Maynilad Water Services, Inc. and Subsidiaries

(A Subsidiary of Maynilad Water Holding Company, Inc.)

Consolidated Financial Statements
December 31, 2019 and 2018
And Years Ended December 31, 2019, 2018 and 2017

and

Independent Auditor's Report

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Maynilad Water Services, Inc.

Opinion

We have audited the consolidated financial statements of Maynilad Water Services, Inc. (Maynilad) and Subsidiaries (the Group), a subsidiary of Maynilad Water Holding Company, Inc., which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated 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.

Emphasis of Matter

We draw attention to Note 1 to the financial statements which discusses that in 1997, Maynilad entered into a 25-year Concession Agreement with the Metropolitan Waterworks and Sewerage System (MWSS). In 2009, MWSS approved the 15-year extension of the Concession Agreement which effectively revised the expiration date of the Concession Agreement to 2037. On December 9, 2019, Maynilad received a letter from MWSS informing Maynilad that it was directed to perform a review of the Concession Agreement. As of the date of this report, the review of the Concession Agreement is still on going and Maynilad has not been advised of any amendments to the provisions of the Concession Agreement. 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. Our opinion is not qualified in respect of this matter.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

SYCIP GORRES VELAYO & CO.

Meynard A. Bonoen
Partner
CPA Certificate No. 0110259
SEC Accreditation No. 1739-A (Group A),
February 7, 2019, valid until February 6, 2022
Tax Identification No. 301-105-435
BIR Accreditation No. 08-001998-136-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8125217, January 7, 2020, Makati City

February 24, 2020

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 24 and 25)	**₱11,409,840**	₱11,533,048
Short-term investments (Notes 4, 24 and 25)	–	15,774
Trade and other receivables (Notes 5, 24 and 25)	**1,970,158**	1,674,114
Contract assets (Notes 14, 24 and 25)	**1,227,259**	1,185,047
Other current assets (Notes 6, 11, 24 and 25)	**1,515,441**	1,303,549
Total Current Assets	**16,122,698**	15,711,532
Noncurrent Assets		
Service concession assets (Notes 7, 10, 11, 15 and 22)	**97,818,292**	88,108,184
Property and equipment (Notes 2 and 8)	**1,827,137**	1,400,970
Goodwill (Notes 2 and 3)	–	244,925
Financial asset at fair value through other comprehensive income (Notes 9, 24 and 25)	**124,864**	124,864
Other noncurrent assets (Notes 3, 5, 6, 22, 24 and 25)	**3,910,335**	2,329,554
Total Noncurrent Assets	**103,680,628**	92,208,497
	₱119,803,326	₱107,920,029
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 2, 12, 14, 15, 17, 23, 24 and 25)	**₱17,949,216**	₱16,204,862
Current portion of interest-bearing loans (Notes 7, 11, 24 and 25)	**1,217,268**	354,218
Current portion of service concession obligation payable to MWSS (Notes 7, 10, 24 and 25)	**1,171,895**	1,038,764
Total Current Liabilities	**20,338,379**	17,597,844
Noncurrent Liabilities		
Interest-bearing loans - net of current portion (Notes 7, 11, 24 and 25)	**39,864,636**	34,051,382
Service concession obligation payable to MWSS - net of current portion (Notes 7, 10, 24 and 25)	**5,715,845**	6,011,850
Deferred credits (Notes 3, 7, 24 and 25)	**939,148**	732,093
Pension liability (Notes 3 and 17)	**519,753**	448,026
Deferred tax liabilities - net (Notes 16)	**512,650**	140,682
Customers' deposits (Notes 24 and 25)	**397,721**	349,479
Other noncurrent liabilities (Notes 2, 14 and 17)	**1,032,318**	307,058
Total Noncurrent Liabilities	**48,982,071**	42,040,570
Total Liabilities *(Carried Forward)*	**69,320,450**	59,638,414

	December 31	
	2019	2018
Total Liabilities *(Brought Forward)*	**₱69,320,450**	₱59,638,414
Equity		
Capital stock (Notes 1 and 13)	**4,546,982**	4,546,982
Additional paid-in capital (Note 13)	**10,032,877**	10,032,877
Treasury shares (Note 13)	**(53,939)**	(20,204)
Other comprehensive loss (Notes 9 and 17)	**(270,761)**	(190,216)
Other equity adjustments (Note 13)	**(309,220)**	(309,220)
Retained earnings (Note 13)		
Unappropriated	**9,536,937**	14,221,396
Appropriated	**27,000,000**	20,000,000
Total Equity	**50,482,876**	48,281,615
	₱119,803,326	₱107,920,029

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings per Share Value)

	Years Ended December 31		
	2019	2018	2017
OPERATING REVENUE (Note 14)			
Water and wastewater services:			
West zone	**₱19,423,908**	₱17,810,615	₱16,584,931
Outside west zone	**250,238**	262,353	223,938
Sewer services -			
West zone	**4,194,756**	3,851,972	3,601,349
Others	**123,499**	98,709	364,023
	23,992,401	22,023,649	20,774,241
COSTS AND EXPENSES			
Amortization of service concession assets (Note 7)	**3,229,646**	2,757,144	2,419,259
Salaries, wages and benefits (Notes 13, 15 and 17)	**2,334,868**	2,248,648	2,833,346
Utilities	**1,016,282**	989,539	1,024,322
Contracted services	**967,717**	884,734	925,258
Repairs and maintenance	**608,793**	677,596	456,425
Depreciation and amortization (Notes 2 and 8)	**606,235**	368,255	362,521
Taxes and licenses	**450,089**	257,539	223,569
Materials and supplies	**448,316**	351,779	292,967
Regulatory costs	**153,972**	126,814	110,138
Transportation and travel	**148,153**	130,546	128,035
Collection charges	**147,052**	147,361	145,269
Business meetings and representations	**142,639**	95,445	119,524
Advertising and promotion	**127,417**	79,897	59,861
Insurance	**53,186**	38,901	52,583
Rental (Notes 22 and 23)	**24,162**	167,476	157,992
Provision for (reversal of) expected credit losses or doubtful accounts (Note 5)	**(1,593)**	17,714	57,112
Others	**177,866**	303,476	127,425
	10,634,800	9,642,864	9,495,606
INCOME BEFORE OTHER INCOME (EXPENSES)	**13,357,601**	12,380,785	11,278,635
OTHER INCOME (EXPENSES)			
Revenue from rehabilitation works (Note 7)	**11,792,370**	11,583,983	11,488,693
Cost of rehabilitation works	**(11,792,370)**	(11,583,983)	(11,488,693)
Interest expense and other financing charges (Notes 2 and 18)	**(2,017,539)**	(2,120,518)	(1,778,026)
Interest income (Note 4)	**298,633**	184,939	94,442
Foreign exchange losses - net (Note 2)	**(1,730,119)**	(1,061,205)	(558,595)
Foreign currency differential adjustments (FCDA) (Note 2)	**1,691,021**	1,049,747	556,390
Others - net (Notes 8, 9 and 12)	**(1,268,645)**	(120,664)	(271,117)
	(3,026,649)	(2,067,701)	(1,956,906)
INCOME BEFORE INCOME TAX	**10,330,952**	10,313,084	9,321,729
PROVISION FOR INCOME TAX (Notes 16)			
Current	**2,613,278**	2,393,055	2,107,671
Deferred	**402,133**	552,252	361,085
	3,015,411	2,945,307	2,468,756
NET INCOME	**₱7,315,541**	₱7,367,777	₱6,852,973
Basic Earnings Per Share (Note 19)	**₱1,640.81**	₱1,652.53	₱1,537.06
Diluted Earnings Per Share (Note 19)	**₱1,610.61**	₱1,620.95	₱1,513.06

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱7,315,541**	₱7,367,777	₱6,852,973
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent period (Note 17) -			
Remeasurement gain (loss) on retirement plan	**(91,854)**	129,728	(376,996)
Income tax effect	**11,309**	(15,972)	38,306
	(80,545)	113,756	(338,690)
TOTAL COMPREHENSIVE INCOME	**₱7,234,996**	₱7,481,533	₱6,514,283

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES

(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Thousands)

	Capital Stock (Notes 1 and 13)	Additional Paid-in Capital (Note 13)	Treasury Shares (Note 13)	Other Comprehensive Income (Loss) (Notes 9 and 17)	Other Equity Adjustments (Note 13)	Retained Earnings (Note 13)		Total
						Unappropriated	Appropriated	
At December 31, 2018	₱4,546,982	₱10,032,877	(₱20,204)	(₱190,216)	(₱309,220)	₱14,221,396	₱20,000,000	₱48,281,615
Total comprehensive income for the year	–	–	–	(80,545)	–	7,315,541	–	7,234,996
Acquisition of treasury shares (Note 13)	–	–	(33,735)	–	–	–	–	(33,735)
Appropriation for capital expenditures (Note 13)	–	–	–	–	–	(7,000,000)	7,000,000	–
Dividends declared (Note 13)	–	–	–	–	–	(5,000,000)	–	(5,000,000)
At December 31, 2019	₱4,546,982	₱10,032,877	(₱53,939)	(₱270,761)	(₱309,220)	₱9,536,937	₱27,000,000	₱50,482,876

	Capital Stock (Notes 1 and 13)	Additional Paid-in Capital (Note 13)	Treasury Shares (Note 13)	Other Comprehensive Income (Loss) (Notes 9 and 17)	Other Equity Adjustments (Note 13)	Retained Earnings (Note 13)		Total
						Unappropriated	Appropriated	
At December 31, 2017	₱4,546,982	₱10,021,200	(₱207,669)	(₱303,972)	(₱89,874)	₱17,353,619	₱12,500,000	₱43,820,286
Total comprehensive income for the year	–	–	–	113,756	–	7,367,777	–	7,481,533
Acquisition of treasury shares (Note 13)	–	–	(20,204)	–	–	–	–	(20,204)
Issuance of ESOP shares (Note 13)	–	11,677	207,669	–	(219,346)	–	–	–
Reversal of appropriation (Note 13)	–	–	–	–	–	12,500,000	(12,500,000)	–
Appropriation for capital expenditures (Note 13)	–	–	–	–	–	(20,000,000)	20,000,000	–
Dividends declared (Note 13)	–	–	–	–	–	(3,000,000)	–	(3,000,000)
At December 31, 2018	₱4,546,982	₱10,032,877	(₱20,204)	(₱190,216)	(₱309,220)	₱14,221,396	₱20,000,000	₱48,281,615
At December 31, 2016	₱4,546,982	₱10,021,200	(₱32,672)	₱34,718	(₱309,220)	₱18,500,646	₱7,500,000	₱40,261,654
Total comprehensive income for the year	–	–	–	(338,690)	–	6,852,973	–	6,514,283
Acquisition of treasury shares (Note 13)	–	–	(174,997)	–	–	–	–	(174,997)
Cost of share-based payment (Note 13)	–	–	–	–	219,346	–	–	219,346
Appropriation for capital expenditures (Note 13)	–	–	–	–	–	(5,000,000)	5,000,000	–
Dividends declared (Note 13)	–	–	–	–	–	(3,000,000)	–	(3,000,000)
At December 31, 2017	₱4,546,982	₱10,021,200	(₱207,669)	(₱303,972)	(₱89,874)	₱17,353,619	₱12,500,000	₱43,820,286

See accompanying Notes to Consolidated Financial Statements.

MAYNILAD WATER SERVICES, INC. AND SUBSIDIARIES
(A Subsidiary of Maynilad Water Holding Company, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱10,330,952**	₱10,313,084	₱9,321,729
Adjustments for:			
Amortization of service concession assets (Note 7)	**3,229,646**	2,757,144	2,419,259
Interest expense and other financing charges (Note 18)	**2,017,539**	2,120,518	1,778,026
Depreciation and amortization (Note 8)	**606,235**	368,255	362,521
Impairment loss on goodwill and intangible assets (Notes 3 and 7)	**317,540**	43,157	–
Interest income (Note 4)	**(298,633)**	(184,939)	(94,442)
Pension cost (Note 17)	**143,690**	157,029	71,802
Dividend income (Note 9)	**(8,500)**	(13,500)	(10,000)
Unrealized foreign exchange losses (gains)	**13,064**	(4,057)	10,204
Provision for (reversal of) expected credit losses or doubtful accounts	**(1,593)**	17,714	57,112
Gain on sale of property and equipment (Note 8)	**(722)**	(10,093)	(4,238)
Cost of share-based payments (Note 13)	**–**	–	219,346
Impairment loss on AFS financial assets (Note 9)	**–**	–	7,523
Others	**(18,930)**	(22,941)	(13,391)
Operating income before working capital changes	**16,330,288**	15,541,371	14,125,451
Decrease (increase) in:			
Short-term investments	**15,774**	1,485,226	1,540,000
Trade and other receivables	**(221,543)**	935,704	(141,144)
Contract assets	**(42,212)**	(1,185,047)	–
Other current assets	**(262,486)**	1,018,642	115,210
Additions to service concession assets (Notes 7 and 26)	**(11,107,676)**	(11,655,981)	(11,513,654)
Increase (decrease) in:			
Trade and other payables	**1,475,699**	2,942,380	2,789,383
Customers' deposits	**90,039**	74,392	95,842
Other noncurrent liabilities	**365,258**	97,843	197,618
Cash generated from operations	**6,643,141**	9,254,530	7,208,706
Contributions to pension fund (Note 17)	**(163,815)**	(160,738)	(171,312)
Benefits paid out of operating funds (Note 17)	**–**	(13,353)	–
Interest received	**302,761**	174,356	99,926
Income taxes paid	**(2,544,366)**	(2,191,282)	(2,103,838)
Net cash provided by operating activities	**4,237,721**	7,063,513	5,033,482
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Note 8)	**(727,207)**	(362,384)	(522,854)
Increase in other noncurrent assets	**(1,982,597)**	(111,732)	(609,743)
Dividends received (Note 9)	**8,500**	13,500	10,000
Proceeds from sale of property and equipment (Note 8)	**4,514**	12,010	10,152
Net cash used in investing activities	**(2,696,790)**	(448,606)	(1,112,445)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the availment/drawdown of interest-bearing loans (Note 11)	**7,405,439**	25,582,742	2,077,784
Payments of:			
Dividends (Notes 13 and 27)	**(4,999,345)**	(2,999,548)	(3,000,578)
Service concession obligation payable to MWSS (Notes 10 and 27)	**(1,673,491)**	(1,007,342)	(1,007,387)
Interest-bearing loans (Notes 11 and 27)	**(372,929)**	(18,487,067)	(1,808,101)
Lease liability	**(139,006)**	–	–
Interest paid (Note 27)	**(1,851,072)**	(1,668,934)	(1,514,018)
Acquisition of treasury shares (Note 13)	**(33,735)**	(20,204)	(174,997)
Net cash provided by (used in) financing activities	**(1,664,139)**	1,399,647	(5,427,297)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(123,208)**	8,014,554	(1,506,260)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11,533,048**	3,518,494	5,024,754
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱11,409,840**	₱11,533,048	₱3,518,494

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Number of Shares, Earnings per Share Value and Unless Otherwise Specified)

1. Corporate Information and Status of Operations

General
Maynilad Water Services, Inc. (Maynilad or Parent Company) was incorporated on January 22, 1997 in the Philippines primarily to bid for the operation of the privatized system of waterworks and wastewater services of the Metropolitan Waterworks and Sewerage System (MWSS) for Metropolitan Manila.

On October 26, 2011, the Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation to amend its primary purpose to include the provision of allied and ancillary services and undertaking such other activities incidental to its secondary purposes.

Effective Interest in Maynilad
MWHCI and Maynilad Subscription Agreements. Pursuant to the Subscription Agreements executed between Maynilad and Maynilad Water Holding Company, Inc. (MWHCI), a company incorporated in the Philippines and a 51.27% owned subsidiary of Metro Pacific Investments Corporation (MPIC), MWHCI subscribed to 134,022 common shares of Maynilad at par value on December 28, 2012. Such shares, however, were issued only on February 13, 2013 and together with the additional subscription to 402,067 common shares increased MWHCI ownership interest in Maynilad to 92.85% as at December 31, 2013.

MCNK JV Corporation and MWHCI Subscription Agreements. On December 28, 2012, a Subscription Agreement between MCNK JV Corporation (MCNK, a subsidiary of a Japan-listed entity Marubeni Corp.) and MWHCI was executed, wherein MCNK subscribed to 169,617,682 common shares of MWHCI. On February 13, 2013, MCNK and MWHCI entered into another Subscription Agreement for the subscription by MCNK to an additional 508,853,045 common shares resulting to 21.54% interest in MWHCI. On the same date, MPIC purchased 154,992,852 common shares of stock of MWHCI from DMCI Holdings, Inc. (DMCI, a listed Philippine entity) resulting in 51.27% and 27.19% ownership interest as at December 31, 2013 by MPIC and DMCI, respectively.

As at December 31, 2019 and 2018, Maynilad is a 92.85% owned subsidiary of MWHCI. In addition, MPIC directly owns 5.19% of Maynilad thereby having effective ownership interest of 52.80%.

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) of MPIC as at December 31, 2019 and 2018. The reduction in the ownership interest in 2016 resulted from GT Capital Holdings, Inc.'s (GTCHI) acquisition of 1.3 billion MPIC common shares from MPHI on May 27, 2016. On the same date, MPIC entered into a Share Subscription Agreement with GTCHI for the subscription by GTCHI of 3.6 billion common shares in MPIC. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings in MPIC is estimated at 55.0% as at December 31, 2019.

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 40.0% equity interest in EIH and an 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 Parent Company is MWSS Compound, Katipunan Road, Balara, Quezon City.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 24, 2020.

Concession Agreement

On February 21, 1997, Maynilad entered into a Concession Agreement with the MWSS, a government-owned and controlled corporation organized and existing pursuant to Republic Act (RA) No. 6234 (the Charter), as clarified and amended, with respect to the MWSS West Service Area. The Concession Agreement sets forth the rights and obligations of Maynilad throughout the concession period. The MWSS Regulatory Office (RO) acts as the regulatory body of the Concessionaires [Maynilad and the East Concessionaire - Manila Water Company, Inc. (Manila Water, or the Other Operator)].

Under the Concession Agreement, MWSS grants Maynilad (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required (except certain retained assets of MWSS) to provide water and wastewater services in the West Service Area for an extended period of 40 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2037 (Expiration Date) or the early termination date as the case may be. The 15-year extension of the expiry of the Concession Agreement was approved by the MWSS in 2009 (see Notes 7, 10 and 22).

Maynilad is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. The legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the Expiration Date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest in MWSS.

Fourth Rate Rebasing

Rate Rebasing: 2013-2017

- *2013-2017 Rate Rebasing - Domestic Arbitration.* MWSS released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 (Fourth Rate Rebasing Period) reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m.) or ₱0.29 per cu.m. over the next five years.

  On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel. This Dispute Notice is a referral to the Appeals Panel for Major Disputes of the dispute between Maynilad, on the one hand, and MWSS and the RO, on the other. The Dispute relates to the determination by the RO, in accordance with Section 9.4.2 of the Concession Agreement, of the Rebasing Adjustment as embodied in Resolution No. 13-010-CA.

On December 17, 2013, the RO released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and Foreign Currency Differential Adjustments (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued its arbitral award.

On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. ("First Award"). This increase has effectively been reduced to ₱3.06 per cu.m, following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge. To mitigate the impact of the tariff increase on its customers, Maynilad offered to stagger its implementation over a three-year period.

The First Award, being final and binding on the parties, Maynilad asked the MWSS to cause its Board of Trustees to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.

However, the MWSS and the RO have chosen, over Maynilad's repeated objections, to defer the implementation of the First Award despite it being final and binding on the parties. In its letter dated February 9, 2015, the MWSS and RO, who received their copy of the First Award on January 7, 2015, informed Maynilad that they have decided to await the final outcome of their arbitration with the other concessionaire, Manila Water, before making any official pronouncements on the applicable resulting water rates for the two concessionaires.

- *2013-2017 Rate Rebasing - International Arbitration.*

On February 20, 2015, Maynilad wrote the Philippine Government, through the Department of Finance (DOF), to call on the Undertaking which the Republic of the Philippines (ROP) issued in favor of Maynilad on July 31, 1997 and March 17, 2010.

On March 9, 2015, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking. The letters dated February 20 and March 9, 2015 are collectively referred to as the "Demand Letters". Maynilad demanded that it be paid, immediately and without further delay, the ₱3.4 billion in revenue losses that it had sustained as a direct result of the MWSS's and the RO's refusal to implement its correct Rebasing Adjustment from January 1, 2013 (the commencement of the Fourth Rate Rebasing Period) to February 28, 2015.

On March 27, 2015, Maynilad served a Notice of Arbitration and Statement of Claim upon the ROP, through the DOF. Maynilad gave notice and demanded that the ROP's failure or refusal to pay the amounts required under the Demand Letters be, pursuant to the terms of the Undertaking, referred to arbitration before a three-member panel appointed and conduct proceedings in Singapore in accordance with the 1976 United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

On April 21, 2015, the MWSS Board of Trustees in its Resolution No. 2015-004-CA dated March 25, 2015 approved to partially implement the First Award of a tariff adjustment of ₱0.64 per cu.m. which, net of the ₱1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36 per cu.m. as opposed to the First Award of ₱3.06 per cu.m. tariff adjustment, net of CERA. For being contrary to the First Award as well as the provisions of the Concession Agreement, Maynilad did not implement this tariff adjustment.

On May 14, 2015, the MWSS Board of Trustees in its Resolution No. 2015-060-RO approved a 7.52% increase in the prevailing average basic charge of ₱31.25 per cu.m. or an upward adjustment of ₱2.35 per cu.m. as Consumer Price Index adjustment. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or ₱1.35 per cu.m.

In the fourth quarter of 2015, the Arbitral Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking and to update its claim. Evidentiary hearings were completed in December 2016.

On July 24, 2017, the Arbitral Tribunal unanimously upheld the validity of Maynilad's claim against the Undertaking Letter issued by the ROP, through the DOF, to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period ("Second Award"). The Tribunal ordered the ROP to reimburse Maynilad the amount of ₱3.4 billion for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination.

Subsequently, Maynilad agreed with the corrected computation by the ROP of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016).

Starting April 22, 2017, adjusted water rates which included increase in the FCDA, as well as an adjustment to cover the 1.9% Consumer Price Index were implemented.

On February 13, 2018, Maynilad received an email from the ROP's Singapore counsel advising that the Republic has filed an application with the High Court of Singapore to set aside the Second Award dated July 24, 2017 (the "Setting Aside Application").

An electronic copy of the Setting-Aside Application was served on Maynilad's Singapore counsel on February 15, 2018.

The ROP also filed an interlocutory application for sealing which required, among others, that the proceedings be heard in-camera or otherwise than in open court, that there to be no publication of the identities of the parties to the proceedings or of any matter that would reasonably enable the public to deduce the identities of the parties.

On September 4, 2018, immediately following the conclusion of the hearings before the Singapore High Court, the presiding Justice dismissed the Republic's Setting Aside Application and awarded $40,000 in favor of Maynilad by way of costs. The Republic did not appeal the decision to the Singapore Court of Appeal within the prescribed 30-day period and so, the dismissal of the Setting Aside Application became final on October 4, 2018.

As at December 31, 2018, Maynilad has an outstanding claim against the ROP, through the DOF, pursuant to the arbitral and court decisions to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period (2013 to 2017) in the amount of ₱3.18 billion, with costs of litigation in the amount of $40,000. The ₱3.18 billion refers to Maynilad's aggregate foregone revenues from March 11, 2015 to August 31, 2016, with cost of money as of August 31, 2016.

As at December 31, 2017, Maynilad's aggregate foregone revenues, with cost of money as of the same date is ₱11.4 billion.

Maynilad computed a rebasing adjustment for the Fifth Rate Rebasing Period (2018 to 2022) based on an Opening Cash Position as of December 31, 2017, which included the foregone revenues from the Fourth Rate Rebasing Period. Hence, as of December 31, 2018, the aggregate foregone revenues remain at ₱11.4 billion.

On February 11, 2019, Maynilad wrote the DOF about the amount of its updated claim for compensation by the ROP, which is ₱6.7 billion, with a request that the DOF order the MWSS and the RO to meet with Maynilad to agree and discuss a proposed settlement of the updated claim.

On October 1, 2019, the ROP paid Maynilad approximately ₱2.7 million (equivalent of S$71,900) pursuant to the September 4, 2018 order of the High Court to pay Maynilad for its costs and disbursements in respect of the Setting Aside Application.

On January 2, 2020, Maynilad executed the Release From and Waiver of Claim on Arbitral Award ("Waiver") in favor of the ROP. In its Waiver, Maynilad waived its claim against the ROP for ₱6.7 billion which represents Maynilad's foregone revenues for the period March 11, 2015 to December 31, 2017.

As of February 24, 2020, the DOF has yet to respond to Maynilad's letter.

- *2013-2017 Rate Rebasing - Domestic Court Actions.*

In a decision dated August 30, 2017, the Regional Trial Court, Branch 93 of Quezon City ("RTC") granted the Petition for Confirmation and Enforcement of the First Award which petitioner, Maynilad, filed in July 2015 (the "Decision") following the refusal of MWSS and the RO to implement the First Award. As mentioned above, the First Award upheld the 13.41% Rebasing Adjustment that Maynilad proposed for the Fourth Rate Rebasing Period.

The MWSS filed a Motion for Reconsideration of the Decision ("MR"). The RTC denied the MR in an Order dated November 23, 2017. Subsequently, MWSS filed a Petition for Review with the Court of Appeals ("CA") on December 27, 2017 asking for a reversal of the RTC's Decision. Maynilad filed its Comment to the Petition for Review and in that Comment, Maynilad prayed for the dismissal of the Petition for Review and for the immediate enforcement of the Decision and the First Award.

As a consequence of the issuance of the Decision, Maynilad filed, on October 18, 2017, a Motion for Execution of the First Award ("MotEx"). However, the RTC, on February 6, 2018, denied the MotEx.

In its decision dated May 30, 2018, the CA denied MWSS's Petition for Review, and affirmed the RTC Decision and Order confirming the Final Award ("CA Decision").

On June 14, 2018, Maynilad filed with the CA a Motion for Clarification (on the CA Decision) for the CA to confirm that the RTC and CA Decisions are immediately executory, and that MWSS should therefore implement the Final Award without any further delay ("Motion for Clarification").

In the meantime, on July 11, 2018, Maynilad received MWSS's Petition for Review on Certiorari with the SC (under Rule 19.37 of the Special Rules of Court on Alternative Dispute Resolution) with Manifestation dated July 4, 2018 (the "Petition for Review"). MWSS prayed that the SC (i) reverse and set aside the CA Decision, and (ii) grant MWSS's counter-petition and declare MWSS as legally released or excused from implementing or enforcing the Final Award or, in the alternative, declare the Final Award as unenforceable.

On July 30, 2018, the CA issued a Resolution noting, without action, the Motion for Clarification that Maynilad filed "in view of the pending Petition for Review" which the MWSS filed with the SC.

On November 19, 2018, the Second Division of the SC ordered the consolidation of the Petition with (five) consolidated petitions pending before the SC En Banc (the "Consolidated Cases"), which Consolidated Cases seek to, among other things, have the Concession Agreement nullified. On January 11, 2019, Maynilad filed a Motion to De-consolidate the Petition from the Consolidated Cases.

On April 5, 2019, Maynilad filed a Reiterative Motion to De-Consolidate and a Reiterative Motion to Set the Consolidated Cases for Oral Arguments.

On June 18, 2019, the Supreme Court issued a Notice which, among other things, denied, for lack of merit (with no explanation whatsoever), Maynilad Motion to De-Consolidate. Maynilad, through counsel, received the Notice on October 11, 2019. The Consolidated Petitions remain pending before the SC.

As at February 24, 2020, the SC has yet to decide on MWSS's Petition for Review on Certiorari and Maynilad's Motion to De-consolidate the Petition from the Consolidated Cases.

Fifth Rate Rebasing

Rate Rebasing: 2018-2022

On March 31, 2017, Maynilad submitted a five-year business plan to the RO for the new rate rebasing covering the years 2018 to 2022 with its proposed rate adjustments.

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting Maynilad a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the corporate income tax ("CIT") component to which Maynilad is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Maynilad's tariff is subject to the SC's resolution of MWSS's Petition for Review.

To preserve its right to the CIT which has already been adjudged in its favor in the First Award, and pursuant to Article 12 of the Concession Agreement, Maynilad, on October 12, 2018, filed a Dispute Notice, signaling the start of another arbitration. However, on November 9, 2018, MWSS and Maynilad filed a joint application with the Appeals Panel to suspend proceedings to give the parties time to try to settle their differences amicably.

The rate adjustment for January 1, 2020 was not implemented.

Concession Agreement Review and Amendment
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 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 the MWSS was directed to perform a review of the Concession Agreement.

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.

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.

As of February 24, 2020, Maynilad is awaiting the draft of the amendments to its Concession Agreement. 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.

Supreme Court Decision on the Philippine Clean Water Act
On September 17, 2019, Maynilad, through its external counsel, received a copy of the Supreme Court En Banc decision, dated August 6, 2019, in the case of Maynilad vs The Secretary of the Department of Environment and Natural Resources, et al (the "Decision").

The Supreme Court affirmed, with modifications, the decisions of the Court of Appeals finding the Concessionaires and MWSS guilty of violating Section 8.

For violating Section 8, the Supreme Court held each of the Concessionaires jointly and severally liable with the MWSS for ₱921.5 million for the period May 7, 2009 (the day following the lapse of the five-year period provided in Section 8) to August 6, 2019, the date of the Decision's promulgation. The fine is to be paid within 15 days from the time the Decision becomes final. In addition, MWSS and the Concessionaires will be liable for the initial amount of ₱322,102.00 a day, subject to a further 10% increase every two years, pursuant to Section 28 of the CWA, until full compliance with the mandate of Section 8. A 6% interest will be imposed on the total amount of the fines should there be a delay in its payment.

On October 2, 2019, Maynilad filed a Motion for Reconsideration of the Decision with the Supreme Court. As at February 24, 2020, the SC has yet to decide on Maynilad's Motion for Reconsideration.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency, and all amounts are rounded to the nearest thousand (₱000), except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS include statements named PFRS and Philippine Accounting Standards (PAS), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) and Philippine Interpretations Committee (PIC).

Basis of Consolidation
The accompanying consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries (collectively referred to as the "Company").

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee, if and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The financial statements of Maynilad and the following subsidiaries that it controls comprise the consolidated financial statements.

Subsidiaries	Nature of Business
Philippine Hydro, Inc. (Phil Hydro)	Bulk water supply and water distribution (outside the West Service Area)
Amayi Water Solutions Inc. (Amayi)	Water distribution (outside the West Service Area)

All subsidiaries are wholly-owned and incorporated in the Philippines.

Phil Hydro. On August 3, 2012, the Parent Company through a Share Purchase Agreement with a third party acquired 100% ownership interest in Phil Hydro.

Phil Hydro is engaged in waterworks construction, engineering and engineering consulting services. Phil Hydro is currently undertaking water supply projects outside Metro Manila in line with the thrusts of the government under Presidential Decree No. 198, also known as the Provincial Water Utilities Act of 1973, which mandates the local government units to create and operate local water utilities and provide potable water to the public.

Phil Hydro has existing 25-year Bulk Water Supply Agreements (BWSAs) with various provincial municipalities outside the West Service Area and a Memorandum of Agreement with certain provincial municipality for the construction and operation of water treatment facilities for water distribution services.

Amayi. Amayi is incorporated for the purpose of operating, managing, maintaining and rehabilitating waterworks, wastewater and sanitation system and services outside the Concession Area.

On February 19, 2019, Amayi entered into a concession agreement with the Municipality of Boac, Marinduque. The concession agreement shall be effective for a period of 25 years beginning on the commencement date.

On January 23, 2020, the Office of the Boac Waterworks Operation of the Municipality of Boac, Marinduque notified Amayi of the order of their newly elected Municipal Mayor calling for the review and further study of the concession agreement. On February 20, 2020, Amayi was informed through a letter from the Municipal Mayor that a joint legislative-executive panel has been created to review and re-examine the concession agreement, thus deferring the commencement date.

As at February 24, 2020, the Municipality of Boac, Marinduque has yet to fulfill their obligation under the concession agreement that are part of the contract's conditions precedent.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies. All significant intercompany balances, transactions, income and expense and profits and losses from intercompany transactions are eliminated in full upon consolidation.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation 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 recognize most leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

  The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  The effect of adoption PFRS 16 as at 1 January 2019 is, as follows:

	Increase (Decrease)
Asset	
Right-of-use assets	₱325,559
Liability	
Lease liabilities	325,559

  Nature of the effect of adoption of PFRS 16

  The Company has various lease agreements for its building, office spaces and service vehicles. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2 for the accounting policy prior to January 1, 2019.

  Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

  Leases previously classified as finance leases

  Prior to date of initial application of PFRS 16, the Company had no identified leases previously classified as finance lease under PAS 17.

Leases previously accounted for as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets for most leases were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application and low-value assets.

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of ₱325.6 million were recognized and presented as part of "Property and equipment" account. This represent solely operating leases which qualified for recognition under PFRS 16.
- Lease liabilities of ₱325.6 million were recognized.

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 ranged from 5.60% to 5.69%.

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

Operating lease commitments as at December 31, 2018	**₱532,491**
Weighted average incremental borrowing rate as at January 1, 2019	5.60% - 5.69%
Discounted operating lease commitments at January 1, 2019	**499,334**
Less: Commitments relating to short term leases and low value assets	(173,775)
ROU assets and lease liabilities recognized as at January 1, 2019	**₱325,559**

Due to the adoption of PFRS 16, the Company's income before other income or expenses in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

Right-of-use assets are presented as part of "Property and equipment" and lease liabilities are reported under "Trade and other payables" and "Other noncurrent liabilities" accounts for the current portion and noncurrent portion, respectively, in the Company's consolidated statements of financial position.

For the year ended December 31, 2019, the Company recognized depreciation charge related to right-of-use assets, interest accretion on lease liability and deferred tax liability amounting to ₱141.7 million, ₱21.7 million and ₱5.9 million, respectively. Right-of-use assets, net of depreciation charge amounted to ₱303.5 million, and total lease liability amounted to ₱306.2 million as at December 31, 2019 (see Notes 8, 18 and 22).

- 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; and
  - How an entity considers changes in facts and circumstances.

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

  If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Based on the Company's assessment, it has no material uncertain tax treatments, accordingly, the adoption of this Interpretation has no significant impact on the consolidated financial statements.

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Standards, Amendments and Interpretations Issued but Not Yet Effective
The Company did not early adopt the following pronouncements issued but not yet effective. Except as otherwise indicated, the Company does not expect the adoption of these pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed as incurred and included in costs and expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with the changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current Versus Non-current Classification
The Company presents assets and liabilities in the consolidated statements of financial position based on current/non-current 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 non-current.

A liability is current when:

- It is expected to be settled in the 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 non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Fair Value Measurement
The Company measures financial instruments at fair value at each reporting date.

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 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 consolidated 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; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Company's management determines the policies and procedures for both recurring and nonrecurring fair value measurements.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Fair value measurement disclosures are presented in Note 25.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks is stated at face value and earns interest at respective bank deposit rates. 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 from the date of acquisition and that are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments are investments with maturities of more than three months to one year.

Financial Instruments – Effective Prior to January 1, 2018

Date of Recognition

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Accounts and notes receivables are recognized when cash is received by the Company or advanced to the borrowers and counterparties.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities valued at fair value through profit or loss, the initial measurement of financial instruments includes transaction costs.

The Company has no financial assets at FVPL and held-to-maturity (HTM) investments and financial liabilities at FVPL as January 1, 2018.

Subsequent Measurement

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. 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 in finance income in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income in finance costs for loans and receivables. Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

This category includes the Company's cash and cash equivalents, short-term investments, trade and other receivables, and sinking fund, deposits, and miscellaneous deposits shown as part of "Other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position (see Notes 4, 5 and 6).

AFS financial assets
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited to the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statements of income in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. The Company's AFS financial assets are included in Note 9.

Loans and borrowings and payables
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 in the consolidated statements of income.

This category includes trade and other payables (excluding statutory liabilities), interest-bearing loans, service concession obligation payable to MWSS and customers' deposits presented in the consolidated statements of financial position (see Notes 10, 11 and 12).

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Instruments – Effective Starting January 1, 2018

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing the financial assets. The Company classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost;
- financial assets measured at fair value through profit or loss;
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss; and
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

The Company has no financial assets at FVPL and FVOCI where cumulative gains or losses previously recognized are reclassified to profit or loss as at December 31, 2019 and 2018.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model
The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument.

The Company's business model refers to how it manages its financial assets in order to generate cash flows. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) 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. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "provision for expected credit losses" account in the consolidated statement of income.

This category includes cash and cash equivalents, short-term investments, trade and other receivables, deposits and sinking fund and miscellaneous deposits.

Financial assets at fair value through other comprehensive income
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the ECL model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Company's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

The Company's financial assets at FVOCI is their unquoted equity investments that are included in Note 9 as at December 31, 2019 and 2018.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

This category includes trade and other payables (excluding statutory payables), interest-bearing loans, service concession obligation payable to MWSS, customers' deposits and lease liabilities.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Company has no financial liabilities at FVPL as at December 31, 2019 and 2018.

Reclassifications of Financial Instruments – Effective Starting January 1, 2018
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- the Company transfers the contractual rights to receive the cash flows of the financial asset in a transaction in which it either (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and the Company has not retained control.

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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

Modification of contractual cash flows
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the consolidated statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

Financial liabilities
A financial liability is derecognized when the obligation under the liability has expired or is discharged or has cancelled. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets – Effective Prior to January 1, 2018
The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Provision for doubtful accounts".

Interest income continues to be recognized based on the original effective interest rate of the asset. Trade receivable, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any difference between loss estimates and actual loss experience.

AFS financial assets
For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than six (6) months for quoted equity securities. The Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the "Others - net" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Others - net" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of Financial Assets – Effective Starting January 1, 2018
PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Company recognizes ECL for the following financial assets that are not measured at FVPL:

- debt instruments that are measured at amortized cost;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL – not credit-impaired
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Lifetime ECL – credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade", or when the exposure is less than 30 days past due.

Determining the stage for impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to "Trade and other receivables".

Service Concession Assets

Parent Company. The Parent Company accounts for its concession arrangement with MWSS in accordance with IFRIC 12, *Service Concession Arrangement*, under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Concession Agreement, the Parent Company is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services. The legal title to these assets shall vest in MWSS at the end of the concession period.

Phil Hydro. Phil Hydro accounts for its Bulk Water Supply Agreements in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service.

Service concession assets are recognized to the extent that the Company receives a license or right to charge the users of the public service. The service concession assets pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Company. The Parent Company's service concession assets is amortized using unit of production (UOP) method over the projected total billable water volume during the remaining term of the service concession arrangement. Phil Hydro amortizes its service concession assets using straight-line method over the terms of the Bulk Water Supply Agreements and Memorandum of Agreement.

The Company recognizes and measures revenue from rehabilitation works using the percentage-of-completion method. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated physical completion of the contract work.

Cost of rehabilitation works, which includes all direct materials, labor costs, and those indirect costs related to contract performance, is recognized consistent with the revenue recognition method applied. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability including those arising from contract penalty provisions and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the revisions are determined.

Subsequent costs and expenditures related to the concession agreement are recognized as additions to service concession assets at fair value of obligations at drawdown date and cost of rehabilitation works.

Service Concession Assets not yet available for use
Under IFRIC 12, if the operator provides construction or upgrade services the consideration received or receivable by the operator shall be recognized in accordance with PFRS 15. The consideration may be rights to; (a) a financial asset, or (b) an intangible asset. The operator shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. However, both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with PFRS 15.

Under the concession agreement with MWSS, the Company is obligated to render rehabilitation projects. Revenue from the rehabilitation works is recognized as revenue as the service is being performed using the percentage-of-completion method based on the estimated physical completion of the contract work.

For service concession assets not yet available for use as of reporting date, this is to be recognized as part of contract assets. These contract assets are tested for impairment similar with other non-financial assets under PAS 36, *Impairment of Assets*. These contract assets will form part of the service concession assets once completed.

Leases – Effective Starting January 1, 2019

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 to its short-term leases of machinery and equipment (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 leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., ₱250,000). 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.

Leases – Effective Prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after the inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal of or extension of the arrangement;
(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 fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

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

A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease.

Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term (see Note 22).

Property and Equipment
The Company's property and equipment consist of land and land improvements, instrumentation tools and other equipment, office furniture fixtures and equipment, transportation equipment and right-of-use assets that do not qualify as investment properties.

Property and equipment, except land, are stated at cost less accumulated depreciation and any impairment in value (see policy on "Impairment of Nonfinancial Assets"). Land is stated at cost.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income 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 costs of property and equipment.

Effective January 1, 2019, it is the Company's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. 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). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land improvements	5 to 25 years
Instrumentation, tools and other equipment	5 years
Office furniture, fixtures and equipment	5 years
Transportation equipment	5 years
Right-of-use assets - land and building	2 to 14 years
Right-of-use assets - transportation equipment	2 to 5 years

The Company computes for depreciation charges based on the significant component of the asset.

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

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to current operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 consolidated statements of income in the year the item is derecognized.

Impairment of Nonfinancial Assets

An assessment is made at each reporting date to determine whether there is any indication of impairment of any nonfinancial assets (i.e., property and equipment and service concession assets), or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the Company estimates the asset's or CGU's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market 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.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from synergies of the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- Not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained. Impairment loss with respect to goodwill is not reversed.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statements of income.

Foreign Currency-Denominated Transactions
Foreign exchange differentials arising from foreign currency transactions are credited or charged to operations. As approved by the MWSS Board of Trustees under Amendment No. 1 of the Concession Agreement, the following will be recovered through billings to customers:

- Restatement of foreign currency-denominated loans;
- Excess of actual concession fee payments over the amounts of concession fee translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise;
- Excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at drawdown date rates; and
- Excess of actual payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rates on settlement dates over the amount of other financing charges translated at drawdown date rates.

In view of the automatic reimbursement mechanism, the Parent Company recognizes deferred FCDA (included as part of "Other noncurrent assets" or "Deferred credits" accounts in the consolidated statements of financial position) with a corresponding credit (debit) to FCDA revenues for the unrealized foreign exchange losses (gains) which have not been billed or which will be refunded to the customers. The write-off of the deferred FCDA or reversal of deferred credits pertaining to concession fees will be made upon determination of the new base foreign exchange rate, which is assumed in the business plan approved by the RO during the latest Rate Rebasing exercise, unless indication of impairment of deferred FCDA would be evident at an earlier date.

Deferred FCDA and deferred credits are calculated as the difference between the drawdown or rebased rate and the closing rate. These are presented as part of "Other noncurrent assets" and "Deferred credits" accounts in the consolidated statements of financial position, respectively.

Customers' Deposits
Customers' deposits are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest method. Accretion of customers' deposits is included under "Interest expense and other financing charges" account in the consolidated

statements of income. The discount is recognized as deferred credits and amortized over the remaining concession period using the effective interest method. Amortization of deferred credits is included as part of "Other income" account in the consolidated statements of income.

Assets Held in Trust
Assets which are owned by MWSS but are used in the operations of the Parent Company under the Concession Agreement are not reflected in the consolidated statements of financial position but carried as Assets Held in Trust, except for certain assets transferred to the Parent Company as mentioned in Note 23.

Revenue Recognition – Effective Prior to January 1, 2018
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates and value-added tax (VAT). Water and wastewater are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at the end of the month are estimated and accrued. These estimates are based on historical consumption of the customers.

Revenue from water and wastewater services is recognized upon supply of water to the customers and when the related services are rendered. Billings to customers consist of the following:

a. Water charges:

   - Basic charges represent the basic tariff charged to consumers for the provision of water services.
   - FCDA is the tariff mechanism that allows the Parent Company to recover foreign exchange losses or to compensate foreign exchange gains on a current basis beginning January 1, 2002 until the Expiration Date.
   - Maintenance service charge represents a fixed monthly charge per connection. The charge varies depending on the meter size.

b. Environmental charge (included as part of revenue from sewer/sanitation services) represents 20% of the water charges, except for maintenance charge.

c. Sewerage charge represents 20% of the water charges, excluding maintenance service charge, for all consumers connected to the Company's sewer lines. Effective January 1, 2012, pursuant to RO Resolution No. 11-007-CA, sewerage charge applies only to commercial and industrial customers connected to sewer lines.

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

When the Company provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Company accounts for revenue and costs relating to operation services based on the percentage of completion (shown as "Revenue from rehabilitation works" and "Cost of rehabilitation works" accounts in the consolidated statements of income).

Revenue from Contracts with Customers – Effective Starting January 1, 2018
The Company is in the business of providing water services to its customers within its concession area. Revenue from contracts with customers is recognized when services are transferred to the customer at the amount that amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring hem to the customer.

Water and Wastewater Services
Revenue from water and wastewater services is recognized upon the supply of water to the customers and when the related services are rendered. The performance obligations are satisfied over-time and payment is generally due seven days from invoicing.

- *Connection and installation fees*

  The connection and installation fees are non-refundable upfront fees which do not provide a separate service. The connection and installation fees, along with the water and wastewater services are treated as one performance obligation. The connection and installation fees are to be recognized over the remaining concession period.

- *Contract costs*

  The Company recognizes costs incurred in fulfilling contracts with customers that are directly associated with the contract as an asset if those costs are expected to be recoverable and record them in "Other current assets and "Other noncurrent assets" account in the consolidated statements of financial position.

  Costs incurred in fulfilling contracts with customers comprise of costs for connection and installation of the customers to the Company's water system. These costs are recognized as an asset to the extent they are considered recoverable to the extent of the actual costs incurred. The related asset is amortized over the remaining concession period during the satisfaction of performance obligations of the water and wastewater services.

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identifying performance obligations*

  The Company provides water and wastewater services to its customers. Water and wastewater services are composed of water service, wastewater service connection and installation, maintenance and sanitation services. The Company has determined that the services are to be bundled and is considered as one performance obligation since the services are highly interrelated and highly interdependent with one another.

- *Determining the transaction price*

  The Company determined that the transaction price is the total consideration in the contract.

- *Determining the timing of satisfaction of connection and installation services*

  The Company concluded that the revenue from water and wastewater services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Company. As another entity would not need to re-perform the services that the Company has provided to date, this demonstrates that the customer simultaneously receives and consumes the benefits of the Company's performance as it performs. The services are on-going and is completed when the customer is disconnected from the Company's water system.

Contract Asset
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade Receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Contract Liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Cost and Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses are recognized in the consolidated statements of income as incurred.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are substantially complete. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Equity
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and fair value of consideration received in excess of par value are recognized as additional paid-in capital.

Treasury shares, which represent own equity instruments that are reacquired, are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or the cancellation of the Parent Company's own equity instruments.

Retained earnings represent the Company's accumulated earnings, net of dividends declared.

Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT except:

- When the VAT 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; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of current VAT recoverable from and payable to the tax authority is included as part of "Other current assets" and "Trade and other payables" accounts in the consolidated statements of financial position.

Income Taxes

- *Current Income Tax*

  Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

- *Deferred Income Tax*

  Deferred income tax is provided, using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When 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 or loss; and

- With respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when 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, the carry-forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused tax losses from net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry-forward benefits of MCIT and NOLCO can be utilized, except:

- 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 or loss; and

- With respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 profit will be available to allow all or part of the deferred tax assets 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 profit will allow all or part of the deferred tax assets to be recovered.

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

Deferred tax relating to items recognized in other comprehensive income account is included in the consolidated statements of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only 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.

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 obligations and a reliable estimate can be made of the amount of the obligation. When the Company expects a provision to be reimbursed, such as 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 consolidated statements of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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.

Pension Cost

The Parent Company has a funded, noncontributory defined benefit plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following: (1) service cost; (2) net interest on the net defined benefit liability or asset; and (3) remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as part of "Salaries, wages and benefits" account in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Long-term Employee Benefits

The Long Term Incentive Plan (LTIP) of the Parent Company grants cash incentives to eligible employees of the Parent Company. Liability under the LTIP is determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and losses, and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long-term employee benefit liability is determined based on the present value of the defined benefit obligation (using discount rate based on government bonds) vested at the end of the reporting period.

Share-based Payments

Employees of the Parent Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions) under the Employee Stock Option Plan (ESOP).

The cost of equity-settled transactions is determined as the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in other equity adjustments, over the period in which the performance and/or service conditions are fulfilled, and is shown as part of "Salaries, wages and benefits" account in the consolidated statements of income.

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest.

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

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms not been modified if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of modification.

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

Events after the Reporting Period
Post year-end events that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Earnings per Share (EPS)
Basic EPS is computed based on the weighted average number of outstanding shares and adjusted to give retroactive effect to any stock split during the year. The dilutive effect of outstanding ESOP shares is reflected as additional share dilution in the computation of diluted EPS.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Company to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. In preparing the Company's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. The uncertainties inherent in these estimates and assumptions could result in outcomes that could require material adjustments to the carrying amounts of the assets or liabilities affected in future years. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Amortization of Service Concession Assets. The Parent Company accounts for its concession arrangement with MWSS in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service. Phil Hydro accounts for its Bulk Water Supply Agreements in accordance with IFRIC 12 under the Intangible Asset model as it receives the right (license) to charge users of public service.

The Parent Company amortizes its service concession assets using UOP method, given that the economic benefit of these assets is more closely aligned with billed volume, which the Parent Company can already estimate reliably. Phil Hydro amortizes its service concession assets using the straight-line method over the terms of each Bulk Water Supply Agreements and Memorandum of Agreement. Service concession assets, net of accumulated amortization of ₱29.6 billion and ₱26.3 billion, amounted to ₱97.8 billion and ₱88.1 billion as at December 31, 2019 and 2018, respectively (see Note 7).

Disputes with MWSS. Pending resolution of the dispute between the Parent Company and MWSS on certain claims of MWSS, the disputed amount of ₱5.6 billion and ₱5.1 billion as at December 31, 2019 and 2018, is considered as contingent liability. The outstanding provision recognized related to their contingency amounted to ₱607.2 million as at December 31, 2019 and 2018 (see Notes 7, 10 and 20).

Provisions and Contingencies. The Company is currently involved in various legal and administrative proceedings. The Company's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 20).

Whether Connection and Installation Service is a Distinct Performance Obligation – Effective starting January 1, 2018. The Company provides connection and installation service to its customers as indicated in the water supply contract. The Company determines whether this service is capable of being distinct (i.e., whether the customer can benefit from this activity on a standalone basis) and whether this service is distinct within the context of the water supply contract (i.e., whether this service can be separated from the water and wastewater service provided to the customers). The Company determined that the connection and installation service is highly interdependent and cannot be separated from the water and wastewater service. Accordingly, the connection and installation revenues, and related costs, are deferred and recognized over the remaining concession period (see Note 14).

Estimates and Assumptions

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

Allowance for Doubtful Accounts – Effective Prior January 1, 2018. The Company estimates the allowance for doubtful accounts related to the trade receivables based on two methods. The amounts calculated using each of these methods are combined to determine the total amount of allowance.

First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain customers are unable to meet their financial obligations. In these cases, the Company uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The allowance provided is based on the difference between the present value of the receivables that the Company expects to collect, discounted at the receivables' original effective interest rate and the carrying amount of the receivable. This specific allowance is re-evaluated and adjusted as additional information received affects the amounts estimated.

Second, if it is determined that no objective evidence of impairment exists for an individually assessed receivable, the receivable is included in a group of receivables with similar credit risk characteristics and is collectively assessed for impairment. The provision under collective assessment is based on historical collection, write-off, experience and change in customer payment terms. Impairment assessment is performed throughout the year.

Provision for doubtful accounts amounted ₱57.1 million in 2017 (see Note 5).

Allowance for ECL – Effective Starting January 1, 2018. The following information explains the inputs, assumptions and techniques used by the Company in estimating ECL:

- General approach for cash in banks and cash equivalents, short-term investments, non-trade receivables and miscellaneous deposits

  The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The Company considers the probability of its counterparty to default its obligation and the expected loss at default after considering the effects of collateral, any potential value when realized, forward-looking estimates and time value of money.

- Simplified approach for trade and other receivables (excluding non-trade receivables), contract assets and deposits and sinking fund

  The Company uses a simplified approach for calculating ECL on trade and other receivables (excluding non-trade receivables) and deposits and sinking fund through the use of provision matrix to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type and rating).

  The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the Company's operating segments, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

- Incorporation of forward-looking information

  The Company considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. A broad range of forward-looking information are considered as economic inputs such as the gross domestic product, inflation rate, unemployment rates and other economic indicators.

  The macroeconomic factors are aligned with information used by the Company for other purposes such as strategic planning and budgeting.

The Company identifies and documents key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationship between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 to 9 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

- Grouping of instruments for losses measured on collective basis

  For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a segmentation are homogeneous. The Company segmentized its trade receivables based on their billing class as shown below:

  a. Domestic

     i. Residential – pertains to receivables arising from water and wastewater service use for domestic purposes only.
     ii. Semi-business – pertains to receivables arising from water and wastewater service use for small businesses.

  b. Non-domestic

     i. Commercial – pertains to receivables arising from water and wastewater service use for commercial purposes.
     ii. Industrial – pertains to receivables arising from water and wastewater service use for industrial purposes, including services for manufacturing.

  The following credit exposures are assessed individually:

  a. All stage 3 assets, which are considered to be specifically impaired, regardless of the class of financial assets; and

  b. Cash in banks and cash equivalents, short-term investments, deposits and sinking fund, non-trade receivables and miscellaneous deposits

  There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

  The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Reversal of provision for expected credit losses amounted to ₱1.6 million in 2019, while provision for expected credit losses amounted to ₱17.7 million in 2018. Trade and other receivables, net of allowance for expected credit losses of ₱1.0 billion as at December 31, 2019 and 2018, amounted to ₱2.0 billion and ₱1.7 billion as at December 31, 2019 and 2018, respectively (see Note 5).

Determination of Amortization Period for Deferred Connection and Installation Revenues and Related Costs – Effective Starting January 1, 2018. The Company determines the amortization period for deferred connection and installation revenues and costs based on the expected relationship with its customers. In the absence of other reliable information, the Company determined that the customers are expected to maintain their water and wastewater connection throughout the concession period. Therefore, the Company amortizes its deferred connection and installation revenues and related costs over the remaining concession period (see Note 14).

Fair Value of Financial Assets and Financial Liabilities. PFRS requires that certain financial assets and financial liabilities be carried at fair value, which requires the use of accounting estimates and judgments. The determination of the cost of service concession payable requires management to make estimates and assumptions to determine the extent to which the Company receives a right of license to charge users of the public service. In making those estimates, management is required to determine a suitable discount rate to calculate for the present value of these cash flows. While significant components of fair value measurement are determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and financial liabilities would directly affect income and equity.

The fair values of financial assets and financial liabilities are set out in Note 25.

Estimated Billable Water Volume. The Parent Company estimated the billable water volume, where the amortization of service concession assets is derived from, based on the period over which the Parent Company's concession agreement with MWSS is in force. The Parent Company reviews annually the billable water volume based on factors that include market conditions such as population growth and consumption, and the status of the Parent Company's projects and their impact on non-revenue water. It is possible that future results of operations could be materially affected by changes in the Parent Company's estimates brought about by changes in the aforementioned factors. A reduction in the projected billable water volume would increase amortization and decrease noncurrent assets.

In 2016, a new study was conducted for the estimation of billable water volume used in the amortization of the Parent Company's service concession assets. Based on the new study, total billable water volume increased by 9% mainly due to the change in demographic factors.

The financial effect of this change in billable water volume decreased the amortization of service concession assets in 2017 by ₱216.3 million. In future years, the amortization expense is expected to decrease in the earlier period and increase in the later period of the concession agreement compared to estimated billable water volume in the prior year. Quantitative disclosure on future impact is not provided as it is impracticable to reliably estimate the difference in future amortization as the calculation of the UOP amortization is subject to other variables such as additional capital expenditures and concession fees paid every year, re-estimation of billable water volume and actual billed volume during the year. All of these variables are subject to changes on annual basis.

In 2019, due to the foreseeable reduction of raw water supply, the estimated billable water volume decreased resulting in the increase of amortization of service concession assets amounting to ₱182.3 million.

The change in the billable water volume every year is the change to actual billed volume for the current year whose effect on amortization of service of service concession assets is insignificant.

Service concession assets, net of accumulated amortization of ₱29.6 billion and ₱26.3 billion, amounted to ₱97.8 billion and ₱88.1 billion as at December 31, 2019 and 2018, respectively (see Note 7).

Amortization of service concession assets amounted to ₱3.2 billion, ₱2.8 billion and ₱2.4 billion in 2019, 2018 and 2017, respectively (see Note 7).

Determination of Impairment of AFS Financial Assets – Effective Prior to January 1, 2018. The Company determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The Company determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of more than 12 months is considered to be a prolonged decline. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price for quoted equities. AFS financial assets are considered impaired when the Company believes that future cash flows generated from the investment is expected to decline significantly. The Company's management makes significant estimates and assumptions on the future cash flows expected and the appropriate discount rate to determine if impairment exists. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as AFS are not reversed through profit or loss. Subsequent increases in the fair value after the impairment are recognized directly in other comprehensive income.

Impairment loss on AFS financial assets amounted to ₱7.5 million in 2017 (see Note 9).

Estimated Useful Lives of Property and Equipment. The useful life of each item of the Company's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expense and decrease property and equipment.

There was no change in estimated useful lives of property and equipment in 2019 and 2018.

Property and equipment, net of accumulated depreciation and amortization of ₱3.1 billion and ₱2.5 billion, amounted to ₱1.8 billion and ₱1.4 billion as at December 31, 2019 and 2018, respectively (see Note 8). Depreciation and amortization of property and equipment amounted to ₱0.6 billion, ₱0.4 billion and ₱0.4 billion in 2019, 2018 and 2017, respectively (see Note 8).

Leases - Estimating the incremental borrowing rate – Effective Starting January 1, 2019. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Company's lease liabilities amounted to ₱306.2 million as of December 31, 2019. Interest accretion on lease liability amounted to ₱21.7 million in 2019 (see Note 22).

Recognition of Deferred Tax Assets. 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 profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized.

Starting 2016, the Parent Company uses Optional Standard Deduction (OSD) in computing its taxable income in 2017, 2018 and 2019 (see Notes 16). The Parent Company's assessment is based on actual gross income in the current year which is more favorable to use OSD method. The Parent Company expects to continue to use OSD method in computing its taxable income each year up to the end of the concession period except for certain years when the Parent Company expects that it would be more favorable to use itemized deduction method. Accordingly, deferred tax assets and liabilities are measured based on OSD or itemized deduction method depending on the forecasted gross and taxable income and which method of deduction is more beneficial to the Parent Company.

Net deferred tax liabilities recognized amounted to ₱0.5 billion and ₱0.1 billion as at December 31, 2019 and 2018, respectively (see Note 16).

The Company did not recognize deferred tax assets on deductible temporary differences where doubt exists as to the tax benefits they will bring in the future.

Deferred FCDA and Deferred Credits. Under Amendment No. 1 of the Concession Agreement, the Parent Company is entitled to recover (refund) foreign exchange losses (gains) arising from MWSS loans and any concessionaire loans. For the unrealized foreign exchange losses, the Parent Company recognized deferred FCDA as an asset since this is a resource controlled by the Company as a result of past events and from which future economic benefits are expected to flow to the Parent Company. Unrealized foreign exchange gains, however, are presented as deferred credits and will be refunded to the customers.

Pursuant to MWSS-RO Resolution No. 2018-13-CA, the new base foreign exchange rate was changed from ₱41.19 to ₱53.16 effective January 1, 2018 (see Note 7).

Deferred FCDA representing the net effect of unrealized foreign exchange losses on service concession obligation payable to MWSS, and restatement of foreign currency-denominated interest-bearing loans and related interest that are recoverable from the customers amounted to nil and ₱273.3 million as at December 31, 2019 and 2018, respectively (see Notes 6 and 7).

As at December 31, 2019 and 2018, the discount, shown as part of "Deferred credits" account in the consolidated statements of financial position, amounted to ₱165.3 million and nil, respectively.

Asset Impairment. The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use (VIU) approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the results of operations.

Noncurrent nonfinancial assets carried at cost and subjected to impairment test when certain impairment indicators are present are as follows:

	2019	2018
Service concession assets (see Note 7)	**₱97,818,292**	₱88,108,184
Property and equipment (see Note 8)	**1,827,137**	1,400,970
Goodwill (see Note 2)	**–**	244,925
Total	**₱99,645,429**	₱89,754,079

Estimating Impairment of Nonfinancial Assets Other than Goodwill. Due to the ongoing review of MWSS on the provisions of the Concession Agreement identified for renegotiation and amendment (see Note 1), Management performed an impairment testing on nonfinancial assets of Parent Company, particularly its service concession assets and property and equipment. The assumptions in the impairment test include the concession period and the discount rate considering the risks surrounding the concession agreement. Based on the testing, it was determined that as of December 31, 2019, the recoverable amount of the Parent Company's nonfinancial assets is higher than its net book value. Therefore, the Company did not recognize any impairment loss on the Parent Company's nonfinancial assets.

As of December 31, 2018, there were no other indicators of impairment on the Parent Company's service concession assets and property and equipment.

Estimating Impairment of Goodwill. The goodwill arising from the acquisition of Phil Hydro represents the fair value of expected incremental economic benefits that the Parent Company expects to obtain. The impairment test of goodwill is based on VIU calculations that used the discounted cash flow model. The VIU was based on the cash flow projections on the most recent financial budgets and forecast of Phil Hydro. The length of the projections is up to 2035 based on the existing Bulk Water Supply Agreements and Memorandum of Agreement. The forecasted period is greater than five (5) years as management can reliably estimate the cash flow for the entire duration of Phil Hydro's concession period covered by the Bulk Water Supply Agreements and Memorandum of Agreement. The discount rate applied in 2019 was 10.4%, which was based on the market weighted average cost of capital with estimated premium over cost of equity.

The Company performs its annual impairment test close at year-end, after annual financial budget and forecast are finalized. The key assumptions used to determine the recoverable amount are discussed below.

	2019	2018
Revenue growth rate*	**1.7%**	2.0%
Average forecast period	**16 years**	17 years
Discount rate	**10.4%**	11.3%

**Average growth represents average of year-over-year growth over the terms of the Bulk Water Supply Agreements and Memorandum of Agreement*

Based on the impairment test on the cash-generating unit, the carrying amount exceeded the recoverable amount, hence, management identified impairment loss on goodwill amounting to ₱244. 9 million and ₱43.2 million in 2019 and 2018, respectively. Accumulated impairment loss on goodwill amounted to ₱288.1 million and ₱43.2 million as at December 31, 2019 and 2018, respectively. The carrying value of goodwill amounted to nil and ₱244.9 million as at December 31, 2019 and 2018, respectively. From the same testing, the Company also recognized an impairment loss on service concession assets of Phil Hydro for the year ended December 31, 2019 amounting to ₱93.2 million, and a reversal of deferred tax liability recognized on the fair value adjustment of the service concession asset of Phil Hydro amounting to ₱20.6 million.

No impairment indicators were identified on the service concession assets and property and equipment of Amayi in 2019, 2018 and 2017.

Computation of Pension Cost and Other Post-employment Benefits. The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rate, turnover rate, mortality rate and salary increase rate. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Turnover rate is based on a 3-year historical information of voluntary separation and resignation by plan members.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Pension cost presented as part of “Salaries, wages and benefits” account in the consolidated statements of income amounted to ₱143.5 million, ₱156.8 million and ₱71.7 million in 2019, 2018 and 2017, respectively. Pension liability amounted to ₱519.8 million and ₱448.0 million as at December 31, 2019 and 2018, respectively (see Note 17).

Computation of Share-based Payment Transactions. The Company measures the cost of 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 estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, discount rates 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 13.

Equity-based compensation expense presented as part of “Salaries, wages and benefits” account in consolidated statements of income amounted to nil in 2019 and 2018 and ₱219.3 million in 2017 (see Note 13).

Determination of Other Long-term Incentive Benefits. In 2013, the Parent Company has approved an LTIP for its managers and executives which is based on profit targets for the covered Performance Cycle of 2013 to 2015. Payments were made on March 18, 2016 amounting to ₱369.0 million.

In 2016, a proposal for new LTIP covering Performance Cycle of 2016 to 2018 for its managers and executives which is also based on profit targets was prepared for approval by the Parent Company's BOD. The LTIP was approved by the BOD on July 24, 2017.

In 2019, a proposal for new LTIP covering Performance Cycle of 2019 to 2021 for its managers and executives which is also based on profit targets was prepared for approval by the Parent Company's BOD.

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 other long-term incentive benefits.

Accrued LTIP which was included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱181.0 million as at December 31, 2019 and "Trade and other payables" account in the consolidated statements of financial position amounted to and ₱585.0 million as at December 31, 2018. The total cost of the LTIP recognized by the Company presented as part of "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱181.0 million, ₱206.3 million and ₱197.6 million in 2019, 2018 and 2017, respectively (see Note 17).

4. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents account consists of:

	2019	2018
Cash on hand and in banks	**₱2,360,141**	₱1,635,351
Cash equivalents	**9,049,699**	9,897,697
	₱11,409,840	₱11,533,048

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods from one day to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Short-term investments amounting to nil and ₱15.7 million as at December 31, 2019 and 2018, respectively, with original maturities of more than three months to one year are separately shown in the consolidated statements of financial position.

Interest income earned from cash in banks, cash equivalents and short-term investments, net of applicable final tax, amounted to ₱298.6 million, ₱184.9 million and ₱94.4 million in 2019, 2018 and 2017, respectively.

5. Trade and Other Receivables

This account consists of receivables from:

	2019	2018
Customers:		
Residential	**₱1,614,859**	₱1,479,449
Commercial	**575,118**	563,772
Semi-business	**221,266**	204,767
Industrial	**90,195**	123,209
Bulk water supply	**169,612**	95,364
	2,671,050	2,466,561
Employees	**59,959**	53,271
Others (see Note 6)	**268,360**	182,767
	2,999,369	2,702,599
Less allowance for expected credit losses	**1,029,211**	1,028,485
	₱1,970,158	₱1,674,114

The classes of the Company's receivables from customers are as follows:

- Residential – pertains to receivables arising from water and wastewater service use for domestic purposes only.
- Commercial – pertains to receivables arising from water and wastewater service use for commercial purposes.
- Semi-business – pertains to receivables arising from water and wastewater service use for small businesses.
- Industrial – pertains to receivables arising from water and wastewater service use for industrial purposes, including services for manufacturing.
- Bulk water supply – pertains to receivables arising from water service to water districts outside the West Service Area.

Receivables from customers and bulk water supply are non-interest bearing and generally have 60-day term.

Other receivables consist mainly of receivables from collecting agents normally received within 30 days and advances for construction and installation of water reticulation systems for subdivisions in the West Service Area payable on installment basis over a period of 3 to 5 years. Portion of advances for water reticulation systems expected to be collected beyond one year amounting to ₱7.0 million and ₱18.2 million as at December 31, 2019 and 2018, respectively, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

The movements in the Company's allowance for ECL and doubtful accounts which was determined individually and collectively are as follows:

	2019					
	Receivables from Customers				**Other**	
	Residential	**Semi-Business**	**Commercial**	**Industrial**	**Receivables**	**Total**
At January 1	**₱639,443**	**₱92,510**	**₱245,793**	**₱50,739**	**₱–**	**₱1,028,485**
Catch-up adjustment	**2,319**	**–**	**–**	**–**	**–**	**2,319**
Provisions for the year	**–**	**–**	**–**	**–**	**–**	**–**
Reversal	**(1,593)**	**–**	**–**	**–**	**–**	**(1,593)**
At December 31	**₱640,169**	**₱92,510**	**₱245,793**	**₱50,739**	**₱–**	**₱1,029,211**

	2018					
	Receivables from Customers				Other	
	Residential	Semi-Business	Commercial	Industrial	Receivables	Total
At January 1	₱628,720	₱90,934	₱241,427	₱49,803	₱–	₱1,010,884
Provisions for the year	10,836	1,576	4,366	936	–	17,714
Write-off	(113)	–	–	–	–	(113)
At December 31	₱639,443	₱92,510	₱245,793	₱50,739	₱–	₱1,028,485

6. Other Current and Noncurrent Assets

Other Current Assets

This account consists of:

	2019	2018
Sinking fund (see Note 11)	**₱324,300**	₱399,210
Advances to contractors	**24,929**	23,001
Input VAT	**400,894**	409,090
Deposits	**228,352**	170,253
Prepayments (see Note 22)	**421,108**	209,100
Others (see Note 14)	**115,858**	92,895
	₱1,515,441	₱1,303,549

Sinking fund represents the unutilized proceeds from the US$137.5 million loan drawdowns for the Metro Manila Wastewater Management Project maintained in a designated bank account (see Note 11).

Advances to contractors are normally applied within a year against billings.

Input VAT is an indirect tax on the goods and services which the Company uses in its operations. The Company recovers its input VAT by offsetting it against the output VAT. Management believes that the amount of recorded input VAT is fully realizable in the future.

Deposits mainly consist of bill deposits to Meralco.

Prepayments mainly pertain to insurance, performance bond, and taxes (see Note 22).

Others consist of cost of new water service connections amounting to ₱13.1 million and ₱6.9 million as at December 31, 2019 and 2018 that was capitalized since these costs are recoverable and is directly associated with the contract with customers (see Note 14).

Other Noncurrent Assets

This account consists of:

	2019	2018
Mobilization fund	**₱3,406,192**	₱1,678,364
Deposits	**293,408**	258,400
Deferred FCDA	–	273,264
Others (see Note 14)	**210,735**	119,526
	₱3,910,335	₱2,329,554

Mobilization Fund pertains to advance payments to contractors for services purchased but not yet received and is normally applied within a year against progress billings.

Deposits consists mainly of payments to LGUs prior to the issuance of permits. Serves as a bond and refunded upon completion of the project.

Deferred FCDA pertains to the net effect of unrealized foreign exchange losses on service concession obligation payable to MWSS, and restatement of foreign currency-denominated interest-bearing loans and related interest that are recoverable from the customers.

Others consist of the noncurrent portion of cost of new water service connections.

7. Service Concession Assets

The movements in this account are as follows:

	2019	2018
Cost:		
Balance at beginning of year	**₱114,373,333**	₱101,899,860
Additions	**13,032,932**	11,824,601
Effect of change in rebased rate	–	648,872
Balance at end of year	**127,406,265**	114,373,333
Accumulated amortization:		
Balance at beginning of year	**26,265,149**	23,508,005
Amortization	**3,229,646**	2,757,144
Impairment (see Note 3)	**93,178**	–
Balance at end of year	**29,587,973**	26,265,149
	₱97,818,292	₱88,108,184

Service concession assets consist of the present value of total estimated concession fee payments pursuant to the Concession Agreement and the costs of rehabilitation works incurred.

The aggregate Concession Fees pursuant to the Concession Agreement is equal to the sum of the following:

a. 90% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the raw water conveyance component of the Umiray-Angat Transbasin Project (UATP), on the relevant payment date set forth on the pertinent schedule of the Concession Agreement;

b. 90% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date on the relevant payment date set forth on the pertinent schedule of the Concession Agreement;

c. 90% of the local component costs and cost overruns related to the UATP in accordance with the pertinent schedule of the Concession Agreement;

d. 100% of the aggregate peso equivalent due under any MWSS loan designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or been elected by the Parent Company for continuation in accordance with the pertinent sections of the Concession Agreement;

e. 100% of the local component costs and cost overruns related to the existing projects in accordance with relevant schedule of the Concession Agreement; and

f. Maintenance and operating expenditure (MOE) representing one-half of the annual budget for MWSS for that year, provided that such annual budget shall not exceed ₱200.0 million (as at 1997), subject to annual CPI adjustment (see Note 22).

Service concession assets also include Tranche B Concession Fees, which pertain to additional concession fees charged by MWSS to the Parent Company representing the cost of borrowings by MWSS as at December 2004. In 2005, pursuant to the Debt and Capital Restructuring Agreement (DCRA), the Parent Company had recognized and fully paid Tranche B Concession Fees amounting to US$36.9 million and the related accrued interest thereon (see Note 10).

Pursuant to the recommendation of the Receiver under the DCRA, the disputed amount being claimed by MWSS of additional Tranche B Concession Fees of US$18.1 million is considered as contingent liability of the Parent Company (see Notes 3, 10 and 20).

The Parent Company recognized additional concession fees amounting to ₱1,240.6 million and ₱240.6 million in 2019 and 2018, respectively, mainly pertaining to various rehabilitation projects and UATP-related local component costs (see Note 10).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱679.2 million and ₱583.8 million in 2019 and 2018, respectively, while general borrowing cost capitalized as part of service concession assets amounted to ₱25.0 million and ₱15.0 million in 2019 and 2018, respectively (see Note 11).

On March 11, 2015, the MWSS Board of Trustees approved and confirmed the recommendation of the MWSS-RO to set aside the status quo of the FCDA and resume its normal operation starting first quarter of 2015. Under MWSS-RO Resolution No. 2014-002-CA, the MWSS-RO approved an FCDA equivalent to 1.12% of the 2015 basic charge of ₱33.97 per cu.m. or ₱0.38 per cu.m., effective January 1, 2015. The said FCDA adjustment was determined using the new rebased rate of ₱41.19 approved by the MWSS-RO, applicable to concession fee payments starting January 1, 2013 (see Note 3).

On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting the Parent Company a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the corporate income tax ("CIT") component to which the Parent Company is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Parent Company's tariff is subject to the SC's resolution of MWSS's Petition for Review.

On December 6, 2018, pursuant to MWSS-RO Resolution No. 2018-13-CA, the Parent Company used a new base foreign exchange rate from ₱41.19 to ₱53.16 effective January 1, 2018. The said FCDA adjustment was determined using the new rebased rate of ₱53.16 and ₱0.475 for United States Dollar and Euro, respectively, applicable to concession fee payments starting January 1, 2018.

The effect of change in rebased rate amounting ₱648.9 million was accounted for as an adjustment of "Service concession assets" and "Other noncurrent assets" accounts to adjust their carrying values based on the newly determined and approved rebased rate as at December 31, 2018. These foreign exchange differences, while may no longer be recovered through the FCDA mechanism under the Concession Agreement, pertain to actual concession fee payments by Maynilad to MWSS, hence should form part of the service concession assets.

Phil Hydro accounts for each of its BWSAs (except the BWSA with New Era University) and MOA with Municipal Government of Rizal, Nueva Ecija (MGRNE) in accordance with IFRIC 12, *Service Concession Arrangements* under the Intangible Asset model as it receives the right (license) to charge users of public service.

Service concession assets that are not yet available for use are subjected to impairment testing under PAS 36.

Service concession assets still under on-going construction and rehabilitation amounting to ₱28,338 million and ₱21,076 million as at December 31, 2019 and 2018, respectively, are considered as contract assets under PFRS 15.

8. Property and Equipment

The rollforward analysis of this account follows:

	2019						
	Land and Land Improvements	**Instrumentation, Tools and Other Equipment**	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Right-of-use Assets - Land and Building**	**Right-of-use Assets - Transportation Equipment**	**Total**
Cost							
At January 1, as previously reported	**₱46,455**	**₱1,877,307**	**₱1,463,725**	**₱536,240**	**₱–**	**₱–**	**₱3,923,727**
Effect of adoption of PFRS 16	**–**	**–**	**–**	**–**	**123,387**	**202,172**	**325,559**
At January 1, as restated	**46,455**	**1,877,307**	**1,463,725**	**536,240**	**123,387**	**202,172**	**4,249,286**
Additions	**75**	**196,637**	**256,244**	**274,251**	**119,676**	**–**	**846,883**
Reclassification	**(5,713)**	**(264,774)**	**133,385**	**–**	**–**	**–**	**(137,102)**
Disposals	**–**	**(55,659)**	**(3,475)**	**(19,868)**	**–**	**–**	**(79,002)**
At December 31	**40,817**	**1,753,511**	**1,849,879**	**790,623**	**243,063**	**202,172**	**4,880,065**
Accumulated Depreciation and Amortization							
At January 1	**5,220**	**1,126,659**	**1,091,169**	**299,709**	**–**	**–**	**2,522,757**
Depreciation and amortization	**369**	**83,089**	**287,626**	**93,403**	**64,235**	**77,513**	**606,235**
Reclassification	**(2,756)**	**5,133**	**(4,004)**	**–**	**–**	**–**	**(1,627)**
Disposals	**–**	**(55,659)**	**(3,475)**	**(15,303)**	**–**	**–**	**(74,437)**
At December 31	**2,833**	**1,159,222**	**1,371,316**	**377,809**	**64,235**	**77,513**	**3,052,928**
Net Book Value at December 31	**₱37,984**	**₱594,289**	**₱478,563**	**₱412,814**	**₱178,828**	**₱124,659**	**₱1,827,137**

	2018						
	Land and Land Improvements	Instrumentation, Tools and Other Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	Right-of-use Assets - Land and Building	Right-of-use Assets - Transportation Equipment	Total
Cost							
At January 1	₱46,455	₱1,744,095	₱1,284,314	₱543,192	₱–	₱–	₱3,618,056
Additions	–	138,805	180,436	43,143	–	–	362,384
Disposals	–	(5,593)	(1,025)	(50,095)	–	–	(56,713)
At December 31	46,455	1,877,307	1,463,725	536,240	–	–	3,923,727
Accumulated Depreciation and Amortization							
At January 1	4,688	1,017,610	937,287	249,713	–	–	2,209,298
Depreciation and amortization	532	114,642	154,904	98,177	–	–	368,255
Disposals	–	(5,593)	(1,022)	(48,181)	–	–	(54,796)
At December 31	5,220	1,126,659	1,091,169	299,709	–	–	2,522,757
Net Book Value at December 31	₱41,235	₱750,648	₱372,556	₱236,531	₱–	₱–	₱1,400,970

Net gain on disposals of property and equipment amounting to ₱0.7 million, ₱10.1 million, and ₱4.2 million, in 2019, 2018 and 2017, respectively, is presented as part of "Others - net" account under "Other income (expenses)" in the consolidated statements of income. The Company sold items of property and equipment for a total consideration of ₱4.5 million, ₱12.0 million and ₱10.2 million in 2019, 2018 and 2017, respectively.

No property and equipment as at December 31, 2019 and 2018 have been pledged as security or collateral.

The Company has fully depreciated property and equipment still used in the operations with cost of ₱2,042.8 million and ₱1,786.3 million in 2019 and 2018, respectively

9. Financial Assets at Fair Value through Other Comprehensive Income

The financial assets at FVOCI as of December 31, 2019 and 2018 consists of the Company's investments in unquoted equity shares in a local water distribution Company:

Cost	₱221,093
Less allowance for impairment loss	(96,229)
	₱124,864

In 2019, the net movement in the fair value of its unquoted equity investments is insignificant.

Dividend income on financial assets at FVOCI presented as part of "Others - net" account under "Other income (expenses)" in the consolidated statements of income amounted to ₱8.5 million, ₱13.5 million and ₱10.0 million in 2019, 2018 and 2017, respectively.

10. Service Concession Obligation Payable to MWSS

This account consists of:

	2019	2018
Concession fees payable (see Note 7)	**₱6,280,523**	₱6,443,397
Accrued interest	**607,217**	607,217
	6,887,740	7,050,614
Less current portion	**1,171,895**	1,038,764
	₱5,715,845	₱6,011,850

<u>Disputes with MWSS</u>

The Parent Company has been contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties. Consequently, the Parent Company has not provided for these additional charges. These disputed charges were effectively reflected and recognized by the Parent Company as Tranche B Concession Fees amounting to US$30.1 million by virtue of the DCRA entered into in 2005. The Parent Company also paid US$6.8 million in 2005 as an additional amount of Tranche B Concession Fees determined by the Receiver (see Note 7).

The Parent Company reconciled its liability to MWSS with the confirmation and billings from MWSS. The difference between the amount confirmed by MWSS and the amount recognized by the Parent Company amounted to ₱5.6 billion and ₱5.1 billion as at December 31, 2019 and 2018, respectively. The difference mainly pertains to disputed claims of MWSS consisting of additional Tranche B Concession Fees, borrowing cost and interest penalty under the Concession Agreement (prior to the DCRA). The Parent Company's position on these charges is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court (see Notes 3, 7 and 20).

Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of the Parent Company's rehabilitation proceedings, the Parent Company and MWSS sought to resolve the matter in accordance with the dispute resolution requirements of the transitional and clarificatory agreement (TCA).

Prior to the DCRA, the Parent Company has accrued interest on its payable to MWSS based on the terms of the Concession Agreement, which was disputed by the Parent Company before the Rehabilitation Court. These already amounted to ₱985.3 million as at December 31, 2011 and have been charged to interest expense in prior years. The Parent Company maintains that the accrued interest on its payable to MWSS has been adequately replaced by the Tranche B Concession Fees discussed above. The Parent Company's position is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court (see Notes 7 and 20). With the prescription of the TCA and in light of the Parent Company's current negotiation and outstanding offer of US$14.0 million to fully settle the claim of MWSS, the Parent Company reversed the amount of accrued interest in excess of the US$14.0 million settlement offer amounting to ₱378.1 million in 2012. The remaining balance of ₱607.2 million as at December 31, 2019 and 2018, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

The schedule of undiscounted estimated future concession fee payments, based on the term of the Concession Agreement, is as follows:

	In Original Currency		
Year	Foreign Currency Loans (Translated to US$)*	Peso Loans/ Project Local Support	Total Peso Equivalent*
		(In Millions)	
2020	$13.9	₱609.7	₱1,314.1
2021	5.6	608.9	891.1
2022	5.8	608.9	902.5
2023	7.5	610.4	992.1
2024-2037	56.1	8,525.0	11,366.1
	$88.9	₱10,962.9	₱15,465.9

**Translated using the December 31, 2019 exchange rate of ₱50.64:US$1.*

Additional concession fee liability relating to the extension of the Concession Agreement (see Note 1) is only determinable upon loan drawdown of MWSS and the actual construction of the related concession projects.

11. **Interest-bearing Loans**

This account consists of:

	2019	2018
₱18.5 billion Corporate Notes	**₱18,272,450**	₱18,424,150
US$137.5 million Loan	**6,774,314**	6,138,223
₱5.0 billion Term Loan Facility	**5,000,000**	–
₱4.8 billion Corporate Notes	**4,770,000**	4,770,000
¥7.9 billion Facility Loan	**3,656,910**	3,753,290
₱1.4 billion Facility Loan	**1,434,000**	1,434,000
¥13.1 billion Facility Loan	**1,344,556**	–
Peso-denominated Bank Loan	**175,313**	215,156
	41,427,543	34,734,819
Less unamortized debt issuance costs	**345,639**	329,219
	41,081,904	34,405,600
Less current portion	**1,217,268**	354,218
	₱39,864,636	₱34,051,382

₱18.5 billion Corporate Notes

On February 22, 2018, the Parent Company entered into several loan agreements for the refinancing of all of its existing loans under the ₱21.2 billion Term Loan and ₱5.0 billion Corporate Notes, whereby the Parent Company was granted a Term Loan Facility (“the Notes Facility”) in the aggregate amount of ₱18.5 billion. Under the new terms, the loan shall be drawn in three tenors; 7Y, 10Y and 15Y Fixed Corporate Notes, payable in semi-annual installments within fifteen years to commence at the end of the 6th month after the initial issue date and bears interest rate per annum equal to the applicable benchmark rate plus 0.60%, 0.70% and 0.60% per annum for the 7Y, 10Y and 15Y Fixed Corporate Notes, respectively. The Notes Facility is secured by a negative pledge.

All transaction costs incurred in relation to the loan refinancing totaling ₱257.6 million were charged to expense presented as part of “Interest expense and other financing charges” in the 2018 consolidated statements of income.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱199.7 million were capitalized in 2018. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱11.6 million and ₱8.1 million in 2019 and 2018, respectively, is presented as part of “Interest expense and other financing charges” account in the consolidated statements of income (see Note 18).

US$137.5 million Loan

The World Bank (WB), through the Metro Manila Wastewater Management Project (MWMP), provided a US$275.0 million loan to the Land Bank of the Philippines (LBP) for relending at an equal share to the two Concessionaires of the MWSS namely, Maynilad and Manila Water.

The MWMP is expected to finance investments in wastewater collection and treatment, and septage management in Metro Manila.

The loan will fund the following projects:

1. Rehabilitation of Ayala Alabang Sewage Treatment Plant (STP)
2. Talayan STP (part of the San Juan River Basin Project)
3. Valenzuela STP and associated wastewater conveyance system

4. Pasay STP and associated wastewater conveyance system
5. Muntinlupa STP and associated wastewater conveyance system
6. South Septage Treatment Plant

The WB and the LBP signed the Loan Agreement on May 31, 2012 while the Subsidiary Loan Agreement between LBP and Maynilad was executed on October 25, 2012.

The loan shall be payable in semi-annual installments within 25 years, inclusive of seven years grace period. The interest shall be paid semi-annually based on the same rate of interest payable by LBP under the WB Loan Agreement, plus fixed spread of 1.25% per annum. The loan is secured by a negative pledge.

Summary of transactions during the year is as follows:

	2019	2018
Balance at beginning of year	**US$7,590**	US$1,485
Amount received during the year	**20,759**	25,311
Net amount	**28,349**	26,796
Expenditures during the year	**(22,395)**	(19,206)
Balance at end of year	**US$5,954**	US$7,590

The US$6.0 million (₱301.5 million) and US$7.6 million (₱399.1 million) balance as at December 31, 2019 and 2018, respectively, represents the outstanding balance of LBP designated account No. 3404-031-936, under the account name MWMP - Category 2 - MWSI, and is presented as part of "Sinking fund" under "Other current assets" account in the consolidated statements of financial position (see Note 6).

The US$137.5 million (₱6.9 billion) and US$116.5 million (₱6.5 billion) cumulative drawn amount as at December 31, 2019 and 2018, respectively, is presented as part of the noncurrent portion of the interest-bearing loans

The proceeds of the World Bank loan have been expended in accordance with the intended purposes as specified in the Loan Agreement.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱42.8 million were capitalized in 2013. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱2.8 million, ₱2.7 million and ₱2.7 million in 2019, 2018 and 2017, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱382.8 million and ₱295.8 million in 2019 and 2018, respectively (see Note 7).

₱5.0 billion Term Loan Facility

On November 26, 2019, the Parent Company entered into a Loan Agreement with BDO Unibank, Inc. The loan shall be payable in semi-annual installments within ten years to commence on May 29, 2021 and bears a fixed rate per annum of 4.9505% for the first five years. The interest rate for the remaining five years will be based on the applicable benchmark rate plus 0.60% per annum. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱37.8 million were capitalized in 2019. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱0.5 million in 2019 and is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱4.8 billion Corporate Notes

On February 24, 2014, the Parent Company entered into a Loan Agreement (Corporate Notes) with the Development Bank of the Philippines. The loan proceeds shall be used to finance the first stage of the Parañaque-Las Piñas STP and associated wastewater conveyance system.

The loan shall be payable in semi-annual payments within twenty years to commence at the end of the fifth year, which bears a fixed rate per annum equal to 6.0%. The first, second, third and fourth drawdowns amounting to ₱1.0 billion, ₱2.0 billion, ₱1.0 billion and ₱0.8 billion were made on March 2, 2015, October 4, 2016, August 1, 2017 and March 5, 2018, respectively. The ₱4.8 Billion Corporate Notes is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱46.1 million were capitalized in 2015. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱3.3 million and ₱3.1 million and ₱2.9 million in 2019, 2018 and 2017, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Specific borrowing costs capitalized as part of service concession assets amounted to ₱296.4 million and ₱288.0 million in 2019 and 2018, respectively (see Note 7).

Under the terms of the loan agreements, the Parent Company may, at its option and without premium and penalty, redeem the Corporate Notes in whole or in part, subject to the conditions stipulated in the agreements. The embedded early redemption and prepayment options are clearly and closely related to the host debt contract, and thus, do not require to be bifurcated and accounted for separately from the host contract.

Covenants. The loan agreements contain, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio, and maintenance of debt service reserve account (see Note 6). As at December 31, 2019 and 2018, the Parent Company has complied with these covenants.

¥7.9 billion Facility Loan

On June 7, 2017, the Parent Company entered into a credit agreement (Facility Agreement) with foreign banks, namely The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank Ltd., and Sumitomo Mitsui Banking Corporation (collectively referred to as "the Lenders"). The first and second drawdowns amounting to ¥4.9 billion and ¥3.0 billion were made on August 20, 2018 and November 28, 2018, respectively. The loan shall be payable in semi-annual installments within ten years to commence at the end of the 36th month from the date of the Facility Agreement. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱70.6 million were capitalized in 2018. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱13.3 million and ₱3.6 million in 2019 and 2018, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

₱1.4 billion Facility Loan
On June 7, 2017, the Parent Company entered into a credit agreement with the Japan International Cooperation Agency (JICA) whereby the Parent Company was granted a peso-denominated Facility Loan, amounting to ₱1.4 billion. The loan shall be payable in semi-annual installments within seven years to commence on October 15, 2021. Drawdowns amounting to ₱0.5 billion, ₱0.5 billion and ₱0.4 billion were made on May 18, 2018, September 25, 2018 and December 21, 2018, respectively. The loan is secured by a negative pledge.

¥13.1 billion Facility Loan
On June 7, 2017, the Parent Company entered into a credit agreement with the JICA whereby the Parent Company was granted a Japanese yen-denominated Facility Loan, amounting to ¥13.1 billion. The loan shall be payable in semi-annual installments within seventeen years to commence on October 10, 2022. Drawdowns amounting to ¥0.7 billion, ¥0.5 billion, ¥0.8 billion, and ¥0.9 billion were made on April 2, 2019, June 28, 2019, August 30, 2019 and December 6, 2019, respectively. Undrawn amount from this facility is available until December 7, 2020. The loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱7.3 million were capitalized in 2018. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱1.8 million and ₱0.5 million in 2019 and 2018, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Peso-denominated Loan of Phil Hydro
On May 4, 2015, Phil Hydro entered into a Loan Agreement with the Land Bank of the Philippines. The loan shall be payable in quarterly installments within eight years to commence after the end of the 8^{th} quarter and bears an interest rate per annum equal to the higher of (i) the applicable benchmark rate plus 1.0% per annum, or (ii) 5.5% per annum. The benchmark rate shall be determined by reference to the PDST-R2 rate. The peso-denominated loan is secured by a negative pledge.

Debt Issuance Costs. All legal and professional fees incurred in relation to the debt totaling ₱1.3 million were capitalized in 2015. Debt issuance costs are amortized using the EIR method. Amortization of debt issuance costs attributed to this loan amounting to ₱0.2 million in 2019, 2018 and 2017, respectively, is presented as part of "Interest expense and other financing charges" account in the consolidated statements of income (see Note 18).

Covenants. The loan agreement contains, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio. As at December 31, 2019 and 2018, Phil Hydro has complied with these covenants.

The movements in the balance of unamortized debt issuance costs related to all interest-bearing loans are as follows:

	2019	2018
Balance at beginning of year	**₱329,219**	₱94,342
Additions during the year	**49,934**	277,544
Amortization during the year (see Note 18)	**(33,514)**	(42,667)
	₱345,639	₱329,219

The repayments of loans based on existing terms are scheduled as follows:

	In Original Currency			
Year	US Dollar-Denominated*	Japanese Yen-Denominated**	Peso Loans	Total Peso Equivalent*
		(In Millions)		
2020	$7.6	¥1,053.3	₱342.6	₱1,217.3
2021	7.6	1,053.3	1,262.0	2,136.7
2022	7.6	1,132.9	1,466.8	2,378.4
2023	7.6	1,212.5	1,466.8	2,415.2
2024 onwards	103.2	6,352.5	25,113.5	33,279.9
	$133.6	¥10,804.5	₱29,651.7	₱41,427.5

**Translated using the December 31, 2018 exchange rate of ₱50.64:US$1.*
***Translated using the December 31, 2018 exchange rate of 0.4629:JPY1.*

12. Trade and Other Payables

This account consists of:

	2019	2018
Accrued expenses (see Note 17)	**₱7,553,590**	₱7,195,480
Accrued construction costs (see Note 15)	**5,742,901**	5,107,456
Trade and other payables	**4,344,969**	3,504,386
Due to a related party (see Note 15)	**280,722**	384,162
Contract liabilities (see Note 14)	**27,034**	13,378
	₱17,949,216	₱16,204,862

Accrued expenses mainly consist of provisions, salaries, wages and benefits, contracted services and interest payable to the banks. Details of provisions required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* are not disclosed as these may prejudice the Company's positions in relation to the cases pending before the courts or quasi-judicial bodies. Accrued expenses also include accrual for Long-term Incentive Plan (LTIP) amounting to ₱585.0 million as at December 31, 2018.

Accrued construction costs represent unbilled construction costs from contractors and normally settled upon receipt of billings.

Trade and other payables are non-interest bearing and are normally settled within one year.

Trade payables include liabilities relating to assets held in trust (see Note 23) used in the Company's operations amounting to ₱97.3 million as at December 31, 2019 and 2018, respectively.

13. Equity

a. The Parent Company's authorized and issued shares as at December 31, 2019 and 2018 are presented below:

	Number of Shares	
	2019	2018
Authorized and issued - ₱1,000 par value		
Common shares		
Class A	**4,222,482**	4,222,482
Class B	**236,000**	236,000
ESOP	**88,500**	88,500
	4,546,982	4,546,982

Class A and class B shares comprised sixty percent (60%) and (40%) of the authorized common shares.

b. ESOP

The employees of the Parent Company are allowed equity participation of up to six percent (6%) of the issued and outstanding capital stock of the Parent Company upon the effective date of the increase in authorized capital stock of the Parent Company pursuant to and in accordance with the provisions of Clause 2.6 of the DCRA. For this purpose, a series of 88,500,000 nonvoting convertible redeemable shares (ESOP Shares) was created from common Class A shares as reflected in the Parent Company's amended Articles of Incorporation. In 2008, the ESOP shares were effectively reduced to 88,500 shares due to change in par value from ₱1 to ₱1,000. The ESOP shares have no voting rights, except for those provided under Section 6 of the Corporation Code and have no pre-emptive rights to purchase or subscribe to future or additional issuances or disposition of shares of the Parent Company.

Within thirty (30) days after the earlier of (i) the end of the fifth year from the creation of the ESOP Shares, and (ii) the listing date for common shares in a recognized Philippine Stock Exchange, the Parent Company may redeem the ESOP shares at a redemption ratio equal to one common share for every ESOP share held and such common shares so exchanged shall have the same rights and privileges as all other common shares.

Each ESOP Share will be convertible, at the option of the holder thereof, at any time during the period commencing the earlier of (i) the end of the fifth year from the creation of the ESOP Shares; or (ii) the listing date for common shares in a recognized Philippine Stock Exchange into one fully-paid and non-assessable common share. Such common share shall have the same rights and privileges as all other common shares. Conversion of the ESOP Share may be effected by surrendering the certificates representing such shares to be converted to the Parent Company common shares at the Parent Company's principal office or at such other office or offices as the BOD may designate, and a duly signed and completed notice of conversion in such form as may from time to time be specified by the Parent Company (a "Conversion Notice"), together with such evidence as the Parent Company may reasonably require to prove the title of the person exercising such right. A Conversion Notice once given may not be withdrawn without the consent in writing of the Parent Company.

In 2012, the Board and shareholders of the Parent Company approved the amendment of its Articles of Incorporation to allow for the reissuance of ESOP shares that have been bought back by the Parent Company from separated employees. Upon approval by the SEC of the amendment on January 31, 2013, ESOP shares reacquired by the Parent Company from its resigned employees were subsequently reissued to all qualified employees.

ESOP shares reacquired by the Parent Company from all of its resigned and retired employees amounting to ₱53.9 million and ₱20.2 million as of December 31, 2019 and 2018, respectively, were presented as treasury shares

c. Dividends

On February 27, 2017, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱660.54 per common share amounting to ₱3.0 billion to all shareholders of record as at February 27, 2017. Payments were made on March 17, 2017.

On February 26, 2018, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱659.87 per common share amounting to ₱3.0 billion to all shareholders of record as at February 28, 2018. Payments were made on March 12, 2018.

On February 26, 2019, during the regular meeting, the Parent Company's BOD set and approved the declaration of cash dividends of ₱1,100.49 per common share amounting to ₱5.0 billion to all shareholders of record as at February 28, 2019. Payments were made on March 12, 2019.

d. Appropriation of Retained Earnings

On February 27, 2017, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱5.0 billion for various water and wastewater projects expected to be implemented in the next three years.

On February 26, 2018 and October 29, 2018, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱15.0 billion and ₱5.0 billion, respectively, for various water and wastewater projects. The appropriation is intended to fund the Parent Company's capital expenditures for (1) water sources and treatment; (2) operations support programs to sustain, enhance and expand the water facilities and operations in the following areas: (i) service level at 24 hours water availability at a minimum of 16 psi water pressure, (ii) water coverage, (iii) reliability, flexibility and adaptation to climate change, and (iv) right-of-way and lot acquisition for water facilities; (3) pipelaying of secondary and tertiary pipelines; (4) sanitation programs; and (5) customer service and information capex. These projects are expected to be implemented in the next two to three years.

On October 29, 2018, the Parent Company's BOD approved the reversal of its previously appropriated retained earnings as of December 31, 2017 totaling to ₱12.5 billion.

On November 26, 2019, the Parent Company's BOD approved the appropriation of its retained earnings amounting to ₱7.0 billion to fund the Parent Company's capital expenditures for the following projects: (1) upgrading of Dagat-Dagatan sewage treatment plan to 205MLD South Caloocan-Malabon-Navotas (CAMANA) Water Reclamation Facility, and (2) the design and build of the 140 MLD Water Reclamation Facility for the Central Manila Sewerage System. These projects are expected to be implemented in the next two to five years.

e. Equity Adjustments

Redemption of Preferred Shares

The Parent Company issued and redeemed preferred shares in 2008. Foreign exchange fluctuation from date of issuance of the preferred shares to the date of issuance of notice of redemption, amounting to ₱351.0 million, is recognized as part of "Other equity adjustments" account shown under the equity section of the consolidated statements of financial position.

Maynilad Share-based Payment

On November 23, 2015, the BOD approved the awarding of 23,777 ESOP shares to all qualified Maynilad employees to be paid through stock purchase bonus (equity-settled transaction). The ESOP covers employees who have met the following eligibility criteria:

a. The employee has completed a full year's service, from November 2, 2014 to November 1, 2015 (the "Period");

b. The employee has obtained at least a satisfactory performance rating for the appraisal period immediately preceding November 1, 2015;

c. The employee has not been suspended at any time during the Period;

d. The employee has not exceeded 10 days of absences without official leave during the Period; and

e. The employee has not exceeded 20 days of leave without pay during the Period.

Communication to eligible employees was made on December 1, 2015.

The fair value of ESOP shares amounting to ₱6,143.22 per share was determined based on the Parent Company's equity value at the date of grant using the discounted cash flows (DCF) method.

The grant of shares under the ESOP does not require an exercise price to be paid by the employees nor are there cash alternatives. All ESOP shares are held in treasury until issuance. On February 9, 2016, the ESOP shares were issued to qualified employees.

On December 4, 2017, the BOD approved the awarding of 24,793 ESOP shares to all qualified Maynilad employees to be paid through stock purchase bonus (equity-settled transaction). The ESOP covers employees who have met the following eligibility criteria:

a. The employee has completed a full year's service, from December 1, 2016 to November 30, 2017 (the "Period");

b. The employee has obtained at least a satisfactory performance rating for the appraisal period immediately preceding December 1, 2017;

c. The employee has not been suspended at any time during the Period;

d. The employee has not exceeded 10 days of absences without official leave during the Period; and

e. The employee has not exceeded 20 days of leave without pay during the Period.

Communication to eligible employees was made on December 5, 2017.

The fair value of ESOP shares amounting to ₱8,847.08 per share was determined based on the Parent Company's equity value at the date of grant using the discounted cash flows (DCF) method.

The grant of shares under the ESOP does not require an exercise price to be paid by the employees nor are there cash alternatives. All ESOP shares will be held in treasury until issuance. In February 2018, the ESOP shares were issued to qualified employees.

Equity-based compensation expense recognized by the Parent Company under "Salaries, wages and benefits" account in the consolidated statements of income amounted to nil in 2019 and 2018 and ₱219.3 million in 2017.

14. **Revenue Contracts with Customers**

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	2019	2018	2017
Geographical areas:			
West zone	**₱23,742,163**	₱21,761,296	₱20,550,303
Outside west zone	**250,238**	262,353	223,938
	₱23,992,401	₱22,023,649	₱20,774,241

Contract balances:

	2019	2018
Trade receivables (gross of allowance for ECL or doubtful accounts)	**₱2,671,050**	₱2,466,561
Contract assets	**1,227,259**	1,185,047
Cost of new water service connections	**223,791**	126,422
	₱4,122,100	₱3,778,030
Contract liabilities	**₱468,568**	₱248,985

Trade receivables are non-interest bearing and are generally on terms of 60 days.

Contract assets are initially recognized for revenue earned from water and wastewater services as receipt of consideration is conditional on the performance of service. Upon completion of the performance obligation the amounts recognized as contract assets are reclassified to trade receivables. Contract assets as at December 31, 2019 and 2018 consist of the following:

	2019	2018
Customers:		
Residential	**₱571,690**	₱558,361
Semi-business	**87,010**	85,598
Commercial	**420,443**	404,747
Industrial	**148,116**	136,341
	₱1,227,259	₱1,185,047

Contract liabilities are initially recognized from the collection of the connection and installation fees and is recognized over the remaining concession period as the Company provides water and wastewater services to customers. The Company recognized contract liabilities under "Trade and other payables" account amounting to ₱27.0 million and ₱13.4 million for the current portion and ₱441.6 million and ₱235.6 million for the noncurrent portion under the "Other noncurrent liabilities" account in the consolidated statement of financial position as of December 31, 2019 and 2018, respectively.

Cost of new water service connections recognized amounted to ₱13.1 million and ₱6.9 million under "Other current assets" and ₱210.7 million and ₱119.5 million under "Other noncurrent asset" account in the consolidated statements of financial position as of December 31, 2019 and 2018, since these costs are recoverable and is directly associated with the contract with customers.

15. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence.

Category	Year	Amount/ Volume of Transactions	Outstanding Receivable (Payable)	Terms	Conditions
Subsidiary of a significant influence investor					
DM Consunji, Inc.					
Revenue from water and wastewater services	**2019**	**₱57.6 million**	**₱5.0 million**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
	2018	53.5 million	4.1 million		
Construction costs (see Note 12)	**2019**	**0.7 billion**	**432.4 million**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	1.2 billion	(307.3 million)		
Significant influence investees of FPC					
Manila Electric Company					
Revenue from water and wastewater services	**2019**	**7.4 million**	**0.9 million**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
	2018	6.8 million	0.6 million		
Electricity costs	**2019**	**839.9 million**	**(42.5 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	874.2 million	(31.2 million)		
Meralco Industrial Engineering Services Corporation					
Construction costs (see Note 12)	**2019**	**20.0 million**	**(5.9 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	59.3 million	(1.2 million)		
Indra Philippines, Inc.					
Commercial outsourcing of information technology and system services	**2019**	**279.1 million**	**(4.5 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	271.2 million	–		
PLDT, Inc.					
Revenue from water and wastewater services	**2019**	**12.5 million**	**2.0 thousand**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
	2018	11.1 million	2.0 thousand		
Communication expenses	**2019**	**35.6 million**	**(0.1 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	31.8 million	(21.8 million)		
Outsourced services	**2019**	**18.0 million**	**(3.0 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	20.6 million	(2.1 million)		
Entity under common control					
Ecosystem Technologies International, Inc.					
Revenue from water and wastewater services	**2019**	**62.9 thousand**	–	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
	2018	10.2 thousand	2.1 thousand		
Others					
Revenue from water and wastewater services	**2019**	**14.2 million**	**767.3 thousand**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured, not impaired
	2018	13.4 million	230.2 thousand		
Communication expenses	**2019**	**86.4 million**	**(11.5 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	33.3 million	(6.9 million)		
Insurance	**2019**	–	**(14.2 thousand)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	8.3 million	(10.0 thousand)		
Sponsorship fees	**2019**	**118.2 thousand**	**(25.0 thousand)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	49.1 thousand	(25.0 thousand)		
Transportation equipment	**2019**	**5.8 million**	**(1.2 million)**	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	3.6 million	–		
Repairs and maintenance	**2019**	**7.6 thousand**	–	Noninterest-bearing, settlement in cash and payable on demand	Unsecured
	2018	–	–		

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured, interest-free, settlement occurs in cash and payable on demand.

Total compensation and benefits of key management personnel of the Company consist of:

	2019	2018	2017
Compensation	**₱280,382**	₱309,273	₱308,366
Pension costs	**13,506**	11,479	12,701
Short-term benefits	**14,015**	13,864	10,022
	₱307,903	₱334,616	₱331,089

16. **Income Taxes**

Provision for current income tax represents the total of RCIT for both Parent Company and Phil Hydro in 2019 and 2018.

The components of the Parent Company's net deferred tax liabilities as at December 31, 2019 and 2018, respectively shown in the consolidated statements of financial position are as follows:

	2019	2018
Deferred tax assets:		
Pension liability and unamortized past service cost	**₱86,270**	₱80,742
Accrued expenses	**18,190**	72,025
Revenue from contracts with customers - net	**45,782**	23,004
Allowance for inventory obsolescence	**3,968**	3,356
Allowance for ECL	**612**	–
	154,822	179,127
Deferred tax liabilities:		
Service concession assets	**(631,110)**	(264,416)
Leases under PFRS 16	**(5,927)**	–
Unrealized foreign exchange gain	**(2,377)**	(3,825)
	(639,414)	(268,241)
Deferred tax liabilities - net	**(₱484,592)**	(₱89,114)

Deferred tax assets on pension liability included in other comprehensive income amounted to ₱11.3 million and ₱16.0 million as at December 31, 2019 and 2018, respectively.

The components of the net deferred tax liabilities of Phil Hydro as at December 31, 2019 and 2018 shown in the consolidated statements of financial position are as follows:

	2019	2018
Deferred tax assets:		
Accrued expenses	**₱1,359**	₱2,808
Pension liability and unamortized past service cost	**324**	255
Total *(Carried Forward)*	**1,683**	3,063

	2019	2018
Total *(Brought Forward)*	**₱1,683**	₱3,063
Deferred tax liabilities:		
Service concession assets	**(29,577)**	(54,448)
Unamortized debt issuance costs	**(134)**	(183)
PFRS 16	**(30)**	–
	(29,741)	(54,631)
Deferred tax liabilities - net	**(₱28,058)**	(₱51,568)

Service concession assets consist of concession fees and property, plant and equipment. For income tax purposes, concession fees are amortized using UOP method while property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives or remaining concession period, whichever is shorter.

The reconciliation of provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the consolidated statements of income is summarized as follows:

	2019	2018	2017
Income tax at statutory tax rate of 30%	**₱3,200,468**	₱3,093,925	₱2,796,519
Add (deduct) the tax effects of:			
Deduction under OSD method	**(1,731,825)**	(1,591,652)	(1,406,787)
Foregone benefit under itemized deduction method	**1,558,705**	1,428,827	1,222,616
Change in income tax rate for using OSD and others	**43,129**	80,052	(273,718)
Derecognition of deferred tax assets relating to accrued expenses	**34,494**	(10,364)	158,459
Interest income already subjected to final tax	**(89,560)**	(55,481)	(28,333)
Provision for income tax	**₱3,015,411**	₱2,945,307	₱2,468,756

17. Employee Benefits

LTIP

In 2017, the Parent Company approved an LTIP for its managers and executives which is based on profit targets for the covered Performance Cycles 2016 to 2018. In 2019, a proposal for new LTIP covering Performance Cycle of 2019 to 2021 for its managers and executives which is also based on profit targets was prepared for approval by the Parent Company's BOD.

As at December 31, 2019, 2018 and 2017, the LTIP payable is as follows:

	2019	2018	2017
Balance at beginning of year	**₱585,000**	₱378,696	₱181,078
Addition for the year	**181,035**	206,304	197,618
Reclassification	**(107,692)**	–	–
Payment	**(477,308)**	–	–
	181,035	585,000	378,696
Less current portion	**–**	585,000	–
	₱181,035	₱–	₱378,696

The total costs of the LTIP amounted to ₱181.0 million, ₱206.3 million and ₱197.6 million in 2019, 2018 and 2017, respectively, presented as part of "Salaries, wages and benefits" account in the consolidated statements of comprehensive income. Accrued LTIP which was included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱181.0 million as at December 31, 2019 and "Trade and other payables" account in the consolidated statements of financial position amounted to and ₱585.0 million as at December 31, 2018

Pension Plan

The pension liabilities of the Company as at December 31 are as follows

	2019	2018
Maynilad Water Services, Inc.	**₱518,674**	₱447,176
Philippine Hydro, Inc.	**1,079**	850
	₱519,753	₱448,026

Maynilad

The Parent Company has a funded, noncontributory and actuarially computed pension plan covering all regular and permanent employees. The benefits are based on years of service and compensation during the last year of employment.

Changes in the funded pension liability in 2019 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Liability**
At December 31, 2018	**₱1,288,108**	**₱840,932**	**₱447,176**
Pension cost in the consolidated statements of income:			
Current service cost	**116,320**	**–**	**116,320**
Net interest cost	**92,872**	**65,732**	**27,140**
	209,192	**65,732**	**143,460**
Benefits paid	**(49,967)**	**(52,363)**	**2,396**
Actual contributions	**–**	**163,815**	**(163,815)**
Remeasurements in other comprehensive income:			
Interest income (excluding amount included in net interest cost)	**–**	**(2,109)**	**2,109**
Actuarial changes due to experience adjustment	**(25,826)**	**–**	**(25,826)**
Actuarial changes arising from changes in demographic assumptions	**(52,675)**	**–**	**(52,675)**
Actuarial changes arising from changes in financial assumptions	**165,849**	**–**	**165,849**
	87,348	**(2,109)**	**89,457**
At December 31, 2019	**₱1,534,681**	**₱1,016,007**	**₱518,674**

Changes in funded pension liability in 2018 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At December 31, 2017	₱1,308,945	₱714,701	₱594,244
Pension cost in the consolidated statements of income:			
Current service cost	127,203	–	127,203
Net interest cost	74,584	45,036	29,548
	201,787	45,036	156,751
Benefits paid	(20,241)	(6,888)	(13,353)
Actual contributions	–	160,738	(160,738)
Remeasurements in other comprehensive income:			
Interest income (excluding amount included in net interest cost)	–	(72,655)	72,655
Actuarial changes due to experience adjustment	23,076	–	23,076
Actuarial changes arising from changes in demographic assumptions	2,181	–	2,181
Actuarial changes arising from changes in financial assumptions	(227,640)	–	(227,640)
	(202,383)	(72,655)	(129,728)
At December 31, 2018	₱1,288,108	₱840,932	₱447,176

The components of net pension cost included under "Salaries, wages and benefits" account in the consolidated statements of income for 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Current service cost	**₱116,320**	₱127,203	₱90,109
Net interest cost	**27,140**	29,548	12,501
Curtailment gain	**–**	–	(30,962)
	₱143,460	₱156,751	₱71,648

The Company recognized remeasurement gain (loss) arising on pension plan in other comprehensive income. The movements in the remeasurement gain (loss) are as follows:

	2019	2018	2017
Remeasurement gain (loss) on defined benefit obligation:			
Actuarial gain (loss) due to:			
Changes in financial assumptions	**(₱165,849)**	₱227,640	(₱311,783)
Changes in demographic assumptions	**52,675**	(2,181)	141
Experience adjustments	**25,826**	(23,076)	(46,515)
Benefits paid for prior year separation	**(2,397)**	–	–
Gain (loss) on return on plan assets	**(2,109)**	(72,655)	(18,839)
Remeasurement gain (loss) on retirement plan	**(₱91,854)**	₱129,728	(₱376,996)

Actual return on plan assets amounted to ₱63.6 million for the year ended December 31, 2019 and actual loss on plan assets amounted to ₱27.6 million for the year ended December 31, 2018.

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2019	2018
Investments in:		
Government securities	**₱556,296**	₱389,267
Equity securities	**361,967**	260,462
Unit trust funds	**7,084**	8,210
Loans/notes receivable	**76,168**	77,875
Cash and cash equivalents	**8,262**	100,564
Receivables and others	**6,230**	4,554
	₱1,016,007	₱840,932

The plan asset's carrying amount approximates its fair value since the plan assets are short-term in nature or marked-to-market. Investments held have quoted prices in active market. The remaining plan assets which are short term in nature, do not have quoted market prices in an active market. The plan assets have diverse investments and do not have any concentration risk.

As at December 31, 2019, the plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 3.50% to 8.63% per annum and have maturities from 2020 to 2029.
- Investments in equity securities are composed of investment in shares of various listed entities. The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market.
- Unit trust funds include mutual funds invested in quoted shares.
- Loans and notes receivables include unsecured fixed-rate notes of a related party and unsecured notes of an unaffiliated company which bear interest ranging from 3.75% to 7.07% per annum.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 3.49% to 3.50% per annum.
- Receivables and others include interest and dividends.

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension cost and present value of defined benefit obligation are shown below:

	2019	2018
Discount rate	**5.00%**	7.43%
Salary increase rate	**6.00%**	7.00%
Turnover rate	**5.83%**	3.00%

Sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	2019	
	Increase (Decrease) in Basis Points	**Increase (Decrease) in Amount**
Discount rate	**100**	**(₱124,777)**
	(100)	**148,411**

	2019	
	Increase (Decrease) in Basis Points	**Increase (Decrease) in Amount**
Salary increase rate	**100**	**₱152,893**
	(100)	**(131,140)**
Turnover rate	**100**	**(19,551)**
	(100)	**21,036**

	2018	
	Increase (Decrease) in Basis Points	Increase (Decrease) in Amount
Discount rate	100	(₱106,811)
	(100)	127,187
Salary increase rate	100	134,108
	(100)	(114,589)
Turnover rate	100	(6,502)
	(100)	1,952

Shown below are the maturity analyses of the undiscounted benefit payments:

		2019	
	Normal Retirement	**Other than Normal Retirement**	**Total**
Less than one year	**₱86,012**	**₱44,432**	**₱130,444**
More than one year to five years	**583,569**	**174,995**	**758,564**
More than 5 years to 10 years	**454,645**	**232,274**	**686,919**
More than 10 years to 15 years	**219,844**	**307,623**	**527,467**
More than 15 years to 20 years	**595,113**	**388,121**	**983,234**
More than 20 years	**3,449,045**	**778,581**	**4,227,626**
	₱5,388,228	**₱1,926,026**	**₱7,314,254**

		2018	
	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱49,047	₱27,261	₱76,308
More than one year to five years	586,397	121,235	707,632
More than 5 years to 10 years	571,516	174,275	745,791
More than 10 years to 15 years	278,317	250,995	529,312
More than 15 years to 20 years	621,495	372,691	994,186
More than 20 years	7,571,458	1,119,077	8,690,535
	₱9,678,230	₱2,065,534	₱11,743,764

Actual contributions to the defined benefit pension plan amounted to ₱163.8 million and ₱160.7 million in 2019 and 2018, respectively.

The Parent Company expects to contribute ₱136.1 million to the defined benefit pension plan in 2020.

In 2017, the Parent Company launched a Redundancy and Right-Sizing Program offering a separation package based on the number of years, or fractions thereof, on a pro-rated basis, of service with the Company plus monetary equivalent of some benefits for identified redundant positions. The Parent Company incurred a total of ₱276.9 million as incremental cost of redundancy program in 2017.

Phil Hydro
Phil Hydro recognized pension liability amounting to ₱1.1 million and ₱0.8 million in 2019 and 2018, respectively, in the consolidated statements of financial position determined in accordance with Republic Act No. 7641. Pension cost (income) included under "Salaries, wages and benefits" account in the consolidated statements of income amounted to ₱0.2 million, ₱0.3 million and ₱0.2 million in 2019, 2018 and 2017, respectively.

18. Interest Expense and Other Financing Charges

	2019	2018	2017
Bank loans (see Note 11)	**₱1,384,827**	₱1,506,173	₱1,139,820
Accretion on service concession obligation payable to MWSS (see Note 10)	**558,564**	548,737	614,827
Amortization of debt issuance costs (see Note 11)	**33,514**	42,667	9,988
Accretion on lease liability (see Note 22)	**21,704**	–	–
Accretion of customers' deposits	**18,930**	22,941	13,391
	₱2,017,539	₱2,120,518	₱1,778,026

19. Basic/Diluted Earnings Per Share

	2019	2018	2017
Net income (a)	**₱7,315,541**	₱7,367,777	₱6,852,973
Weighted average number of shares at beginning and end of year for basic earnings per share (b)	**4,458,482**	4,458,482	4,458,482
Weighted average number of ESOP shares at beginning of year	**85,477**	88,500	83,586
Add weighted average potential dilutive shares from ESOP (see Note 13)	–	–	2,066
Less weighted average number of treasury shares (see Note 13)	**(1,868)**	(1,639)	(14,906)
Weighted average number of shares at end of year for diluted earnings per share (c)	**4,542,091**	4,545,343	4,529,228
Basic earnings per share (a/b)	**₱1,640.81**	₱1,652.53	₱1,537.06
Diluted earnings per share (a/c)	**₱1,610.61**	₱1,620.95	₱1,513.06

20. **Contingencies**

Following are the significant contingencies of the Company as at December 31, 2019 and 2018:

a. Additional Tranche B Concession Fees and interest penalty are being claimed by MWSS in excess of the amount recommended by the Receiver. Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounted to ₱5.6 billion and ₱5.1 billion as at December 31, 2019 and 2018, respectively. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter. Following the termination of the Parent Company's rehabilitation proceedings, the Parent Company and MWSS sought to resolve this matter in accordance with the dispute requirements of the TCA (see Notes 3, 7 and 10).

b. On October 13, 2005, the Parent Company and Manila Water (the "Concessionaires") were jointly assessed by the Municipality of Norzagaray, Bulacan for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that it is the Republic of the Philippines that owns these properties, and is therefore, exempt from real property taxes.

   The supposed joint liability of the Concessionaires for real property tax, including interests, amounted to about ₱1.0 billion as at December 31, 2019 and 2018.

   After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals.

   During the presentation of evidence before the CBAA, the LBAA moved for the presentation of additional witnesses, which was denied by the CBAA on February 12, 2016. The LBAA filed a Motion for Reconsideration, which was again denied by the CBAA on June 20, 2016. As a result, the LBAA filed a Petition for Certiorari before the Court of Tax Appeals ("CTA"). On September 21, 2016, pursuant to the order of the CTA, the CBAA transmitted the complete records of the case to the CTA and held in abeyance all proceedings of the case until the Petition for Certiorari is resolved.

   On May 23, 2018, Court of Tax Appeals' (CTA) Notice of Decision dated May 11, 2018 was received, denying Petitioner's Petition for Certiorari (for an interlocutory order) ("CTA Decision"). Thus, the CTA ordered that the case be remanded to CBAA and for the proceedings to continue.

   On September 3, 2018, Maynilad received the CTA's Resolution dated June 4, 2018 noting the compliance of Maynilad and MWSS informing the CTA of their respective dates of receipt of the CTA Decision.

   On February 7, 2019, Maynilad received an Entry of Judgment certifying that the CTA Decision became final and executory on June 20, 2018.

   The Concessionaires' respective appeals remain pending before the CBAA.

   The Parent Company is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others.

21. Significant Contracts with Manila Water (East Concessionaire)

In relation to the Concession Agreement, the Parent Company entered into the following contracts with the East Concessionaire:

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones; and

b. Common Purpose Facilities Agreement that provides for the operation, maintenance, renewal, and, as appropriate, decommissioning of the Common Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the Concession (and the Concession of the East Concessionaire) as the Parent Company and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS.

22. Commitments

Concession Agreement
Significant commitments under the Concession Agreement follow:

a. To pay Concession Fees (see Note 7)

b. To post Performance Bond (see Note 6)

Under Section 6.9 of the Concession Agreement, the Parent Company is required to post a performance bond to secure the performance of its obligations under certain provisions of the Concession Agreement. The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below.

Rate Rebasing Period	Aggregate Amount Drawable Under Performance Bond
	(In Millions)
First (August 1, 1997 – December 31, 2002)	US$120.0
Second (January 1, 2003 – December 31, 2007)	120.0
Third (January 1, 2008 – December 31, 2012)	90.0
Fourth (January 1, 2013 – December 31, 2017)	80.0
Fifth (January 1, 2018 – May 6, 2022)	60.0

Within 30 days from the commencement of each renewal date, the Parent Company shall cause the performance bond to be reinstated to the full amount applicable to the rate rebasing period as set forth above.

In connection with the extension of the term of the Concession Agreement (see Note 1), certain adjustments to the obligation of the Parent Company to post the performance bond under Section 6.9 of the Concession Agreement have been approved and summarized as follows:

- The aggregate amount drawable in one or more installments under each performance bond during the Rate Rebasing Period to which it relates has been adjusted to US$30.0 million until the Expiration Date.

- The amount of the Performance Bond for the period covering 2023 to 2037 shall be mutually agreed upon in writing by the MWSS and the Parent Company consistent with the provisions of the Concession Agreement.
- The Parent Company posted the Surety Bond for the amount of US$90.0 million issued by Prudential Guarantee and Assurance, Inc. (the Surety) in favor of MWSS, as security for the Parent Company's proper and timely performance of its obligations under the Concession Agreement. On December 6, 2012, the Parent Company renewed the Surety Bond for the amount of US$80.0 million issued by the Surety in favor of MWSS which has expired on December 31, 2017. The Surety Bond was renewed for US$60.0 million on December 23, 2017. The liability of the Surety under this bond will expire on January 1, 2021 (see Note 6).

c. To pay half of MWSS and MWSS-RO's budgeted expenditures for the subsequent years, provided the aggregate annual budgeted expenditures do not exceed ₱200.0 million, subject to CPI adjustments. As a result of the extension of the life of the Concession Agreement, the annual budgeted expenditures shall increase by 100%, subject to CPI adjustments, effective January 2010 (see Notes 1 and 7).

d. To meet certain specific commitments in respect to the provision of water and wastewater services in the West Service Area, unless modified by the MWSS-RO due to unforeseen circumstances.

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and wastewater system in the West Service Area is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with the Parent Company).

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third-party property.

g. To ensure that at all times the Parent Company has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.

h. To prevent incurrence of debt or liability that would mature beyond the term of the Concession Agreement, without prior notice to MWSS.

Failure of the Parent Company to perform any of its obligations under the Concession Agreement of a kind or to a degree which, in a reasonable opinion of the MWSS-RO, amounts to an effective abandonment of the Concession Agreement and which failure continues for at least 30 days after written notice from the MWSS-RO, may cause the Concession Agreement to be terminated.

<u>MWSS JBIC Loan (Concession Fee)</u>
The Loan Agreement between the Government and JBIC (formerly OECF) was signed on February 9, 1990. The proceeds of the Loan were used to fund the implementation of the Angat Water Supply Optimization Project (AWSOP), with MWSS as the implementing agency. Prior to privatization, actual drawdowns from the Loan were recorded by MWSS as equity from the Government while the draws during privatization were assumed and paid by the Concessionaires. The sharing is 61.83% and 38.17% for Maynilad and Manila Water, respectively.

On June 6, 2019, Maynilad received a letter from the MWSS requesting to pay ₱821.0 million ("Invoiced Amount"). Accordingly, Maynilad learned that the drawdowns made on the JBIC Loan prior to the privatization of MWSS's operations are considered loans and not equity as formerly advised. MWSS's request for the Concessionaires to pay was triggered by an instruction from the DOF to the Bureau of Treasury, to have the Concessionaires reimburse the Government for the latter's payments on the JBIC Loan.

Maynilad replied to MWSS on July 1, 2019 and clarified the Invoiced Amount. Maynilad's position is to pay only ₱677.0 million because (ii) Maynilad remitted to the MWSS 113 million representing Guarantee Fees based on MWSS's invoice. However, the JBIC Loan makes no reference to and does not include the payment of Guarantee Fees, the borrower being the Government itself. This being the case, the Guarantee Fees that Maynilad remitted to MWSS must be set off or applied against the Invoiced Amount; and (2) while Maynilad always pays the foreign exchange shortfall in the debt servicing of MWSS-contracted loans, there is no need for Maynilad to pay the Forex Shortfall of ₱31.0 million in the JBIC Loan catch-up payment. The difference in the foreign exchange rate (from Japanese Yen to Philippine Peso) has already been captured and reflected in the total peso amount billed by the Bureau of Treasury.

Further, Maynilad also requested to pay ₱677.0 million in eight monthly instalments of ₱84.6 million to commence in July 2019 until February 2020, to coincide with the full payment/ maturity of the JBIC Loan.

As communicated by MWSS-Finance on July 17, 2019, Maynilad can pay based on the requested amount and schedule while waiting for the response of the Bureau of Treasury concerning the guarantee fee and shortfall. Maynilad paid the first installment on July 30, 2019.

The last installment for JBIC Loan was paid in February 18, 2020. As at February 24, 2020, Bureau of Treasury has yet to respond to the Company's letter concerning the guarantee fee and shortfall.

Leases

Company as a lessee
The Company leases the right of way, office space and branches where service outlets are located, several equipment and service vehicles, renewable under certain terms and conditions to be agreed upon by the parties. The Company also has certain leases with lease terms of 12 months or less and leases of low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The following are the amounts recognized in the consolidated statement of comprehensive income:

	2019
Depreciation expense of ROU assets	₱141,748
Interest expense on lease liabilities	21,704
Expense relating to short-term leases	7,128
Expense relating to low-value assets	17,034
	₱187,614

Lease liabilities represent payments to be made over the remaining lease term. Movements of the lease liabilities during the period are as follows:

	2019
Balance as of January 1, 2019 (see Note 2)	₱325,559
Additions during the period	119,676
Payments	(160,710)
Accretion of interest	21,704
Balance at end of the period	306,229
Less current lease liabilities	83,148
Noncurrent lease liabilities (Note 24)	₱223,081

Most of the contracts of leased by the Company have stipulations stating that renewal of lease is subject to mutual agreement of both the lessor and the lessee. As such, it is not reasonably certain that the Company will exercise the option to extend the lease since the extension is considered unenforceable.

The approximate annual future minimum rent payable of the Company under its existing non-cancellable lease agreements as a lessor as at December 31 are as follows:

	2019	2018
	(In Millions)	
1 year	**₱173.5**	₱158.4
more than 1 years to 2 years	**111.7**	98.7
more than 2 years to 3 years	**41.2**	69.6
more than 3 years to 4 years	**40.5**	41.5
more than 5 years	**28.3**	164.3

23. **Assets Held in Trust**

Materials and Supplies

The Parent Company has the right to use any items of inventory owned by MWSS in carrying out its responsibility under the Concession Agreement, subject to the obligation to return the same at the end of the concession period, in kind or in value at its current rate, subject to CPI adjustments.

Facilities

The Parent Company has been granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and wastewater services under the Concession Agreement. MWSS shall retain legal title to all movable property in existence at the Commencement Date. However, upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company (see Note 7).

The Concession Agreement also provides the Parent Company and the East Concessionaire to have equal access to MWSS facilities involved in the provision of water supply and wastewater services in both West and East Service Areas including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to the Parent Company on Commencement Date based on MWSS' closing audit report amounted to ₱7.3 billion with a sound value of ₱13.8 billion.

Beginning at the Commencement Date, MWSS' corporate headquarters were made available for a one-year lease to the Parent Company and the East Concessionaire, subject to yearly renewal with the consent of the parties concerned. As at December 31, 2019, the terms of the renewal are still under negotiation. Rent expense amounted to ₱43.7 million in 2019, ₱43.2 million in 2018 and ₱41.0 million in 2017 (see Note 22).

24. Financial Risk Management Objectives and Policies

The Company's principal financial instruments are its debts to the local banks and concession fees payable to MWSS per Concession Agreement. Other financial instruments of the Company are cash and cash equivalents, short-term investments, and trade and other receivables. The main purpose of those financial instruments is to finance the Company's operations.

The main risks arising from the Company's principal financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The BOD reviews and approves the policies for managing the Company's financial risks. The Company monitors risks arising from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of the changes in market interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing loans.

The Company maintains a mix of floating and fixed rate interest-bearing loans, at a ratio of 16% floating and 84% fixed, and 18% floating and 82% fixed in 2019 and 2018, respectively, per abovementioned loan agreements.

The following table shows the Company's significant financial liabilities that are exposed to cash flow interest rate risk:

US$137.5 million Loan	Floating rate benchmark+1.25% (3.86%, November 15, 2019 to May 15, 2020)
₱4.8 billion Corporate Notes (1st drawdown)	Fixed rate benchmark (6.00%, March 2, 2015 to March 2, 2035)
₱4.8 billion Corporate Notes (2nd drawdown)	Fixed rate benchmark (6.00%, October 4, 2016 to March 2, 2035)
₱4.8 billion Corporate Notes (3rd drawdown)	Fixed rate benchmark (6.00%, August 1, 2017 to March 2, 2035)
₱4.8 billion Corporate Notes (4th drawdown)	Fixed rate benchmark (6.00%, March 5, 2018 to March 2, 2035)
₱18.5 billion Fixed Corporate Notes - 7Y (1st drawdown)	Fixed rate benchmark+0.60% (6.3836%, March 23, 2018 to March 23, 2025)
₱18.5 billion Fixed Corporate Notes - 10Y (1st drawdown)	Fixed rate benchmark+0.70% (6.8229%, March 23, 2018 to March 23, 2028)
₱18.5 billion Fixed Corporate Notes - 15Y (1st drawdown)	Fixed rate benchmark+0.60% (6.4920%, March 23, 2018 to March 23, 2026)

₱18.5 billion Fixed Corporate Notes - 7Y (2nd drawdown)	Fixed rate benchmark+0.60% (6.5083%, April 27, 2018 to March 23, 2025)
₱18.5 billion Fixed Corporate Notes - 10Y (2nd drawdown)	Fixed rate benchmark+0.70% (6.8388%, April 27, 2018 to March 23, 2028)
₱18.5 billion Fixed Corporate Notes - 15Y (2nd drawdown)	Fixed rate benchmark+0.60% (6.5489%, April 27, 2018 to March 23, 2026)
¥7.9 billion Facility Loan (1st drawdown)	Fixed rate benchmark+0.90% (August 20, 2018 to June 7, 2027)
¥7.9 billion Facility Loan (2nd drawdown)	Fixed rate benchmark+0.90% (November 28, 2018 to June 7, 2027)
₱1.4 billion Facility Loan (1st drawdown)	Fixed rate benchmark (May 18, 2018 to October 15, 2024)
₱1.4 billion Facility Loan (2nd drawdown)	Fixed rate benchmark (September 25, 2018 to October 15, 2024)
₱1.4 billion Facility Loan (3rd drawdown)	Fixed rate benchmark (December 21, 2018 to October 15, 2024)
¥13.1 billion Facility Loan (¥2.9 billion drawdown)	Fixed rate benchmark (April 2, 2019 to October 10, 2034)
₱5.0 billion Term Loan Facility	Fixed rate benchmark (4.95%, November 29, 2019 to November 29, 2024)
Peso-denominated Bank Loan	Fixed rate benchmark (5.50%, June 29, 2015 to June 29, 2025)

Interest on financial liabilities classified as fixed rate is fixed until the maturity of the instrument.

The following tables show information about the Company's financial assets and financial liabilities that are exposed to cash flow and fair value interest rate risks.

	2019	
	Within 1 Year	**Total**
Short-term cash investments:		
Cash and cash equivalents (1-90 days)*	**₱11,404,416**	**₱11,404,416**
Short-term investments (91-364 days)	–	–
	₱11,404,416	**₱11,404,416**

**Excludes cash on hand amounting to ₱5,424.*

	2019			
	Within 1 Year	**More than 1 Year**	**Total (In US$)**	**Total (In ₱)**
Liabilities:				
Interest-bearing loans:				
Interest rate	**3.86%, 6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55% and 5.50%**	**3.86%, 6.00%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 4.95% and 5.50%**		
Current - foreign	**$17,274**	–	**$17,274**	**₱874,693**
Current - local	**₱342,575**	–	–	**342,575**
Noncurrent - foreign	–	**$213,495**	**$213,495**	**10,810,300**
Noncurrent - local	–	**₱29,054,336**	–	**29,054,336**
Total *(Carried Forward)*				**41,081,904**

	2019			
	Within 1 Year	**More than 1 Year**	**Total (In US$)**	**Total (In ₱)**
Total *(Brought Forward)*				**₱41,081,904**
Service concession obligation payable to MWSS:				
Interest rate	**8.11%**			
Current - foreign	**$10,795**	**–**	**$10,795**	**546,597**
Current - local	**₱625,298**	**–**	**–**	**625,298**
Noncurrent - foreign	**–**	**$52,158**	**$52,158**	**2,641,020**
Noncurrent - local	**–**	**₱3,074,825**	**–**	**3,074,825**
				₱6,887,740

	2018	
	Within 1 Year	Total
Short-term cash investments:		
Cash and cash equivalents (1-90 days)*	₱11,530,868	₱11,530,868
Short-term investments (91-364 days)	15,774	15,774
	₱11,546,642	₱11,546,642

**Excludes cash on hand amounting to ₱2,180.*

	2018			
	Within 1 Year	More than 1 Year	Total (In US$)	Total (In ₱)
Liabilities:				
Interest-bearing loans:				
Interest rate	4.80%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, and 5.5%	4.80%, 6.38%, 6.82%, 6.49%, 6.51%, 6.84%, 6.55%, 6.00%, 1.22%, 1.23%, 6.39%, 6.75%, 7.30%, and 5.5%		
Current - foreign	$3,245	–	$3,245	₱170,643
Current - local	₱183,575	–	–	183,575
Noncurrent - foreign	–	$183,068	$183,068	9,625,693
Noncurrent - local	–	₱24,425,689	–	24,425,689
				34,405,600
Service concession obligation payable to MWSS:				
Interest rate	7.96%			
Current - foreign	$11,284	–	$11,284	593,315
Current - local	₱445,449	–	–	445,449
Noncurrent - foreign	–	$54,991	$54,991	2,891,407
Noncurrent - local	–	₱3,120,443	–	3,120,443
				7,050,614
				₱41,456,214

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in interest rates for the years ended December 31, 2019 and 2018, with all variables held constant (through the impact on floating rate borrowings). The estimates are based on the management's annual financial forecast. There is no impact on the Company's equity other than those already affecting income.

	2019	
	Increase/ Decrease in Basis Points	**Effect on Income Before Tax**
Floating rate borrowings	**+50**	**(33,744)**
	-50	**33,744**

	2018	
	Increase/ Decrease in Basis Points	Effect on Income Before Tax
Floating rate borrowings	+50	(30,550)
	-50	30,550

<u>Foreign Currency Risk</u>
Foreign currency risk is the risk that the fair value or future value of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's foreign currency risk arises primarily from movements of the Philippine Peso against the United States Dollar and Japanese Yen. The servicing of foreign currency denominated loans of MWSS is among the requirements of the Concession Agreement. Revenues are generated in Philippine Peso. However, there is a mechanism in place as part of the Concession Agreement wherein the Company (or the end consumers) can recover currency fluctuations through the FCDA that is approved by the Regulatory Office.

Information on the Company's foreign currency-denominated monetary assets and liabilities and the Philippine Peso equivalent of each as at December 31, 2019 and 2018 is presented as follows:

		2019	
	US Dollar	**JPY**	**Total Peso Equivalent**
Asset			
Cash and cash equivalents, short-term investments and sinking fund	**$8,573**	**¥879,792**	**₱841,372**
Liabilities			
Interest-bearing loans	**(133,284)**	**(10,663,549)**	**(11,684,993)**
Service concession obligation payable to MWSS	**(59,983)**	**(62,404)**	**(3,187,617)**
	(193,267)	**(10,725,953)**	**(14,872,610)**
Net foreign currency denominated liabilities	**($184,694)**	**(¥9,846,161)**	**(₱14,031,238)**

The spot exchange rates used were ₱50.64:US$1, ₱56.35:EUR1, and ₱0.46:JPY1 as at December 31, 2019.

	2018		
	US Dollar	JPY	Total Peso Equivalent
Asset			
Cash and cash equivalents, short-term investments and sinking fund	$11,141	¥1,132	₱586,356
Liabilities			
Interest-bearing loans	(116,204)	(7,759,098)	(9,796,336)
Service concession obligation payable to MWSS	(64,668)	(177,771)	(3,484,722)
	(180,872)	(7,936,869)	(13,281,058)
Net foreign currency denominated liabilities	($169,731)	(¥7,935,737)	(₱12,694,702)

The spot exchange rates used were ₱52.58:US$1, ₱60.31:EUR1, and ₱0.48:JPY1 as at December 31, 2018.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity as at December 31, 2019 and 2018. The estimates in the movement of the foreign exchange rates were based on the management's annual financial forecast.

	Increase (Decrease) in Peso, U.S Dollar, Euro and JPY Exchange Rates	**Foreign Exchange Rate**	**Effect on Income Before Income Tax**
2019			
U.S Dollar	**+1%**	**50.64**	**(₱93,520)**
JPY	**+1%**	**0.46**	**(45,578)**
U.S Dollar	**-1%**	**50.64**	**93,520**
JPY	**-1%**	**0.46**	**45,578**

	Increase (Decrease) in Peso, U.S Dollar, Euro and JPY Exchange Rates	Foreign Exchange Rate	Effect on Income Before Income Tax
2018			
U.S Dollar	+1%	52.58	(₱89,245)
JPY	+1%	0.48	(37,703)
U.S Dollar	-1%	52.58	89,245
JPY	-1%	0.48	37,703

The Company recognized net foreign exchange loss of ₱1.7 billion and ₱1.1 billion in 2019 and 2018, respectively, mainly arising from the translation of the Company's cash and cash equivalents, short-term investments, deposits, interest-bearing loans and service concession obligation payable to MWSS. However, the net foreign exchange gain or loss on interest-bearing loans and service concession obligation payable to MWSS is subject to foreign exchange recovery mechanisms under the Concession Agreement (see Note 2).

<u>Credit Risk</u>
Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Company trades only with recognized, creditworthy third parties. Because of the basic need service, it provides, historical collections of the Company are relatively high. Credit exposure is widely dispersed. Receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Company, consisting of cash and cash equivalents, short-term cash investments, deposits and sinking fund and miscellaneous deposits, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company transacts only with institutions or banks which have demonstrated financial soundness for the past five years.

Maximum exposure to credit risk of financial assets not subject to impairment
The Company has unquoted equity shares measured at fair value through other comprehensive income amounting to ₱124.9 million as at December 31, 2019 and 2018, respectively (see Note 9).

Maximum exposure to credit risk of financial assets subject to impairment
The table below shows the maximum exposure to credit risk for the Company's financial instruments (amounts in thousands):

	2019	2018
Cash and cash equivalents* (see Note 4)	**₱11,404,416**	₱11,530,868
Short-term investments (see Note 4)	–	15,774
Trade and other receivables (see Note 5)	**1,970,158**	1,674,114
Contract assets (see Note 14)	**1,227,259**	1,185,047
Deposits and sinking fund (see Note 6)	**552,652**	569,463
Miscellaneous deposits**	**286,455**	258,400
Total credit risk exposure	**₱15,440,940**	₱15,233,666

**Excludes cash on hand amounting to ₱5,424 and ₱2,180 as at December 31, 2019 and 2018, respectively.*
***Included as part of "Other noncurrent assets" in the consolidated statements of financial position.*

The table below shows the maximum exposure to credit risk for the Company's financial instruments by credit rating grades (amounts in thousands).

	2019					2018
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Lifetime ECL Simplified Approach**	**Total**	Total
High grade	**₱11,957,068**	**₱–**	**₱–**	**₱3,683,315**	**₱15,640,383**	₱15,561,182
Standard grade	**663,409**	**26,602**	**120,949**	**18,808**	**829,768**	700,969
Gross carrying amount	**12,620,477**	**26,602**	**120,949**	**3,702,123**	**16,470,151**	16,262,151
Loss allowance	**–**	**–**	**(120,949)**	**(908,262)**	**(1,029,211)**	(1,028,485)
Carrying amount	**₱12,620,477**	**₱26,602**	**₱–**	**₱2,793,861**	**₱15,440,940**	₱15,233,666

Aging analysis of past due but not impaired financial assets per class
As at December 31, 2019 and 2018, the credit quality per class of trade and other receivables and contract assets using a provision matrix (amounts in thousands):

.	**2019**				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Customers	**₱2,491,527**	**₱9,911**	**₱–**	**₱–**	**₱ 2,501,438**
Bulk	**28,673**	**140,939**	**–**	**–**	**169,612**
Contract assets	**–**	**1,227,259**	**–**	**–**	**1,227,259**
Employees	**–**	**59,959**	**–**	**–**	**59,959**
Others	**190,771**	**–**	**77,589**	**–**	**268,360**
Total	**₱2,710,971**	**₱1,438,068**	**₱77,589**	**₱–**	**₱4,226,628**

	2018				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Customers	₱51,016	₱1,223,831	₱94,140	₱998,389	₱2,367,376
Bulk	88,807	2,942	6,125	1,313	99,187
Contract assets	–	1,185,047	–	–	1,185,047
Employees	53,271	–	–	–	53,271
Others	153,983	–	–	28,783	182,766
Total	₱347,077	₱2,411,820	₱100,265	₱1,028,485	₱3,887,647

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, and deposits and sinking fund are placed in various banks. These are held by large prime financial institutions that have good reputation and low probability of insolvency. Management assesses the quality of these financial assets as high grade.

For trade and other receivables and contract assets, high grade relates to those which are consistently collected before the maturity date, normally seven days from bill delivery. Standard grade includes receivables from customers that are collectible beyond seven days from bill delivery even without an effort from the Company to follow them up, or those advances from officers and employees that are collected through salary deduction. For miscellaneous deposits, standard grade consists of meter and security deposits that are normally refundable upon termination of service.

Excessive risk concentration
Given the Company's diverse base of counterparties in its financial assets, it is not exposed to large or excessive concentrations of credit risk in any geographical region or industry.

Write-off policy
The Company writes off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Company writes off an account when either of the following conditions is met:

- unpaid bill(s) of former owner/tenant who can no longer be found. The amount to be written off shall be net of any customer deposit posted by the previous owner/tenant;
- the customer is deceased and left no estate, or the heir is not financially capable of settling the account;
- the unpaid bill(s) of a customer who has been declared bankrupt by the court;
- the filing of legal action to collect the unpaid bill(s) does not seem prudent under the circumstances, as determined by the Legal and Regulatory Affairs ("LRA");
- a final judgment favoring the customer was issued in a case filed against the customer for collection of money. In this case, the amount to be written off shall be equal to the amount recommended by the court;
- any unpaid bills(s), more than three years old, of disconnected services and which remain uncollected after exerting all diligent efforts, as supported by the disconnection letter and/or demand letter; and
- the water service connection no longer exists and the customer has no other account with Maynilad.

The Company also monitors loans written-off and any recoveries made. There are no written- off receivables during the current year.

Liquidity Risk

Liquidity risk is the potential for not meeting the obligations as they become due because of an inability to liquidate assets or obtain adequate funding.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning. Cash planning considers the maturity of both its financial investments and financial assets (e.g., trade and other receivables, other financial assets) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank drafts, bank loans and debentures.

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted payments.

	2019				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Interest-bearing loans*	**₱–**	**₱460,688**	**₱1,220,759**	**₱39,864,636**	**₱41,546,083**
Trade and other payables**	**1,064,735**	**3,186,035**	**6,106,877**	**6,080,799**	**16,438,446**
Service concession obligation payable to MWSS	**–**	**546,325**	**625,570**	**5,715,845**	**6,887,740**
Customers' deposits	**–**	**–**	**–**	**1,171,612**	**1,171,612**
Lease liabilities***	**–**	**23,437**	**59,711**	**223,081**	**306,229**
	₱1,064,735	**₱4,216,485**	**₱8,012,917**	**₱53,055,973**	**₱66,350,110**

**Principal plus interest payment*
***Excludes taxes payable, interest payable and current portion of lease liability*
****Current portion is presented under "Trade and other payables" account and noncurrent portion is presented under "Other noncurrent liabilities" account*

	2018				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Interest-bearing loans*	₱–	₱702,490	₱ 4,182,525	₱52,477,394	₱57,362,409
Trade and other payables**	839,108	3,675,478	10,333,406	–	14,847,992
Service concession obligation payable to MWSS	–	–	1,038,764	6,011,850	7,050,614
Customers' deposits	–	–	–	1,081,572	1,081,572
	₱839,108	₱4,377,968	₱15,554,695	₱59,570,816	₱ 80,342,587

**Principal plus interest payment*
***Excludes taxes payable and interest payable*

The table below shows the maturity profile of the Company's financial assets based on contractual undiscounted cash flows as at December 31, 2019 and 2018:

	2019				
	On Demand	**Due Within 3 Months**	**Due Between 3 and 12 Months**	**Due after 12 Months**	**Total**
Cash and cash equivalents	**₱2,360,141**	**₱9,049,699**	**₱–**	**₱–**	**₱11,409,840**
Trade and other receivables	**1,681,760**	**210,809**	**77,589**	**–**	**1,970,158**
Contract assets	**–**	**1,227,259**	**–**	**–**	**1,227,259**
Deposits and sinking fund	**–**	**–**	**552,652**	**–**	**552,652**
Financial assets at FVOCI	**124,864**	**–**	**–**	**–**	**124,864**
Miscellaneous deposits	**–**	**–**	**–**	**286,455**	**286,455**
	₱4,166,765	**₱10,487,767**	**₱630,241**	**₱286,455**	**₱15,571,228**

	2018				
	On Demand	Due Within 3 Months	Due Between 3 and 12 Months	Due after 12 Months	Total
Cash and cash equivalents	₱1,635,351	₱9,897,697	₱–	₱–	₱11,533,048
Short-term investments	–	–	15,774	–	15,774
Trade and other receivables	347,076	1,226,773	100,265	–	1,674,114
Contract assets	–	1,185,047	–	–	1,185,047
Deposits and sinking fund	–	–	569,463	–	569,463
Financial assets at FVOCI	124,864	–	–	–	124,864
Miscellaneous deposits	–	–	–	258,400	258,400
	₱2,107,291	₱12,309,517	₱685,502	₱258,400	₱15,360,710

Capital Management

The primary objective of the Company's capital management strategy is to ensure that it maintains a healthy capital structure in order to maintain a strong credit standing while it maximizes shareholder value.

The Company closely manages its capital structure vis-a-vis a certain target gearing ratio, which is net debt divided by total capital plus net debt. The Company's target gearing ratio is 75%. This target is to be maintained over the next five years by managing the Company's level of borrowings and dividend payments to shareholders.

For purposes of computing its net debt, the Company includes the outstanding balance of its long-term interest-bearing loans, service concession obligation payable to MWSS and trade and other payables, less the outstanding cash and cash equivalents, short-term investments, deposits and sinking fund. To compute its capital, the Company uses net equity.

	2019	2018
Interest-bearing loans and service concession obligation payable to MWSS (see Notes 10 and 11)	**₱47,969,644**	₱41,456,214
Trade and other payables (see Note 12)	**17,984,951**	16,204,862
Less cash and cash equivalents, short-term investments, deposits and sinking fund (see Notes 4 and 6)	**(11,962,492)**	(12,118,285)
Net debt (a)	**53,992,103**	45,542,791
Net equity	**50,482,876**	48,281,615
Net equity and debt (b)	**₱104,474,979**	₱93,824,406
Gearing ratio (a/b)	**52%**	49%

For purposes of monitoring debt ratio covenants, the Company computes using both interest-bearing debt and total liabilities. The Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

25. Fair Value of Financial Assets and Financial Liabilities

The following table summarizes the carrying values and fair values of the Company's financial assets and financial liabilities as at December 31, 2019 and 2018:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
At amortized cost -				
Miscellaneous deposits (included under "Other noncurrent assets" account)	**₱286,455**	**₱240,721**	₱276,620	₱179,120
Financial Liabilities				
Other financial liabilities:				
Interest-bearing loans	**₱41,081,904**	**₱45,326,554**	₱34,405,600	₱32,631,776
Service concession obligation payable to MWSS	**6,887,740**	**8,272,344**	7,050,614	7,763,361
Customers' deposits	**397,721**	**504,478**	349,479	290,620
Lease liabilites	**306,229**	**323,666**	–	–
	₱48,673,594	**₱54,427,042**	₱41,805,693	₱40,685,757

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

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Deposits and Sinking Fund, and Trade and Other Payables. Due to the short-term nature of these transactions, the carrying values approximate the fair values as at the reporting date.

Financial Assets at FVOCI. Fair value is equivalent to the carrying value because the Company's financial assets at FVOCI pertain to unquoted equity investments.

Interest-bearing Loans. For floating rate loans, the carrying value approximates the estimated fair value as at the reporting date due to quarterly repricing of interest rates. For fixed rate loans, the estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

Miscellaneous Deposits, Service Concession Obligation Payable to MWSS, Customers' Deposits and Lease Liabilities. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

The fair values of fixed rate interest-bearing loans, miscellaneous deposits, service concession obligation payable to MWSS, customers' deposits and lease liabilities are determined using Fair Value Hierarchy Level 3.

26. Supplemental Disclosure of Cash Flow Information

The noncash operating activities pertain to MWSS loan drawdown for Angat Water Transmission Improvement Project (AWTIP) amounting to ₱1,084.7 million, ₱598.8 million and nil in 2019, 2018 and 2017, respectively. Borrowing costs capitalized as part of service concession assets amounting to ₱704.3 million, ₱648.9 million and nil in 2019, 2018 and 2017, respectively (see Note 7).

27. Changes in Liabilities Arising from Financing Activities

	January 1, 2019	**Cash Flows**	**Foreign Exchange Movement**	**Other***	**December 31, 2019**
Current portion of interest- bearing loans (Note 11)	**₱354,218**	**(₱372,929)**	**₱–**	**₱1,235,979**	**₱1,217,268**
Noncurrent portion of interest-bearing loans (Note 11)	**34,051,382**	**7,455,373**	**(338,421)**	**(1,303,698)**	**39,864,636**
Current portion of service concession obligation payable to MWSS (Note 10)	**1,038,764**	**(1,673,491)**	**19,379**	**1,787,243**	**1,171,895**
Noncurrent portion of service concession obligation payable to MWSS (Note 10)	**6,011,850**	**–**	**113,295**	**(409,300)**	**5,715,845**
Interest payable (Note 12)	**423,642**	**(1,851,072)**	**(26,467)**	**1,918,077**	**464,180**
Lease liabilities (Notes 2 and 22)	**325,559**	**(139,006)**	**–**	**119,676**	**306,229**
Dividends payable (Note 13)	**2,513**	**(4,999,345)**	**–**	**5,000,000**	**3,168**
Total liabilities from financing activities	**₱42,207,928**	**(₱1,580,470)**	**(₱232,214)**	**₱8,347,977**	**₱48,743,221**

	January 1, 2018	Cash Flows	Foreign Exchange Movement	Other*	December 31, 2018
Current portion of interest- bearing loans (Note 11)	₱1,816,070	(₱18,487,067)	₱–	₱17,025,215	₱354,218
Noncurrent portion of interest-bearing loans (Note 11)	25,281,016	25,582,742	247,994	(17,060,370)	34,051,382
Current portion of service concession obligation payable to MWSS (Note 10)	1,217,038	(1,007,342)	38,746	790,322	1,038,764
Noncurrent portion of service concession obligation payable to MWSS (Note 10)	6,242,485	–	186,425	(417,060)	6,011,850
Interest payable (Note 12)	357,011	(1,668,934)	26,775	1,708,790	423,642
Dividends payable (Note 13)	2,061	(2,999,548)	–	3,000,000	2,513
Total liabilities from financing activities	₱34,915,681	₱1,419,851	₱499,940	₱5,046,897	₱41,882,369

*Other includes the effect of reclassification of non-current portion of interest-bearing loans and service concession obligation payable to current due to passage of time, accrual of dividends, amortization of debt issue cost, accretion on service concession obligation payable and addition to lease liabilities.