interests and income, derived therefrom, and the right to vote on any proprietary or other interest, on any shares of the capital stock and upon any bonds, debentures, or other securities, having voting power, so owned or held, and, in its capacity as a holding company, to invest in, submit proposals for or participate (whether by itself or as a consortium member, joint venture partner, or otherwise) in the acquisition of interests in and to infrastructure projects and other allied businesses, but without engaging in the business of an investments company under the Investment Company Act or a finance company or a broker or dealer in securities or stocks.



Equity Reserves

This account is used to recognize the value of equity-settled share-based payments consisting of ESOP and RSUP that are provided to certain employees, including key management personnel and directors, as part of their remuneration. As at December 31, 2019 and 2018, equity reserve from ESOP amounted to nil and ₱78.9 million, respectively. The equity reserve from RSUP amounted to ₱4.3 million and ₱200.2 million as at December 31, 2019 and 2018, respectively (see Note 16).

12. Operating Expenses

This account consists of:

	2019	2018
	<i>(In Thousands)</i>	
Personnel costs	₱957,140	₱800,949
Professional fees	253,368	386,345
Donations and contributions (see Note 10)	251,953	52,750
Outside services	87,465	53,952
Public relation	59,526	72,064
Depreciation and amortization (see Note 7)	42,233	25,480
Transportation and travel	28,281	30,004
Supplies	20,445	12,069
Insurance	17,156	16,669
Directors' fee (see Note 10)	8,622	6,309
Seminars and conferences	8,082	7,650
Rent (see Note 10)	7,653	15,597
Communication, light and water (see Note 10)	5,324	8,299
Membership dues	2,699	2,831
Repairs and maintenance	1,453	1,240
Taxes and licenses	776	276
Provision for ECLs (see Note 19)	-	52,772
Others	86,804	69,432
	₱1,838,980	₱1,614,688

Personnel costs for the years ended December 31, 2019 and 2018 consist of:

	2019	2018
	<i>(In Thousands)</i>	
LTIP expense (see Note 13)	₱536,336	₱190,434
Salaries and wages	337,869	391,671
Retirement cost (see Note 13)	20,698	19,538
Fringe benefit tax	20,105	52,301
RSUP expense (see Note 16)	-	66,672
ESOP expense (see Note 16)	-	23,556
Other employee benefits	42,132	56,777
	₱957,140	₱800,949



13. Employee Benefits

LTIP

Certain of the Company's employees are eligible for long-term employee benefits under a long-term incentive plan. The liability recognized on the LTIP comprises the present value of the defined benefit obligation and was determined using the projected unit credit method. Each LTIP performance cycle generally covers 3 years (e.g., 2016 to 2018) with payment intended to be made at the end of each cycle (without interim payments) and is contingent upon the achievement of an approved target core income of the Company by the end of the performance cycle. Each LTIP performance cycle is approved by the BOD of the Company.

On July 14, 2016, the Compensation Committee of MPIC, acting pursuant to the authority granted to it by MPIC's BOD on March 1, 2016, approved MPIC's LTIP covering cycle 2016 to 2018. Beginning 2016, MPIC's LTIP comprises of cash incentives and share award (see Note 16).

On January 31, 2020, the Compensation Committee approved MPIC's LTIP covering cycle 2019 to 2021. MPIC's LTIP comprises of cash incentives and share award. The Company shall secure exemption ruling from the SEC on the share award, which is necessary for the Company to reacquire MPIC common shares in the market.

The total cost of the LTIP for 2019 and 2018 amounted to ₱536.3 million and ₱190.4 million, respectively, included in "Personnel costs" under "Operating expenses" in the parent company statements of comprehensive income (see Note 12). LTIP payable is presented under "Other noncurrent liabilities" and "Accrued expenses and other current liabilities" as at December 31, 2019 and 2018. The details of LTIP payable as at December 31 are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Beginning balance	₱570,669	₱380,235
Current provision	536,336	176,979
Interest	–	16,958
Actuarial loss (gain)	–	(3,503)
Payout	(509,578)	–
Reversal	(61,091)	–
LTIP payable	536,336	570,669
Less current portion (see Note 8)	–	570,669
LTIP payable – noncurrent portion	₱536,336	₱–

To fund the LTIP programs for each cycle, MPIC enters into Investment Management Agreement (IMA) with a Trustee Bank. The LTIP fund will continue to accumulate until the LTIP target payout. The investment portfolio of IMA is limited to the following: securities issued, directly or indirectly, or guaranteed by the government; and time deposit and money market placements issued by any of the top ten banks in the Philippines. With the scheduled settlement of the LTIP liability in 2019, the balance of the LTIP fund amounting to ₱542.4 million was presented as "Other current assets" as at December 31, 2018.



Pension

Regulatory Environment. RA No. 7641, *Retirement Pay Law*, requires a minimum benefit of equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year. As the Company operates in the Philippines, it provides for a defined contribution retirement plan that considers the minimum benefit guarantee mandated under RA No. 7641.

Defined Contribution Retirement Plan. The retirement benefits of the Company's employees are provided through a defined contribution scheme as approved by the BOD on August 4, 2010. The retirement plan is a contributory plan wherein the Company undertakes to contribute a predetermined amount to the individual account of each employee and the employee gets whatever is standing to his credit upon separation from the Company. The retirement plan is managed and administered by the compensation committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the Plan.

The Company's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Company then provides an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. Although the plan has a defined contribution format, the Company regularly monitors compliance with RA No. 7641, which provides for its qualified employees under a defined benefit minimum guarantee. The defined minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Company accounted for the retirement obligation under the higher of defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan. Disclosures required for a defined benefit retirement plan apply to the Company's retirement plan.

Each year, the Company's Compensation Committee reviews compliance with RA No. 7641 to evaluate the level of funding that would ensure that the expected future value of the defined benefit contribution plan asset is sufficient to cover the future expected value of retirement benefits prescribed by RA No. 7641.

Retirement Costs. The following tables summarize the components of the retirement costs under the defined contribution plan included in "Personnel costs" under "Operating expenses" account in the parent company statements of comprehensive income.

	2019	2018
	<i>(In Thousands)</i>	
Current service cost	₱21,895	₱19,998
Net interest income	(1,197)	(460)
Total retirement cost (see Note 12)	₱20,698	₱19,538



Remeasurement effects recognized in OCI are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Actuarial gain	₱5,067	₱14,470
Loss on return on plan assets excluding amount included in net interest cost	(434)	(13,124)
Effect of the asset ceiling	(1,539)	(4,132)
	3,094	(2,786)
Deferred tax (see Note 15)	(928)	836
Actuarial gain (loss), net of deferred tax	₱2,166	(₱1,950)

The funded status and amounts recognized in the parent company statements of financial position for pension assets (recorded under “Other noncurrent assets”) are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Present value of obligation	(₱129,447)	(₱105,881)
Fair value of plan assets	140,747	111,208
Effect of the asset ceiling	(5,671)	(4,132)
Pension assets	₱5,629	₱1,195

Movements in the present value of obligation are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Present value of obligation at the beginning of year	₱105,881	₱104,762
Current service cost	21,895	19,998
Interest cost	8,089	6,014
Benefits paid	(1,351)	(10,423)
Actuarial gain (loss) due to:		
Experience adjustments	(5,076)	(14,470)
Changes in financial assumptions	9	-
Present value of obligation at the end of year	₱129,447	₱105,881

Movements in the fair value of plan assets are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Fair value of plan assets at beginning of year	₱111,208	₱107,686
Interest income included in net interest cost	9,286	6,474
Loss return excluding amount included in net interest cost	(434)	(13,124)
Actual contributions	22,038	20,595
Benefits paid	(1,351)	(10,423)
Fair value of plan assets at end of year	₱140,747	₱111,208
Actual loss on plan assets	(₱8,852)	(₱6,651)



The allocations of the fair value of the trust fund as at December 31, 2019 and 2018 are as follows:

	2019	2018
	<i>(In %)</i>	
Investments in:		
Corporate equities, Government securities and Bonds	66	64
Unit trust funds	32	32
Cash and cash equivalents	2	4
	100	100

As at December 31, 2019 and 2018, the trust fund consists of the following:

- Investments in government and corporate securities included fixed-rate treasury notes and retail treasury bonds and debt securities that bear interest ranging from 4.63% to 7.51% (2019) and 4.41% to 7.51% (2018) per annum and have maturities of up to 2024 as at 2019 and 2018, respectively.
- Unit trust funds include subscription with unit investment fund offered by local institutional investment banks.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 4.00% per annum as at 2019 and 5.50% to 6.40% per annum as at 2018, respectively.

While the Company does not perform any Asset-Liability Matching Study, the risks arising from the nature of the assets comprising the fund, are mitigated as follows:

- *Credit Risks.* Exposure to credit risk arises from financial assets comprising of cash and cash equivalents and investments. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments. The risk is minimized by ensuring that the exposure is limited only to the instruments as recommended by the fund managers.
- *Share Price Risk.* Exposure arises from holdings of shares of stock being traded at the PSE. The price risk emanates from the volatility of the stock market. Policy is to limit investment in shares of stock to blue chip issues or issues with good fair values.
- *Liquidity Risk.* This risk relates to the risk that the fund is unable to meet its payment obligations associated with its retirement liability when they fall due. To mitigate this risk, the Company contributes to the fund from time to time, based on the recommendations of the actuary with the objective of maintaining their respective fund in a sound condition.

The principal assumptions used to determine pension benefits as at December 31 are as follows:

	2019	2018
Discount rate	5.54%	7.64%
Salary increase rate	8.00%	8.00%

The discount rate represents the range of single weighted average discount rate used by the Company in arriving at the present value of defined benefit obligation, service and interest cost components of the retirement cost. Assumptions regarding future mortality rate are based on the Philippine Inter-Company Mortality Study for 2019 and 2018, which provide separate rates for males and females.



The weighted average duration of the expected benefit payments is approximately 11.6 years and 10.9 years in 2019 and 2018, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	2019	2018
	<i>(In Thousands)</i>	
Less than one year	₱59,191	₱78,318
More than one year to five years	47,207	29,536
More than five years to 10 years	88,308	103,530
More than 10 years to 15 years	120,346	165,816
More than 15 years	321,601	425,728

Sensitivity Analysis. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the present value of defined benefit obligation as at December 31 would have increased (decreased) as a result of change in the respective assumptions by:

	Movements	2019	2018
Discount rate	+1%	(₱7)	₱-
	-1%	122	10
Salary increase rate	+1%	112	9
	-1%	(7)	-

As at December 31, 2019 and 2018, the defined contribution accumulation is higher than the legal minimum benefit. As the Company has no deficiency to meet legal obligation, the defined benefit obligation is not sensitive to reasonably possible changes (+/-100 basis points) in the significant assumptions.

The Company currently expects to make approximately ₱21.5 million of cash contributions to its retirement fund in 2020.

14. Interest Income, Interest Expense and Other Income (Expenses)

Below are the sources of Company's interest income, interest expense and other income (expenses):

	2019	2018
	<i>(In Thousands)</i>	
Interest income:		
Cash and cash equivalents, short-term deposits and restricted cash (see Note 5)	₱527,239	₱354,095
LTIP deposit	5,764	12,561
	₱533,003	₱366,656

(Forward)



	2019	2018
	<i>(In Thousands)</i>	
Interest expense:		
Long-term debt (see Note 9)	₱4,866,484	₱3,552,740
Accretion on financial liabilities (see Notes 6, 8 and 10)	476,706	669,817
Amortization of debt issue cost (see Note 9)	46,238	27,510
Accretion on lease liabilities (see Notes 8 and 23)	2,197	-
	₱5,391,625	₱4,250,067
Other income (expenses) - net:		
Gain on dilution of interest in MPHHI (see Note 6)	₱16,553,256	₱-
Provision for decline of value in assets (see Note 6)	(3,130,880)	(₱755,187)
Loss from change in fair value of derivative	(2,943)	-
Loan prepayment and refinancing costs (see Note 9)	(460,546)	-
Management fees (see Note 10)	4,857	5,249
Others	68,831	75,405
	₱13,032,575	(₱674,533)

15. Income Taxes

Current Tax

The provision for current income tax represents MCIT. MCIT is imposed where the regular corporate income tax (RCIT) at 30% is less than 2% MCIT on gross income.

Deferred Tax

- a. The Company's deferred tax liabilities as at December 31 are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Deferred tax liabilities:		
Gain on dilution of interest in MPHHI (see Note 6)	₱6,847,784	₱725,008
Pension assets (see Note 13)	8,698	7,771
	₱6,856,482	₱732,779
	2019	2018
	<i>(In Thousands)</i>	
Net movement recognized in:		
Profit or loss	₱-	₱-
Equity (OCI and Equity reserve)	928	(836)
	₱928	(₱836)

The deferred tax liability relating to the gain on dilution of interest in MPHHI pertains to the applicable tax on the future conversion of the Exchangeable Bonds (see Note 6).



- b. The details of the carryforward benefits of excess NOLCO, MCIT and other deductible temporary difference for which deferred tax assets were not recognized as at December 31, 2019 and 2018 since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized as follows:

	2019	2018
	<i>(In Thousands)</i>	
Items recognized in profit and loss:		
NOLCO	₱16,597,867	₱10,829,443
Nondeductible expenses	5,214,908	2,150,144
MCIT	1,518	1,399
	₱21,814,293	₱12,980,986

The carryforward benefits of excess MCIT amounting to ₱1.5 million and ₱1.4 million as at December 31, 2019 and 2018, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2018	Additions	Expired	Balance as at December 31, 2019	Expiry Year
	<i>(In Thousands)</i>				
2019	₱-	₱1,042	₱-	₱1,042	2022
2018	142	-	-	142	2021
2017	334	-	-	334	2020
2016	923	-	(923)	-	2019
	₱1,399	₱1,042	(₱923)	₱1,518	

As at December 31, 2019 and 2018, unutilized NOLCO amounting to ₱16,597.9 million and ₱10,829.4 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Balance as at December 31, 2018	Additions	Expired	Balance as at December 31, 2019	Expiry Year
	<i>(In Thousands)</i>				
2019	₱-	₱8,749,240	₱-	₱8,749,240	2022
2018	4,575,320	-	-	4,575,320	2021
2017	3,273,307	-	-	3,273,307	2020
2016	2,980,816	-	(2,980,816)	-	2019
	₱10,829,443	₱8,749,240	(₱2,980,816)	₱16,597,867	

The Company has no taxable income subject to RCIT for the years ended December 31, 2019 and 2018. The reconciliation between the Company's statutory income tax and the effective income tax on net income (current income tax) for the years ended December 31, 2019 and 2018 follows:

	2019	2018
	<i>(In Thousands)</i>	
Income before income tax at 30% RCIT	₱5,625,346	₱935,231
Adjustments for:		
Gain on dilution of interest in MPHHI	(5,691,595)	-
<i>(Forward)</i>		



	2019	2018
	<i>(In Thousands)</i>	
Adjustments for:		
Dividend income exempted from final tax	(₱3,724,854)	(₱2,787,021)
Additional NOLCO	2,624,772	1,372,596
Nondeductible expenses	1,564,472	645,044
Income already subjected to final tax	(159,901)	(109,997)
Nontaxable income	(238,169)	(55,705)
Unrealized foreign exchange (gain) loss	(71)	(148)
Additional MCIT	1,042	142
Current income tax	₱1,042	₱142

16. Share-based Payment

ESOP

On June 24, 2007, the shareholders of MPIC approved a share option scheme (the Plan) under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share option of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme became effective on June 14, 2007 and is valid for ten years. An amended plan was approved by the stockholders on February 20, 2009.

As amended, the overall limit on the number of shares that may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5.0% of the shares in issue from time to time.

The exercise price in relation to each option shall be determined by the Company's Compensation Committee, but shall not be lower than the highest of: (i) the closing price of the shares for one or more board lots of such shares on the PSE on the option offer date; (ii) the average closing price of the shares for one or more board lots of such shares on the PSE for the five business days on which dealings in the shares are made immediately preceding the option offer date; and (iii) the par value of the shares.

On October 14, 2013, MPIC made an ESOP grant (the Fourth Grant) consisting of 112.0 million common shares, to its directors and senior management officers, as well as, members of the senior management of certain MPIC subsidiaries. The grant was approved by the Philippine SEC on March 4, 2014.

On October 9, 2018, the deadline for the exercise of stock options from the Fourth Grant, originally on October 14, 2018, was extended by the Company's Compensation Committee to October 14, 2019. In 2018, cost from the extension of exercise period for the ESOP amounted to ₱23.6 million (see Note 12).

For the years ended December 31, 2019 and 2018, the weighted average share price of MPIC's common share is ₱4.66 and ₱5.16 per share, respectively. The carrying value of ESOP, recognized under "Equity reserves" in the equity section of the parent company statements of financial position, amounted to nil and ₱78.9 million as at December 31, 2019 and 2018, respectively (see Note 11).



The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions at the time the options were granted. The following tables list the inputs to the model used for the ESOP:

	Fourth Grant Tranche B
	50.0% vested on October 14, 2015
Spot Price	₱4.59
Exercise price	₱4.60
Risk-free rate	2.40%
Expected volatility*	33.07%
Term to vesting in days	730
Call price	₱0.89

* The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The following table illustrates the number of, exercise prices of, and movements in share options in 2019 and 2018 for the Tranche B of the Fourth Grant:

	Tranche B	
	Number of shares	Exercise Price
Outstanding at January 1, 2018	56,000,000	₱4.60
Exercised during the year (see Note 11)	1,175,000	4.60
Outstanding at December 31, 2018	54,825,000	₱4.60
Exercised during the year (see Note 11)	27,790,000	4.60
Expired during the year	27,035,000	4.60
Outstanding at December 31, 2019	–	₱–
Exercisable at:		
December 31, 2018	54,825,000	₱4.60
December 31, 2019	–	₱–

RSUP

On July 14, 2016, the Compensation Committee of MPIC approved the RSUP as part of MPIC's LTIP. The RSUP, which has a validity period of ten years, replaced the Company's ESOP, which expired in 2019.

The RSUP is designed, among others, to reward the Directors and certain key officers of MPIC who contribute to its growth to stay with MPIC for the long term. Under the RSUP, which shall have a cycle of three (3) years (starting 2016 for the LTIP cycle covering 2016 to 2018), MPIC, at its cost will reacquire MPIC common shares to be held as treasury shares and reserved to be transferred to the Directors and key officers determined by the Committee to be eligible to participate under the RSUP. Vested shares will be transferred in the name of the eligible participants on full vesting date, at no cost as provided under the RSUP.

The RSUP also limits the aggregate number of shares that may be subject to award to no more than three percent (3%) of the outstanding common shares of MPIC. A cumulative total of 26.7 million MPIC common shares had been acquired to cover the total shares expected to be granted to the directors and key officers of the Company.



Fair value of the Share Award was determined using the market closing price of ₱7.15 per share on date of grant. One third (or 33.33%) of the share award vests every 31st of December beginning 2016 until fully vested by December 31, 2018.

Total RSUP expense for the years ended December 31, 2019 and 2018 amounted to nil and ₱66.7 million, respectively, included in “Personnel costs” under “Operating expenses” account in the parent company statements of comprehensive income. The shares in relation to the 2016-2018 RSUP were issued to the grantees in June 2019 (see Note 12).

17. Earnings Per Share

The calculation of earnings per share for the years ended December 31 follows:

	2019	2018
	<i>(In Thousands, Except for Per Share Amounts)</i>	
Net income	₱18,655,461	₱3,046,998
Effect of dividends on preference equity holders of the Company	(9,128)	(9,128)
	(a) 18,646,333	3,037,870
Outstanding common shares at the beginning of the year	31,515,449	31,510,579
Effect of issuance of common shares during the year	23,831	3,306
Effect of share buy-back (see Note 11)	(585)	(146)
Weighted average number of common shares for basic earnings per share	(b) 31,538,695	31,513,739
Effects of potential dilution from ESOP and share award (see Note 11)	1,634	33,926
Weighted average number of common shares adjusted for the effects of potential dilution	(c) 31,540,329	31,547,665
Basic earnings per share	(a/b) ₱0.591	₱0.096
Diluted earnings per share	(a/c) ₱0.591	₱0.096

The weighted average number of issued and outstanding shares is derived by multiplying the number of shares outstanding at the beginning of the year, adjusted by the number of shares issued during the year, with a time-weighting factor. The time-weighting factor is the number of days that the common shares are outstanding as a proportion to the total number of days in the year.

In 2019 and 2018, the ESOP and RSUP are considered in the computation of the diluted earnings and certain grants were considered dilutive.



18. Other Matters

Tariff Setting at the Company's Investees. The water utilities, toll road, electricity distribution and generation and rail businesses in the Philippines are highly regulated and subject to franchises, licenses and/or concessions granted by regulatory authorities. The businesses of MPIC's investees are currently subject to franchises, licenses and/or concessions granted principally by the following regulatory authorities:

Regulated Business	Regulatory Authority
Water utilities operations	Metropolitan Waterworks and Sewerage System/National Water Resources Board
Toll road operations	Toll Regulatory Board
Electricity distribution and generation operations	Energy Regulatory Commission Department of Energy
Rail operations	Department of Transportation and the Light Rail Transit Authority

Continued operation of regulated businesses is dependent on the operator's ability to comply with the operational and maintenance requirements under the relevant franchise agreement, licence and/or concession agreement. In many cases, grantors of concessions may unilaterally terminate concession agreements prior to the expiry of the concession period if a concessionaire does not rectify certain specified defaults by it within any relevant specified cure periods. Accordingly, MPIC's rights, through its investees, to operate and collect revenue from its regulated businesses depend upon its compliance with the terms and conditions of the relevant concession agreements.

The rate structure, allowed returns and permitted cost recoveries are the most significant determinants of regulated businesses' operating results, and are subject to comprehensive regulation pursuant to the franchise, licence and/or concession agreements. Prevailing rates are set (with the approval of regulatory authorities) to permit a reasonable rate of return on investments on the provision of regulated services and may provide for the pass through to customers, on a limited basis, of certain costs resulting from adverse movements in costs, currency exchange rates and system losses for electricity distribution. MPIC's and certain of its subsidiaries' and associated companies' results of operations are highly dependent on the ability of MPIC's operating businesses to collect contracted tariffs for their services. Although MPIC and certain of its subsidiaries and associated companies may request tariff rate adjustments periodically pursuant to the relevant franchise, license or concession agreements, any rate adjustment requires approval by the relevant regulatory body.

The status of pending tariff increases for MPIC's water, toll, electricity and rail businesses are properly disclosed in MPIC's consolidated financial statements.

19. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from third party lenders and creditors, proceeds of which were used for the acquisition of investments and in financing operations. The Company has other financial assets and financial liabilities such as cash and cash equivalents and short-term deposits, restricted cash, receivables, accrued expenses and other current liabilities, as well as other related party transactions that arise directly from the Company's operations. The Company also holds financial assets.



The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company's exposure to foreign currency risk on its financial instruments is not significant. At December 31, 2019 and 2018, the Company's borrowings were effectively at fixed rates (see Note 9), hence, no significant interest rate risk.

The BOD reviews and approves policies of managing each of these risks and they are summarized below.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relate primarily to its long-term debt. The Company manages interest rate exposure by using a mix of fixed rate and variable rate debts or entering into derivative transaction, particularly interest rate swaps.

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. Save for certain loans that are subject to interest rate repricing on the fifth year (see Note 9), the Company's interest on long-term debts are fixed until maturity as at December 31, 2019 and 2018. Should the interest rate on the repricing date for this loan be significantly higher than the current fixed rate, the Company has an option to prepay or refinance the loan starting on or after the second year at every interest payment date.

No sensitivity analyses were made for 2019 and 2018 as the interest rates of the Company's outstanding long-term debt as at December 31, 2019 and 2018 were effectively at fixed rates.

Liquidity Risk

The Company manages its liquidity profile to be able to finance its capital expenditures and service its maturing debts by maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed credit facilities (see Note 9).

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow position particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents and short-term deposits amounting to ₱38,155.0 million and ₱9,048.4 million as at December 31, 2019 and 2018, respectively, which are allocated to meet the Company's short-term liquidity needs.

The Company's liquidity and funding management process include the following:

- Managing the concentration and maturity profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring statement of financial position liquidity ratios against internal, external and regulatory requirements.

Liquidity risk concentrations arise when a number of economic features would cause the Company's ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.



The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including future interest payments:

	Not exceeding 1 year	More than 1 year but not exceeding 2 years	More than 2 years but not exceeding 5 years	More than 5 years	Total
<i>(In Thousands)</i>					
December 31, 2019					
Accrued expenses and other current liabilities ^(a)	₱1,824,698	₱–	₱–	₱–	₱1,824,698
Due to related parties:					
Due to PCEV	5,645,977	2,450,000	–	–	8,095,977
Due to related parties - others	10,141	–	–	–	10,141
Provisions	165,967	207,089	903,763	1,921,945	3,198,764
Long-term debts (Principal and interest)	12,900,437	8,024,163	32,325,744	70,371,905	123,622,249
Other noncurrent liabilities	–	34,260	108,155	–	142,415
	₱20,547,220	₱10,715,512	₱33,337,662	₱72,293,850	₱136,894,244
December 31, 2018					
Accrued expenses and other current liabilities ^(a)	₱794,477	₱–	₱–	₱–	₱794,477
Due to related parties:					
Due to PCEV	4,451,341	5,645,977	2,450,000	–	12,547,318
Due to related parties - others	10,141	–	–	–	10,141
Long-term debts (Principal and interest)	6,200,147	7,365,710	28,324,317	57,324,891	99,215,065
Financial liability	99,796	–	–	–	99,796
	₱11,555,902	₱13,011,687	₱30,774,317	₱57,324,891	₱112,666,797

^(a) Excludes statutory payable.

Credit Risk

Credit risk is the risk that the Company will incur a loss arising from counterparties that fail to discharge their contracted obligations. The Company manages and controls credit risk by setting limits on the amount of risk that the Company is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Company's exposure to credit risk is equal to the carrying amount of its financial assets, except for those presented in the following table. The Company has no concentration of credit risk.

With the exception of cash and cash equivalents, the maximum exposure to credit risk (both pre and post consideration of collateral and credit enhancements) at the reporting date is the carrying value of each class of financial assets disclosed in Note 20.

The maximum exposure to credit risk on cash and cash equivalents without considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques is the carrying value of this financial asset. After considering the credit enhancement pertaining to insured deposits in banks as prescribed by Philippine Deposit Insurance Corporation, net maximum exposure as at December 31, 2019 and 2018 amounted to ₱38,152 million and ₱9,044 million, respectively.

Impairment of Financial Assets

The Company's receivables are subject to the expected credit loss model. While cash and cash equivalents and short-term deposits are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

The Company applies the PFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss



rates are adjusted to reflect current and forward-looking information on macroeconomic factors [where applicable, gross domestic product (GDP) rate, inflation rate and unemployment rate] affecting the ability of the counterparties to settle the receivables. Generally, receivables are written-off if past due for more than one year and are not subject to enforcement activity.

Impairment losses on receivables are presented as “Provision for ECL” under “Operating expenses” in the parent company statements of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item (see Note 12).

There are no significant concentrations of credit risk, whether through exposure to individual counterparty, specific industry sectors and/or regions.

Set out below is the information about the credit risk exposure on the Company’s receivables and due from related parties:

	Current	Days past due					Total
		<30	31-60	61-90	91-180	>180	
						Credit-impaired	
						Not Credit-impaired	
<i>(In Thousands except for the Expected Loss Rates)</i>							
December 31, 2019:							
Expected loss rate	-%	-%	-%	-%	-%	74%	2%
Gross carrying amount:							
Receivables:							
Dividends receivable	₱-	₱-	₱-	₱-	₱-	₱-	₱-
Receivables - others	4,129,515	-	-	-	-	96,293	4,225,808
Due from related parties	91,247	101	6,718	-	906	-	98,972
	4,220,762	101	6,718	-	906	96,293	4,324,780
Loss allowance: Receivables	-	-	-	-	-	71,440	71,440
	₱4,220,762	₱101	₱6,718	₱-	₱906	₱24,853	₱4,253,340
December 31, 2018:							
Expected loss rate	-%	-%	-%	-%	-%	74%	5%
Gross carrying amount:							
Receivables:							
Dividends receivable	₱1,405,690	₱-	₱-	₱-	₱-	₱-	₱1,405,690
Receivables - others	46,199	812	785	1,130	-	96,473	145,399
Due from related parties	1,763	443	680	393	1,378	4,063	8,720
	1,453,652	1,255	1,465	1,523	1,378	100,536	1,559,809
Loss allowance:							
Receivables	-	-	-	-	-	71,440	71,440
Due from related parties	-	-	-	-	-	2,772	2,772
	-	-	-	-	-	74,212	74,212
	₱1,453,652	₱1,255	₱1,465	₱1,523	₱1,378	₱26,324	₱1,485,597

The closing loss allowance for receivables as at December 31, 2019 reconcile to the opening loss allowance based on lifetime ECL is as follows:

	Receivables	Due from related parties	Total
<i>(In Thousands)</i>			
Opening loss allowance as at January 1, 2018	₱21,440	₱-	₱21,440
Increase in loss allowance recognized in profit or loss during the year:	50,000	2,772	52,772
Opening loss allowance as at December 31, 2018	₱71,440	₱2,772	₱74,212
Written off/reversal	-	(2,772)	(2,772)
Balance as at December 31, 2019	₱71,440	₱-	₱71,440



Capital Management

The primary objective of the Company's capital management policies is to ensure that the Company maintains a strong financial position and healthy capital ratios to support its business and maximize shareholder value.

MPIC's loan agreements require achievement of certain financial ratios (see Note 9). Moreover, under the loan agreements, MPIC needs to achieve a DSCR to be able to declare dividends. As at December 31, 2019 and 2018, MPIC is in compliance with the required financial ratios and other loan covenants.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or new debt or redeem existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over equity.

In 2019, the Company's strategy, which was unchanged from 2018, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2019 and 2018 are as follows:

	2019	2018
	<i>(In Thousands except for the debt-to-equity ratio)</i>	
Long-term debt	₱85,197,718	₱67,001,465
Equity	139,049,231	123,756,485
Debt-to-equity ratio	1:1.6	1:1.8

20. Financial Assets and Financial Liabilities

Categories of Financial Instruments

The categories of the Company's financial assets and financial liabilities, other than cash and cash equivalents and short-term deposits and restricted cash are:



December 31, 2019

	Financial Assets				Financial Liabilities		Total
	Amortized Cost	FVPL	Debt instruments at FVOCI	Equity Instruments at FVOCI	Amortized Cost	FVPL	
<i>(In Thousands)</i>							
ASSETS							
Investment in Unit Investment Trust Fund ^(a)	P-	P4,000	P-	P-	P-	P-	P4,000
Receivables ^(b)	4,154,368	-	-	-	-	-	4,154,368
Due from related parties	98,972	-	-	-	-	-	98,972
Other noncurrent assets:							
Quoted club shares	-	-	-	23,000	-	-	23,000
Other receivables	359,804	-	-	-	-	-	359,804
	P4,613,144	P4,000	P-	P23,000	P-	P-	P4,640,144
LIABILITIES							
Accrued expenses and other current liabilities ^(c)	P-	P-	P-	P-	P3,319,270	P45,992	P3,365,262
Due to related parties	-	-	-	-	7,801,131	-	7,801,131
Long-term debt	-	-	-	-	85,197,718	-	85,197,718
Provisions (Note 6)	-	-	-	-	-	2,568,116	2,568,116
Other noncurrent liabilities	-	-	-	-	130,812	-	130,812
	P-	P-	P-	P-	P96,448,931	P2,614,108	P99,063,039

^(a)Included under 'Cash and cash equivalents and short-term deposits'.

^(b)Net of allowance for ECL in receivables amounted to P71.4 million.

^(c)Excludes statutory payables.



December 31, 2018

	Financial Assets				Financial Liabilities		Total
	Amortized Cost	FVPL	Debt instruments at FVOCI	Equity Instruments at FVOCI	Amortized Cost	FVPL	
<i>(In Thousands)</i>							
ASSETS							
Investment in Unit Investment Trust Fund ^(a)	₱-	₱1,000	₱-	₱-	₱-	₱-	₱1,000
Receivables ^(b)	1,479,649	-	-	-	-	-	1,479,649
Due from related parties ^(b)	5,948	-	-	-	-	-	5,948
Other current assets:							
Deposit for LTIP	542,375	-	-	-	-	-	542,375
Other noncurrent assets:							
Quoted club shares	-	-	-	20,000	-	-	20,000
Other receivables	359,804	-	-	-	-	-	359,804
	<u>₱2,387,776</u>	<u>₱1,000</u>	<u>₱-</u>	<u>₱20,000</u>	<u>₱-</u>	<u>₱-</u>	<u>₱2,408,776</u>
LIABILITIES							
Accrued expenses and other current liabilities ^(c)	₱-	₱-	₱-	₱-	₱1,616,310	-	₱1,616,310
Due to related parties	-	-	-	-	11,777,258	-	11,777,258
Long-term debt	-	-	-	-	67,001,465	-	67,001,465
	<u>₱-</u>	<u>₱-</u>	<u>₱-</u>	<u>₱-</u>	<u>₱80,395,033</u>	<u>₱-</u>	<u>₱80,395,033</u>

^(a)Included under 'Cash and cash equivalents and short-term deposits'.

^(b) Net of allowance for ECL in receivables and due from related parties amounted to ₱71.4 million and ₱2.8 million, respectively.

^(c)Excludes statutory payables.



Fair Values

The fair value of the assets and liabilities is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The following tables summarize the carrying amounts and fair values of the assets and liabilities, analyzed among those whose fair value is based on:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - Those with inputs for the asset or liability that are not based on observable market data (unobservable input).

December 31, 2019					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<i>(In Thousands)</i>					
Assets measured at fair value					
Financial Assets at FVPL					
Unit Investment Trust Fund	P4,000	P-	P4,000	P-	P4,000
Equity Instruments at FVOCI					
Golf club shares	23,000	-	23,000	-	23,000
	P27,000	P-	P27,000	P-	P27,000
Liabilities measured at fair value					
Financial Liabilities at FVPL					
Option Liability	P45,992	P-	P-	P45,992	P45,992
Provisions	2,568,116	-	-	2,568,116	2,568,116
	P2,614,108	P-	P-	P2,614,108	P2,614,108
Liabilities for which fair values are disclosed					
Financial Liabilities at amortized cost					
Long-term debt (current and noncurrent)	P85,197,718	P-	P-	P91,616,130	P91,616,130
Due to related parties	7,801,131	-	-	7,796,626	7,796,626
	P92,998,849	P-	P-	P99,412,756	P99,412,756

December 31, 2018					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<i>(In Thousands)</i>					
Financial Assets at FVPL					
Unit Investment Trust Fund	P1,000	P-	P1,000	P-	P1,000
Equity Instruments at FVOCI					
Golf club shares	20,000	-	20,000	-	20,000
	P21,000	P-	P21,000	P-	P21,000
Liabilities for which fair values are disclosed					
Financial Liabilities at amortized cost					
Long-term debt (current and noncurrent)	P67,001,465	P-	P-	P63,579,328	P63,579,328
Due to related parties	11,777,258	-	-	11,309,268	11,309,268
	P78,778,723	P-	P-	P74,888,596	P74,888,596

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

Cash and Cash Equivalents, Short-Term Deposits, Restricted Cash, Receivables, Due from Related Parties, and Accrued Expenses and Other Current Liabilities. Due to the short-term nature of transactions, the fair value of cash and cash equivalents, short-term deposits, restricted cash, receivables, due from related parties, and accrued expenses and other current liabilities approximate the carrying amounts at the end of the reporting period.



Investments in Unit Investment Trust Fund (UITF). UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

Derivative Liability. The fair value of the call options was estimated using a binomial pricing model (see Note 6).

Investments in Golf Club Shares. Fair value is based on quoted market price.

Due to Related Parties. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

Long-term Debt. Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 4.12% to 6.22% and 5.41% to 7.49% in 2019 and 2018, respectively.

Provisions. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

21. Supplemental Cash Flow Information

Non-cash investing activities

In 2019, the Company had a non-cash investing activity pertaining subscription payable for the additional investment in MPRRC amounting to ₱63.5 million (see Notes 6 and 8).

Changes in liabilities arising from financing activities:

The following table shows significant changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

	Long-term debt (see Note 9)	Due to related parties (see Note 10)	Lease liabilities (see Note 8)
	<i>(In Thousands)</i>		
Balance as at January 1, 2019	₱67,001,465	₱11,777,258	₱-
Cash flow (see statements of cash flows)			
Proceeds	20,000,000	-	-
Payments	(1,587,900)	(4,451,341)	(15,185)
Transaction cost	(197,085)	-	-
	85,216,480	7,325,917	(15,185)
Non-cash:			
Adoption of PFRS 16	₱-	₱-	₱31,599
Leases entered during the year	-	-	18,491
Amortization of debt issue costs	46,238	-	-
Interest accretion	-	475,214	2,197
Others	(65,000)	-	-
	(18,762)	475,214	52,287
Balance as at December 31, 2019	₱85,197,718	₱7,801,131	₱37,102



	Long-term debt (see Note 9)	Due to related parties (see Note 10)	Lease liabilities (see Note 8)
		(In Thousands)	
Balance as at January 1, 2018	₱46,821,291	₱15,931,712	₱-
Cash flow (see statements of cash flows)			
Proceeds	21,400,000	10,126	-
Payments	(1,033,900)	(4,830,288)	-
Transaction cost	(203,707)	-	-
	66,983,684	11,111,550	-
Non-cash:			
Amortization of debt issue costs	27,510	-	-
Interest accretion	-	665,708	-
Others	(9,729)	-	-
	17,781	665,708	-
Balance as at December 31, 2018	₱67,001,465	₱11,777,258	₱-

22. Events after the Reporting Period

Aside from MPIC's dividend declaration on February 26, 2020 (see Note 11) debt reduction (see Note 9), Dusit Investment Agreement (see Note 6), events occurring after the reporting period include:

MPIC's Share Buy-Back Transaction. On February 26, 2020, the MPIC BOD also approved the implementation of a Share Buyback Program. Said program shall run for a period of three (3) months from the date of the approval by the BOD or until May 26, 2020, with the amount of up to ₱5 billion being allocated to effect share buybacks under the program. The purpose for the Share Buyback Program is to enhance and improve shareholder value and to manifest confidence in the Company's value and prospects through the repurchase of its common shares. Consequently, the Parent Company's buyback transactions will be triggered in the cases where: (i) MPIC's stock is deemed to be substantially undervalued, (ii) when there is high volatility in share prices, or (iii) in any other instance where a buyback would serve to enhance or improve shareholder value, in each as may be reasonably determined by a special committee of the BOD established for this purpose.

Dividend Declaration. Dividend declaration of the Company's investees are as follows:

Company	Declaration Date	Record Date	Payment Date	Expected Share in Dividends
				(In Thousands)
MERALCO	February 24, 2020	March 20, 2020	April 15, 2020	₱1,230,402
MPTC	February 20, 2020	March 6, 2020	April 1, 2020	1,123,038
Beacon Electric	February 26, 2020	March 31, 2020	April 16, 2020	4,530,082



23. Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these parent company financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Changes in Accounting Policies and Disclosures

The Company applied the following new PFRSs and amendments and improvements to existing standards effective January 1, 2019. Except for the adoption of PFRS 16, *Leases*, adoption of the following standards did not have any material impact on the parent company financial statements:

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company, as lessee, has adopted PFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019 (see Impact of adoption of PFRS 16).

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.



- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

- Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

- Amendments to PAS 28, *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures. Amendments*.

Annual Improvements 2015-2017 Cycle

- PFRS 3, *Business Combination*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

- PFRS 11, *Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.



▪ PAS 23, *Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective (see Note 24).

c. *Impact of Adoption of PFRS 16*

Adjustments recognized on adoption of PFRS 16.

The Company adopted PFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. The Company recognized lease liabilities in relation to leases which had previously been recognized as ‘operating leases’ under PAS 17. These liabilities were measured at present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The Company used a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average incremental borrowing rates applied to the lease liabilities on January 1, 2019 was 6.62%.

Right-of-use assets (ROU assets) which include lease of office space were initially measured at the amount of the lease liability and adjusted by the amount of any prepaid or accrued rentals relating to that lease recognized as at December 31, 2018. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

Below provides the reconciliation between the operating lease commitments disclosed applying PAS 17 as at December 31, 2018 and the lease liability and ROU assets recognized in the parent company statement of financial position at the date of initial application of PFRS 16:

	<i>(in Millions)</i>
Operating lease commitments disclosed as at December 31, 2018	₱40
Less: short-term and low value assets recognized on a straight-line basis as expense	(5)
<hr/>	
Operating lease commitments covered under PFRS 16	35
Less: Present value discount using lessee’s incremental borrowing rate	(3)
<hr/>	
Lease liability recognized as at January 1, 2019	32
Net prepaid and accrued rentals as at December 31, 2018	–
<hr/>	
ROU assets recognized as at January 1, 2019	₱32
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ROU assets are presented under ‘Property and equipment’ and lease liabilities are reported under ‘Accounts payable and other current liabilities’ (current portion) and ‘Other noncurrent liabilities’ (noncurrent portion) in the parent company statements of financial position.

For the year ended December 31, 2019, depreciation charge relating to ROU assets recognized under ‘operating expenses’ amounted to ₱14.6 million (see Note 12). Interest accretion on lease liability amounted to ₱2.2 million (see Note 14). Rental expenses relating to short-term and low value assets amounted to ₱7.7 million recognized under ‘operating expenses’ (see Note 12). There is no material impact on other comprehensive income and the basic and diluted EPS.



c. Principal Accounting and Financial Reporting Policies

The principal accounting and financial reporting policies adopted in preparing the parent company financial statements are as follows:

Current Versus Noncurrent Classification

The Company presents assets and liabilities in the parent company statements of financial position based on current/noncurrent classification.

An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period, or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or,
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

The Company measures financial instruments such as equity instruments at FVOCI at fair value at each reporting date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 20.

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

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

The principal or the most advantageous market must be accessible by the Company.

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

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



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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as derivatives, and non-recurring measurement, such as impairment tests. At each reporting date, the finance team analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Company's accounting policies. For this analysis, the finance team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts, counterparty assessment and other relevant documents.

The finance team also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the finance team presents the valuation results to the Company's top management for review. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above (see Note 20).

Cash and Cash Equivalents

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

Short-term Deposits

Short-term deposits are highly liquid money market placements with maturities of more than three months but less than one year from dates of acquisition.

Input Taxes

Input taxes represent taxes paid on purchases of applicable goods and services which can be recovered as tax credit against future output VAT liability of the Company.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



Financial Instruments: Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial Assets at Amortized Cost (Debt Instruments). The Company measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes receivables.

Financial Assets Designated at FVOCI (Equity Instruments). Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.



Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the parent company statement of comprehensive income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Company elected to classify irrevocably its investments in quoted and unquoted equity securities under this category.

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the parent company statement of financial position at fair value with net changes in fair value recognized in the statement of comprehensive income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVPL. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Derecognition. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an



associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of Financial Assets. The Company recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Instruments: Financial Liabilities

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accrued expenses and other current payables (excluding statutory payables), loans and borrowings.

Subsequent Measurement - Financial Liabilities at FVPL. Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.



Gains or losses on liabilities held for trading are recognized in the parent company statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Company has not designated any financial liability as at FVPL.

Subsequent Measurement - Loans and Borrowings. This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs under the “Interest expense” in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings (see Notes 9, 19 and 20).

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the parent company statement of comprehensive income.

Financial Instruments: Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries, associates and a joint venture are accounted for at cost. The investments are carried in the parent company statement of financial position at cost less any impairment in value. The Company recognizes dividend income from its subsidiaries, associates and joint venture when its right to receive the dividend is established.

Property and Equipment

Property and equipment, included as part of “Other noncurrent assets” account in the parent company statement of financial position, are carried at cost, excluding day-to-day servicing, less accumulated depreciation and any impairment loss. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment and borrowing cost for long-term construction project when recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major repairs are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.



Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property and equipment.

Depreciation commences once the property and equipment are available for use and is computed on a straight-line basis over the estimated useful lives of the assets (see Note 7).

The asset's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial reporting period.

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

Software Cost

Software cost, included as part of "Other noncurrent assets" account in the parent company statement of financial position, includes the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years (see Note 7). The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Impairment of Nonfinancial Assets

The Company assesses at each end of reporting period whether there is an indication that the Company's investments in subsidiaries and associates and interest in a joint venture, property and equipment and software costs may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the parent company statement of comprehensive income.

An assessment is made at each end of reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment



loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Common Stocks. Common stocks are classified as equity and measured at par value for all shares issued. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital.

Preferred Shares. Preferred share is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's BOD.

Preferred share is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the parent company statement of comprehensive income as accrued.

Treasury Shares. Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the additional paid-in capital.

Retained Earnings. Retained earnings represent accumulated earnings net of cumulative dividends declared, adjusted for the effects of equity restructuring.

Cash Dividend. The Company recognizes a liability to distribute cash to its equity holders when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the corporate laws in the Philippines, a distribution is authorized when it is approved by the BOD. A corresponding amount is charged directly against retained earnings.

Equity Reserves. Equity reserves comprise of equity transactions other than capital contributions such as equity component of a convertible financial instrument and share-based payment transactions (ESOP and RSUP).

Other Comprehensive Income Reserve. OCI reserve comprises items of income and expenses that are recognized directly in equity. Certain OCI items are to be reclassified to profit or loss in subsequent periods.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.



Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods and services to a customer. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

Dividend

Revenue is recognized when the right to receive payment is established which is upon the declaration date.

Interest Income

Interest income is recognized as it accrues, using the EIR method.

Rental Income

Revenue from rent is recognized on a straight-line basis over the terms of the lease [included as part of “Other expense - net” account in the parent company statement of comprehensive income].

Management Fees

Fees are recognized when services are rendered [included as part of “Other expense - net” account in the parent company statement of comprehensive income].

Other Income

The Company applies guidance in the revenue standard related to the transfer of control and measurement of the transaction price, including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognized. Included in “Other income” are sale of investments and other incidental gain/income.

Expenses Recognition

Expenses are recognized in the parent company statement of comprehensive income when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized in the parent company statement of comprehensive income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the parent company statement of financial position as an asset.

Leases

Accounting policy applied for Leases beginning January 1, 2019

Right-of-use assets. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

Lease liabilities. At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable,



variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets. The Company applies the short-term lease recognition exemption (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term. Beginning January 1, 2019, 'Rentals' under 'operating expenses' account include only those leases that are short-term and of low-value (see Note 12).

Significant judgement in determining the lease term of contracts with renewal options. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Accounting policy applied for Leases until December 31, 2018

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the agreement;
- b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether the fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).



Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Operating lease payments, net of aggregate benefit of lease incentives, are recognized as expense in the parent company statement of comprehensive income on a straight-line basis over the lease term.

Retirement Benefits

The Company maintains a defined contribution plan that covers all regular full-time employees. Under the defined contribution plan, fixed contributions by the employer are based on the employees' monthly salaries. However, the Company, as an entity operating in the Philippines, is covered under RA No. 7641 which provides for qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

Accordingly, the Company accounts for the retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution plan obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the parent company statement of comprehensive income.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. These remeasurements are not reclassified to profit or loss in subsequent periods.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

ESOP

The Company has an ESOP for eligible executives of the Company and subsidiaries to receive remuneration in the form of share-based payment transactions, whereby executives render services in exchange for the share option.



The cost of equity-settled transactions (cost of ESOP) with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in Note 16. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Company (“market conditions”).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative cost of ESOP recognized for equity-settled transactions at each end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate at that date of the number of awards that will ultimately vest. The parent company statement of comprehensive income credit or expense (recognized as employee benefits and presented as ESOP expense) and additional investment in subsidiaries (represent cost of ESOP apportioned to executives of subsidiaries) for a period represents the movement in cumulative cost of ESOP recognized as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, the minimum cost of ESOP recognized is the cost of ESOP as if the terms had not been modified, if the original terms of the award are met. If the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost of ESOP not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 17).

RSUP

The Company has an RSUP for eligible executives of the Company and subsidiaries to receive remuneration in the form of share-based payment transactions, whereby executives render services in exchange for the share awards.



The cost of equity-settled transactions (cost of RSUP) with employees is measured by reference to the fair value of the shares at the date at which they are granted. Fair value is determined based on the prevailing closing market price of the shares, further details of which are set forth in Note 16.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative cost of RSUP recognized for equity-settled transactions at each end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate at that date of the number of awards that will ultimately vest. The parent company statements of comprehensive income credit or expense (recognized as employee benefits and presented as RSUP expense) for a period represents the movement in cumulative cost of RSUP recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 17).

Long-term Employee Benefits

The Company’s LTIP grants cash incentives to eligible key executives of the Company and certain subsidiaries. Liability under the LTIP is determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and loss and past service costs. Past service costs and actuarial gains and losses are recognized immediately in the parent company statement of comprehensive income.

Foreign Currency-Denominated Transactions and Translations

The parent company financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of reporting period. All differences are credited or charged to operations.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or have substantively been enacted at the end of reporting period where the Company operates and generates taxable income.

Current tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and (b) in respect of taxable temporary differences associated



with investments in subsidiaries and associates and interest in joint a venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from MCIT and unused NOLCO, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized. Deferred tax, however, is not recognized when (a) it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and (b) in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in a joint venture, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax (commonly referred to as “Value Added Tax”), except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company statement of financial position.

Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the owners of the Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.



Diluted earnings per share attributable to owners of the Parent Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of ESOP and other dilutive instruments.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed in the notes to the parent company financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of reporting period (adjusting events), if any, are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

24. Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. The Company does not expect that the future adoption of the said pronouncements will not have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments clarify when information is material and incorporate some of the guidance in PAS 1 about immaterial information. In particular, the amendments clarify: (i) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and (ii) the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

- Amendments to PFRS 3, *Business Combinations*

The amendment revises the definition of a business. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

- *Revised Conceptual Framework for Financial Reporting*

The issued revised Conceptual Framework will be used in standard-setting decisions with immediate effect. Key changes include: (i) increasing the prominence of stewardship in the



objective of financial reporting; (ii) reinstating prudence as a component of neutrality; (iii) defining a reporting entity, which may be a legal entity, or a portion of an entity; (iv) revising the definitions of an asset and a liability; (v) removing the probability threshold for recognition and adding guidance on derecognition; (vi) adding guidance on different measurement basis, and (vii) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- PFRS 17, *Insurance Contracts*

PFRS 17 was issued as replacement for PFRS 4, *Insurance Contracts*. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: (i) discounted probability-weighted cash flows; (ii) an explicit risk adjustment; and (iii) a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The new standard was to take effect starting January 1, 2021 but was deferred to January 1, 2022.

