MetroPac Water Investments Corporation
(A Wholly-Owned Subsidiary of Metro Pacific Investments Corporation)

Financial Statements
December 31, 2020 and 2019

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
MetroPac Water Investments Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MetroPac Water Investments Corporation (the Company), a wholly-owned subsidiary of Metro Pacific Investments Corporation, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objective are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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PTR No. 8534228, January 4, 2021, Makati City

April 23, 2021

METROPAC WATER INVESTMENTS CORPORATION
(A Wholly-Owned Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 17 and 18)	**₱365,626,643**	₱323,934,301
Receivables (Notes 5, 17 and 18)	**344,316,659**	217,096,001
Other current assets (Note 6)	**77,093,811**	57,799,483
Total Current Assets	**787,037,113**	598,829,785
Noncurrent Assets		
Investments in subsidiaries and associates (Note 7)	**5,919,221,899**	5,582,847,125
Right-of-use asset (Note 9)	**48,477,890**	28,591,759
Property and equipment (Note 8)	**16,709,936**	16,544,825
Pension and other post-employment benefits asset (Note 14)	**–**	1,140,043
Deferred tax assets - net (Note 15)	**178,115**	247,125
Other noncurrent assets (Notes 10 and 16)	**1,057,050,888**	1,055,193,990
Total Noncurrent Assets	**7,041,638,728**	6,684,564,867
	₱7,828,675,841	₱7,283,394,652
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 11, 17 and 18)	**₱77,713,680**	₱101,498,797
Advances from a related party (Notes 13, 16 and 17)	**1,304,885**	44,753
Lease liability - current (Note 9)	**8,995,415**	5,371,512
Total Current Liabilities	**88,013,980**	106,915,062
Noncurrent Liabilities		
Lease liability - noncurrent (Note 9)	**40,076,190**	24,043,995
Pension and other post-employment benefits liability (Note 14)	**3,954,205**	–
Deposit for future stock subscription (Note 12)	**–**	403,000,000
Other noncurrent liability (Note 14)	**–**	25,000,000
Total Noncurrent Liabilities	**44,030,395**	452,043,995
Total Liabilities	**132,044,375**	558,959,057
Equity		
Capital stock (Notes 12 and 17)	**1,674,100,000**	1,570,000,000
Additional paid-in capital (Notes 12 and 17)	**8,371,095,625**	7,435,236,625
Other comprehensive income (Notes 14 and 17)	**3,491,613**	8,628,406
Deficit (Note 17)	**(2,352,055,772)**	(2,289,429,436)
Total Equity	**7,696,631,466**	6,724,435,595
	₱7,828,675,841	₱7,283,394,652

See accompanying Notes to Financial Statements.

METROPAC WATER INVESTMENTS CORPORATION
(A Wholly-Owned Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
REVENUE		
Interest income - net (Note 4)	**₱2,803,894**	₱21,179,557
Management fee (Note 13)	**6,160,714**	5,991,071
	8,964,608	27,170,628
EXPENSES		
Professional fees	**47,818,116**	50,910,840
Depreciation and amortization (Notes 8, 9 and 10)	**17,230,239**	14,597,961
Personnel costs (Note 14)	**6,959,437**	159,404,027
Rental and utilities (Note 9)	**3,619,185**	5,279,581
Contracted services	**3,227,909**	5,221,239
Advertising and promotions	**2,373,400**	28,415,658
Transportation and travel	**2,080,171**	23,280,855
Training and conferences	**1,823,592**	5,732,254
Taxes and licenses	**1,622,759**	8,964,878
Repairs and maintenance	**811,915**	860,531
Office supplies	**672,043**	1,180,157
Subscription and periodicals	**540,615**	508,175
Membership dues	**188,520**	366,611
Insurance	**106,609**	268,010
Provision for impairment losses (Notes 5 and 7)	**–**	1,256,039,557
Miscellaneous	**3,384,178**	5,464,622
	92,458,688	1,566,494,956
OTHER INCOME (EXPENSE)		
Reversal of impairment (Note 7)	**37,075,016**	–
Interest expense (Note 9)	**(2,205,288)**	(1,788,463)
Foreign exchange gain (loss) - net	**(634,583)**	(76,948)
Special events fee (Note 16)	**–**	11,863,718
Settlement claims (Note 16)	**–**	6,426,275
Others (Notes 8 and 9)	**(13,213,795)**	(917,215)
	21,021,350	15,507,367
LOSS BEFORE INCOME TAX	**62,472,730**	1,523,816,961
PROVISION FOR INCOME TAX (Note 15)		
Current	**123,214**	351,404
Deferred	**30,392**	(247,125)
	153,606	104,279
NET LOSS	**62,626,336**	1,523,921,240
OTHER COMPREHENSIVE INCOME (LOSS)		
Item not to be reclassified to profit or loss in the subsequent period -		
Remeasurement gain on retirement plan (Note 14)	**(5,136,793)**	6,190,950
TOTAL COMPREHENSIVE LOSS	**₱67,763,129**	₱1,517,730,290

See accompanying Notes to Financial Statements.

METROPAC WATER INVESTMENTS CORPORATION
(A Wholly Owned Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 12)	Additional Paid-In Capital (Note 12)	Other Comprehensive Income (Note 14)	Deficit	Total
At December 31, 2019	**₱1,570,000,000**	**₱7,435,236,625**	**₱8,628,406**	**(₱2,289,429,436)**	**₱6,724,435,595**
Issuance of shares	**104,100,000**	**935,859,000**	**–**	**–**	**1,039,959,000**
Total comprehensive income (loss) during the year	**–**	**–**	**(5,136,793)**	**(62,626,336)**	**(67,763,129)**
At December 31, 2020	**₱1,674,100,000**	**₱8,371,095,625**	**₱3,491,613**	**(₱2,352,055,772)**	**₱7,696,631,466**
At December 31, 2018	₱1,520,000,000	₱6,986,236,625	₱2,437,456	(₱765,508,196)	₱7,743,165,885
Issuance of shares	50,000,000	449,000,000	–	–	499,000,000
Total comprehensive income (loss) during the year	–	–	6,190,950	(1,523,921,240)	(1,517,730,290)
At December 31, 2019	₱1,570,000,000	₱7,435,236,625	₱8,628,406	(₱2,289,429,436)	₱6,724,435,595

See accompanying Notes to Financial Statements.

METROPAC WATER INVESTMENTS CORPORATION
(A Wholly-Owned Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱62,472,730)**	(₱1,523,816,961)
Adjustments for:		
Gain on reversal of impairment (Note 7)	**(37,075,016)**	–
Depreciation and amortization (Notes 8 and 10)	**17,230,239**	14,597,961
Pension cost and leave expense (Note 14)	**2,916,046**	5,729,202
Interest income (Note 4)	**(2,803,894)**	(21,179,557)
Interest expense (Note 9)	**2,205,288**	1,788,463
Loss (gain) on termination of lease (Note 9)	**(585,933)**	230,166
Loss (gain) on sale of property and equipment (Note 8)	**(78,507)**	687,049
Unrealized foreign exchange loss	**57,911**	83,174
Provision for impairment losses (Notes 5 and 7)	**–**	1,256,039,557
Operating loss before working capital changes	**(80,606,596)**	(265,840,946)
Decrease (increase) in:		
Receivables	**17,231,486**	(17,303,622)
Other current assets	**(19,294,328)**	(10,007,176)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(23,785,117)**	62,689,528
Other noncurrent liabilities	**(25,000,000)**	24,043,995
Due to a related party	**1,260,132**	44,753
Net cash used in operations	**(130,194,423)**	(206,373,468)
Interest received (Note 4)	**2,803,894**	21,179,557
Contributions to pension fund (Note 14)	**(2,958,591)**	(2,527,494)
Income taxes paid (Note 15)	**(84,596)**	(351,404)
Net cash used in operating activities	**(130,433,716)**	(188,072,809)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 7)	**(336,374,774)**	(1,240,687,500)
Deferred project cost (Note 10)	**–**	(100,256,251)
Property and equipment and software (Notes 8 and 10)	**(7,210,678)**	(13,701,238)
Proceeds from sale of property and equipment (Note 8)	**1,215,283**	2,518,365
Cash received from disposal of associates (Note 7)	**10,162,899**	–
Decrease (increase) in:		
Advances to related parties (Notes 5 and 13)	**(117,540,028)**	67,110,409
Other noncurrent assets	**(2,234,075)**	(2,395,858)
Net cash used in investing activities	**(451,981,373)**	(1,287,412,073)
CASH FLOWS FROM FINANCING ACTIVITY		
Net proceeds from issuance of shares (Note 12)	**636,959,000**	499,000,000
Deposit for future stock subscription (Note 12)	–	403,000,000
Payment for lease liabilities (Note 9)	**(12,793,658)**	(10,671,192)
Net cash provided by financing activities	**624,165,342**	891,328,808
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(57,911)**	(83,174)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**41,692,342**	(584,239,248)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**323,934,301**	908,173,549
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱365,626,643**	₱323,934,301

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

MetroPac Water Investments Corporation (the Company), a wholly owned subsidiary of Metro Pacific Investments Corporation (MPIC), was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 19, 2011. The Company's primary purpose is to carry on the general business of operating, maintaining and rehabilitating waterworks, sewerage, and sanitation systems and services, specifically, for the supply, distribution and sale of potable water, including allied and ancillary activities necessary or otherwise incidental to any of the foregoing.

Metro Pacific Holdings, Inc. (MPHI) owns 43.1% and 41.9% of the total issued and outstanding common shares of MPIC as at December 31, 2020 and 2019, respectively. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 56.2% and 55.0% as at December 31, 2020 and 2019, respectively.

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

The registered office address of the Company is 10th Floor, MGO Building, Legazpi cor de la Rosa Sts., Legazpi Village, Makati City.

The accompanying financial statements were approved and authorized for issuance by the BOD of the Company on April 23, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements are prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency and all amounts are rounded off to the nearest peso, except when otherwise stated.

The Company, a wholly-owned subsidiary of MPIC, elected not to prepare consolidated financial statements under the exemption provided in Philippine Financial Reporting Standards (PFRS) 10, *Consolidated Financial Statements*. MPIC prepares consolidated financial statements in conformity with PFRS and such consolidated financial statements are filed with the SEC and Philippine Stock Exchange and are available to the public. These consolidated financial statements of MPIC may also be obtained at 10th Floor, MGO Building, Legazpi cor Dela Rosa Streets, Legazpi Village, Makati City.

Statement of Compliance
The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by Financial Reporting Standards Council (FRSC) and Philippine Interpretations Committee (PIC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following amendments starting January 1, 2020. The adoption of these amendments did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*

Standards Not Yet Effective
The Company intends to adopt the following pronouncements when these become effective. Except as otherwise indicated, adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

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*

Significant Accounting Policies
The significant accounting policies adopted in the preparation of the financial statements are set out below:

Current versus Noncurrent Classification
The Company presents assets and liabilities in statements of financial position based on current or noncurrent classification.

An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve (12) 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 (12) months after the reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:

- Expected to be settled in normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve (12) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the reporting period.

All other liabilities are classified as noncurrent.

Cash and Cash Equivalents
Cash in bank earns interest at the prevailing bank deposit rate. 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 acquisition date and are subject to an insignificant risk of change in value.

Financial Instruments

Initial Recognition and Measurement of Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

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

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

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

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

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

Financial assets at amortized cost (debt instruments)
This category is most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Company's financial assets at amortized cost include cash and cash equivalents, receivables and performance bond included in "Other noncurrent assets" account in the statements of financial position. The Company has no financial assets at FVOCI (debt instruments), financial assets designated at FVOCI (equity instruments) and financial assets at FVPL.

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

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

For cash and cash equivalents, interest receivables and performance bond, the Company applies a general approach in calculating ECLs.

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

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

<u>Financial Liabilities</u>

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include accounts payable, other current liabilities (excluding statutory payables and unearned income), lease liability and advances from related party.

Subsequent Measurement. After initial recognition, accrued expenses and other current liabilities and due to a related party 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 recognized in the statement of comprehensive income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts; and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Fair Value Measurement
The Company measures financial instruments traded in active markets 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 in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; 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 financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Fair value measurement disclosures are presented in Note 18.

Investment in Subsidiaries
Investment in subsidiaries are carried at cost, less any impairment in value. A subsidiary is an entity in which the Company has control. 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. The Company's investment in subsidiaries are disclosed in Note 7.

Investment in Associates
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company's investment in an associate is accounted for under the cost method of accounting. The Company availed of the exemptions from applying the equity method on the basis of the following conditions provided in PAS 28, *Investments in Associates and Joint Ventures*:

- the Company's stockholders have been informed about, and do not object to, the Company not applying the equity method;
- the Company's debt or equity instruments are not traded in a public market;
- the Company did not file, nor is it in the process of filing the financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and
- MPIC, the ultimate parent company, prepares consolidated financial statements that comply with PFRS.

Under the cost method, the investment in an associate is initially recognized at cost. The Company recognizes income from the investments only to the extent that the Company receives distributions of accumulated profits of an associate arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Any gain or loss arising on the disposal of the investment, calculated as the difference between the proceeds and the cost of the investment, is included in the statements of comprehensive income in the year the investment is disposed.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. The Company's investment in associates are disclosed in Note 7.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and any impairment loss.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use.

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.

Depreciation and amortization commence once the property and equipment are available for use and is computed on a straight-line basis over the following estimated useful lives:

Transportation equipment	5 years
Leasehold improvements	5 years or lease term, whichever is shorter
Furniture and fixtures	5 years
Office equipment	3 years

The useful lives and depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depreciation and amortization 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 and amortization is charged to current operations.
An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statements of comprehensive loss in the year the asset is derecognized. The Company's property and equipment are disclosed in Note 8.

Leases

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

Lease liabilities. At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

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

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

Other Current Assets

Creditable Withholding Tax (CWT). CWT is recognized by virtue of Republic Act 8424 relative to the withholding on income subject to expanded withholding tax. CWT is recognized when the Company's customers withheld certain taxes payable to the taxation authority on income payments made by them, and is reduced to the extent of that CWT which will not be realized through the use of an allowance account.

Value-Added Tax. Revenues, expenses and assets are recognized net of the amount of VAT except: where 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 VAT recoverable from and payable to the tax authority is included as part of "Other current assets" and "Accounts payable and other current liabilities" accounts in the statements of financial position.

Software Cost
Software cost, included as part of "Other noncurrent assets" account in the statements of financial position, includes the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years (see Note 10). The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Deferred Project Costs
Costs directly attributable to the development of water projects are recorded as deferred project costs until commencement of the concession term, whereupon the costs are reclassified to "investment" in subsidiaries/joint venture/associate that will hold the investment concession or joint venture project.

Deferred project costs for which projects were not awarded to the Company but are recoverable by way of reimbursement are reclassified as "receivable". Deferred project cost for which projects were not awarded and such has been considered as non-recoverable are reclassified as expense in the statements of comprehensive income.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that the nonfinancial assets (i.e., investments in subsidiaries and associates, property and equipment, and software) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing 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. Impairment losses are recognized in the statements of comprehensive loss in those expense categories consistent with the function of the impaired asset.

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

Deposits for Future Stock Subscription
Deposits for future stock subscription are accounted for as a separate account under equity when all of the following elements are present as at end of the reporting period, otherwise, they are presented as a liability:
- the unissued authorized capital stock of the Company is insufficient to cover the amount of deposit;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Company);
- there is stockholders' approval of the said proposed increase; and,
- the application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

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

Deficit represents accumulated losses incurred by the Company.

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

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

Dividend Income. Dividend income is recognized when the right to receive the payment is established.

Other income. Other income is recognized when there is an incidental economic benefit, outside the normal course of business, that will flow to the Company and can be measured reliably.

Cost and Expenses Recognition
Cost and 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 statements of comprehensive loss as incurred.

Pension Cost
The retirement benefits of the Company's employees are provided through a defined contribution scheme as approved by the BOD on February 23, 2016. The retirement plan is a contributory plan wherein the Company undertakes to contribute a predetermined amount to the individual account of each employee and the employee gets whatever is standing to his credit upon separation from the Company. The retirement plan is managed and administered by the Compensation Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the plan.

The Company's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make personal contributions to the fund, at an amount not exceeding 40.0% of his monthly salary. The Company then provides an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. The Company, however, is covered under Republic Act (R.A.) No. 7641 which provides for its qualified employees a defined benefit minimum guarantee. The defined minimum guarantee benefit is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. No. 7641.

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

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

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

Remeasurements of the pension liability, which comprise actuarial gains and losses, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI.

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

Long-term Incentive Plan (LTIP)
Certain of the company's employees are eligible for long-term employee benefits. Each LTIP performance cycle generally covers 3 years (e.g. 2019 to 2021) with payment intended to be made at the end of each cycle (without interim payments) and is contingent upon the achievement of an approved target core income of the Company by the end of the performance cycle. Each LTIP performance cycle and liability accrued at each reporting period within the performance cycle is approved by the BOD of the Company. The LTIP of the Company grants cash incentives to eligible employees of the Company (see Note 14).

Accrued Leaves
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. Upon separation from service of the Company, the cash equivalent of the employee's accumulated leaves are paid in lump sum (see Note 14).

Other Long-term Employee Benefits
Liabilities for other long-term employee benefits are composed of pension and benefit enhancements. determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and losses, and past service costs, if any. Past service costs and actuarial gains and losses are recognized immediately. Provision for benefit enhancements are composed of various benefits for key management personnel and employees (see Note 14).

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 at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefit of unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is 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 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 obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of comprehensive loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events after the Reporting Period

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best judgment and estimates of certain amounts, giving due consideration to materiality. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the 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 financial statements as they become reasonably determinable.

Estimates and assumptions 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.

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

Determination of lease term of contracts with renewal and termination options – Company as a lessee. The Company has lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Capitalization of Deferred Project Costs. Costs directly related to a water project and incurred in securing the contract are capitalized if they can be identified separately, measured reliably and it is probable that the Company will be able to secure the water project or receive reimbursement for costs incurred.

In assessing the probability of securing the water project, factors that the Company considers include, but are not limited to, the following: (1) legal framework in which the project is being developed; (2) stage of negotiations between the contracting parties; (3) technical feasibility of completing the project; and (4) commercial viability of the project.

As at December 31, 2020 and 2019, deferred project costs included as part of "Other noncurrent assets" account amounted to ₱24.2 million (see Note 10).

<u>Estimates and Assumptions</u>
The key estimates and assumptions concerning the future and other key sources of estimation uncertainties at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below. The estimates and assumptions are based on the parameters available when the 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.

Leases - Estimating the incremental borrowing rate. 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 ROU 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 or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

The Company's right-of-use asset amounted to ₱48.5 million and ₱28.6 million as at December 31, 2020 and 2019, respectively. The Company's lease liabilities amounted to ₱49.1 million and ₱29.4 million as at December 31, 2020 and 2019, respectively (see Note 9).

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

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

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

For cash and cash equivalents, the Company applies a general approach in calculating ECLs. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from reputable credit rating agencies to determine whether the debt instrument has significant increase in credit risk and to estimate ECLs.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company recognized provision for ECL amounting to nil and ₱10.0 million for the years ended December 31, 2020 and 2019, respectively. The carrying amount of receivables amounted to ₱344.3 million and ₱217.1 million as at December 31, 2020 and 2019, respectively (see Notes 5 and 17).

Determination of Fair Value of Financial Instruments. When the fair value of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to this model are taken from observable markets, if possible, but if this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the financial assets and financial liabilities are disclosed in Note 18.

Impairment of Nonfinancial Assets. Impairment review is performed when certain impairment indicators are present. Determining the recoverable amount of certain assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. This requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that its investment in subsidiaries and associates, property and equipment and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While the Company believes that its assumptions are appropriate and reasonable, significant changes in its assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under PFRS.

The carrying amounts of nonfinancial assets subject to impairment review when impairment indicators are present:

	2020	2019
Right-of-use asset (Note 9)	**₱48,477,890**	₱28,591,759
Investments in subsidiaries and associates (Note 7)	**5,919,221,899**	5,582,847,125
Property and equipment (Note 8)	**16,709,936**	16,544,825
Software* (Note 10)	**2,231,183**	2,608,360
Total	**₱5,986,640,908**	₱5,630,592,069

**Included under "Other noncurrent assets" account.*

The Company performed impairment review upon identification of impairment indicators. On November 30, 2020, the Company tested for impairment its investments in ESTII. On November 30, 2019, the Company tested for impairment its investments in ESTII, MWCI, WBSI and KDMI.

For ESTII, the Company used the discounted cash flow approach, the pre-financing cash flows derived from ESTII's projected financial statements for a five-year period. The terminal value was discounted at market weighted average cost of capital (WACC) of 9.6% and 10.94% and growth rate of 3.5% and 1.5% to arrive at the value in use as of November 30, 2020 and 2019, respectively. The resulting amount was compared with the carrying amount of ESTII as of November 30, 2020 and 2019, respectively.

For MWCI, the Company used the discounted cash flow approach, the pre-financing cash flows derived from their MWCI's projected financial statements for their respective concession terms were discounted at market WACC of 10.91% to arrive at the value in use as of November 30, 2019. The resulting amount was compared with the carrying amount of MWCI as of November 30, 2019.

For WBSI and KDMI, these companies were not generating any cash flows presently nor were they expected to generate any more cash flows in the future. As such, these investments were impaired at their respective investment costs and any recoverable value, if any, was an upside to the impaired investment cost.

As a result, the Company recognized impairment losses as follows for the year ended December 31, 2019:

Investment in ESTII	₱1,035,116,541
Investment in MWCI	133,848,000
Investment in KDMI	40,020,000
Investment in WBSI	37,075,016
Total	₱1,246,059,557

There were no impairment losses recognized for the year ended December 31, 2020. Gain on reversal of impairment was recognized amounting to ₱37.1 million and nil for the years ended December 31, 2020 and 2019, respectively. The gain pertains to the reversal of allowance for impairment of investment in WBSI (see Note 7).

Realizability 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 income 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.

The amount of deductible temporary differences, NOLCO and MCIT, for which no DTA is recognized in the statements of financial position amounted to ₱1,908.7 million and ₱2,119.1 million as at December 31, 2020 and 2019, respectively (see Note 15).

Computation of Pension Cost and Liability. The cost of defined benefit plan and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions, which consists, among others, discount rates, future salary rate increases and mortality rates (see Note 14). Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

Pension cost presented as part of “Personnel costs” account in the statements of comprehensive income amounted to ₱2.1 million and ₱4.8 million in 2020 and 2019, respectively (see Note 14).

Determination of Other Long-term Incentives Benefits. The LTIP for key executives of the Company is still subject for approval by the Executive Compensation Committee and the BOD which is based on profit targets for the covered Performance Cycle.

LTIP presented as part of “Personnel costs” account in the statement of comprehensive income and “Other noncurrent liability” account in the statements of financial position amounted to nil and ₱25.0 million in 2020 and 2019, respectively (see Note 14).

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand and in banks	**₱12,451,670**	₱131,117,226
Cash equivalents	**353,174,973**	192,817,075
	₱365,626,643	₱323,934,301

Cash in banks earn interest at the prevailing bank deposit rates.

Cash equivalents are made for varying periods within three months depending on the immediate cash requirements of the Company and earn interest at the prevailing cash equivalents rates.

Interest income earned on cash in banks and cash equivalents, net of applicable final tax, amounted to ₱2.8 million and ₱21.2 million in 2020 and 2019, respectively.

5. Receivables

This account consists of:

	2020	2019
Advances to related parties (Note 13)	**₱301,414,682**	₱183,874,654
Others	**52,881,977**	43,201,347
	354,296,659	227,076,001
Less allowance for ECL	**(9,980,000)**	(9,980,000)
	₱344,316,659	₱217,096,001

Other receivables include advances made to third parties amounting to ₱41.5 million in 2020 and 2019. Management expects these to be collected within the next financial year.

Allowance for ECL refers to the impairment of receivables from KDMI since the Company assessed that it is credit impaired as at December 31, 2020 and 2019.

6. Other Current Assets

This account consists of:

	2020	2019
Input VAT – net	**₱66,702,754**	₱55,923,110
Advances to suppliers	**7,606,277**	–
Creditable withholding tax	**2,175,371**	1,366,478
Prepayments and others	**609,409**	509,895
	₱77,093,811	₱57,799,483

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 against output VAT. Management believes that the amount of recorded input VAT is fully realizable in the future.

Advances to suppliers pertain to advances made in relation to the construction of the premises to be leased as the Company's office space.

Creditable withholding taxes represent amounts withheld by the Company's customers from their payments to the Company, and which are creditable against the income tax payable.

Prepayments pertain mainly to subscriptions, membership fees and rental not under the scope of PFRS 16.

7. Investments in Subsidiaries and Associates

This account consists of investments in the following companies:

	Place of Incorporation	Nature of Business	Ownership Interest 2020	2019
Subsidiaries:				
Metro Pacific TL Water International Limited (MPTL)	British Virgin Islands	Holding Company	**100%**	100%
Eco-System Technologies International, Inc. (ESTII)	Philippines	Sanitary Services	**65%**	65%
Metro Pacific Water International Limited (MPWIL)	British Virgin Islands	Holding Company	**100%**	100%
MetroPac Iloilo Holdings Corp. (MILO)	Philippines	Holding Company	**100%**	100%
Metropac Cagayan de Oro Holdings, Inc. (MCOH)	Philippines	Holding Company	**100%**	100%
Metro Iloilo Concession Holdings Corp. (MILCOH)	Philippines	Holding Company	**100%**	100%
MetroPac Dumaguete Holdings Corp. (MDHC)	Philippines	Holding Company	**100%**	100%
Metropac Baguio Holdings Inc. (MBHI)	Philippines	Holding Company	**100%**	100%
MetroPac Cagayan De Oro, Inc. (MCDO)	Philippines	Holding Company	**100%**	100%
Associates:				
EquiPacific HoldCo Inc. (EHI)	Philippines	Holding Company	**30%**	30%
Manila Water Consortium, Inc. (MWCI)	Philippines	Bulk Water Services	**39%**	39%
Karayan Diliman Management, Inc. (KDMI)	Philippines	Engineering Consultancy Firm	**40%**	40%
Watergy Business Solutions, Inc. (WBSI)	Philippines	Bulk Water Services	–	49%

As at December 31, the carrying amounts of the Company's investments follows:

	2020	2019
Investments in subsidiaries:		
MPTL	**₱2,015,435,068**	₱2,015,435,068
ESTII	**1,800,000,000**	1,800,000,000
MILCOH	**971,916,861**	683,616,861
MDHC	**783,430,661**	739,151,637
MPWIL	**637,849,948**	634,054,198
MILO	**440,334,092**	440,334,092
MCOH	**143,902,964**	143,902,964
MBHI	**2,250,000**	2,250,000
MCDO	**250,000**	250,000
Investments in associates:		
EHI	**158,968,846**	158,968,846
MWCI	**133,848,000**	133,848,000
KDMI	**40,020,000**	40,020,000
WBSI	**–**	37,075,016
	7,128,206,440	6,828,906,682
Less allowance for impairment	**1,208,984,541**	1,246,059,557
	₱5,919,221,899	₱5,582,847,125

Subsidiaries

MPTL. MPTL is incorporated in the British Virgin Islands as a BVI Business Company on March 28, 2018. Through MPTL, MPW completed the acquisition of 49% of the outstanding capital stock of Tuan Loc Water Resources Investment Joint Stock Company (TLW) on June 11, 2018. The transaction was completed through the acquisition of 37,926,000 shares from an existing shareholder of TLW for 866 billion Vietnamese Dong (VND) (equivalent to ₱2.0 billion). TLW is one of the largest water companies in Vietnam, with 310 million liters per day (MLD) of installed capacity and a billed volume of approximately 102 MLD for the year ended December 31, 2018. TLW's main project assets are the: (1) Song Lam Raw Water Plant, a 50-year Build-Own-Operate (BOO) with an installed capacity of 200 MLD expandable to 300 MLD. It supplies raw water to the Nghe An Water Supply JSC and surrounding industrial parks. Nghe An Province is the largest province in Vietnam by area and has a population of about 3.1 million people; (2) Ho Cau Moi Water Treatment Plant, a 50-year BOO with an installed capacity of 90 MLD expandable to 120 MLD. It supplies treated water to Dong Nai Water Company and surrounding industrial parks. Dong Nai Province is the manufacturing satellite of Ho Chi Minh City and will be the location of the Long Thanh International Airport – the new 100 million passenger airport of HCMC. Dong Nai Province has a population of about 2.9 million; and (3) Nhon Trach 6A Sewage Treatment Plant, a 50-year BOO with an installed capacity of 20 MLD expandable to 40 MLD. It is the wastewater treatment facility for the 400-hectare Nhon Trach 6 Industrial Park in Dong Nai Province.

ESTII. On June 16, 2016, MPW acquired 65% of the outstanding capital stock of ESTII. ESTII is engaged in the business of constructing, operating and maintaining water and wastewater treatment facilities, and providing consultancy services in respect thereof, importing, buying, selling, distributing, marketing at wholesale and retail insofar as may be permitted by law, goods, commodities, wares and merchandise related to water, water treatment, water distribution or water services and other allied goods. ESTII has a leading market position in the Philippine wastewater industry and has a valuable client base comprised of major mall, office, commercial and residential property developers, hotels and resorts, hospitals and industrial facilities.

The acquisition comprises of the purchase of 12,000,000 Class A common shares of ESTII from Eco-System Technologies, Inc. (ESTI) representing 60% of total outstanding capital stock of ESTII, at a consideration of ₱141.67 per Class A common share, and subscription to 1,000,000 Class C common shares representing 5% of total outstanding capital stock of ESTII, at a consideration of ₱100.00 per Class C common share.

In the assessment of the recoverable amount of water non-concession business, the VIU was calculated based on cash flow projections as per the most recent financial budgets and forecasts covering a five-year period, after considering impact of the COVID-19 pandemic on the Company's business and industry, which management believes are reasonable and are management's best estimates of the ranges of economic conditions that will exist over the forecast period.

ESTII's cash flows beyond the five-year period were extrapolated using a 3.5 % and 1.5% growth rate in 2020 and 2019, respectively, that is consistent with the average growth rate of the industry. As a result of the analysis, the Company recognized an impairment charge of nil and ₱1,035.1 million on the investment in ESTII in 2020 and 2019, respectively (see Note 3). The carrying value of investment in ESTII amounted to ₱764.9 million as at December 31, 2020 and 2019.

MDHC. MPW incorporated MDHC as a special purpose company to implement *Dumaguete City Water District (DCWD) Water Concession Joint Venture Project.* It is registered with SEC on June 21, 2018 with an original subscription of ₱35.0 million.

On May 16, 2018, MPW officially received from DCWD the Notice of Award for the rehabilitation, operation, maintenance, and expansion of DCWD's existing water distribution system and development of wastewater facilities (the "Project").

On September 3, 2019, MPW and DCWD entered into a JV Agreement upon completion of the post-award activities. On October 22, 2019, a JV Corporation, 80%-owned by the private sector partner and 20%-owned by DCWD, was incorporated pursuant to the provisions set in the JV Agreement. The JV Corporation shall implement the Project and will have the right to bill and collect for the supply of water and wastewater services provided to customers in the service area of DCWD (see Note 16).

In 2019, MPW made additional investment of ₱665.0 million in advances and ₱39.2 million in capitalizable professional cost. 75% of original subscription of ₱35.0 million was already paid on the same year.

On January 17, 2020, MPW has subscribed to additional 105.0 million shares for a total subscription price of ₱105.0 million. This amount was applied against the advances made to MDHC.

In 2020, MPW made additional investment of ₱44.3 million in capitalizable professional cost. The JV Corporation, Metro Pacific Dumaguete Water Services (MDW), commenced operations on February 1, 2021.

MILCOH. On February 15, 2018, MPW incorporated MILCOH as a special purpose company to implement the *Concession Joint Venture Project* with Metro Iloilo Water District (MIWD) with an original subscription of ₱30.0 million. The Company's primary purpose is to acquire, hold, own and use for investment or otherwise, sell, exchange, deal in and invest in bonds, debentures, promissory notes, shares of capital stock, or other securities and obligations, created, negotiated or issued by any corporation, association, or other entity and while the owner, holder, or possessor thereof, to exercise all the rights, powers and privileges of ownership or any other interest therein, including the right to receive, collect and dispose of, any and all dividends, interests and income, derived therefrom, and the right to vote on any proprietary or other interest, on any shares of the capital stock, and upon any bonds, debentures, or other securities, having voting power, so owned and held, without however engaging in the business of an investment company under the Investment Company Act or a finance company or a broker or dealer in securities or stocks.

On November 13, 2018, MPW entered into a JV Agreement with MIWD for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and construction of wastewater facilities (the "Project").

On January 17, 2019, Metro Pacific Iloilo Water Inc. (MIW), the JV Corporation 80%-owned by MILCOH and 20%-owned by MIWD, was incorporated pursuant to the provisions of the JV Agreement. MIW shall implement the Project and will have the right to bill and collect for the supply of water and wastewater services to customers in the service area of MIWD (see Note 16).

On December 7, 2018, MPW subscribed and paid for additional 1,417,434 common shares for a total subscription price of ₱20.0 million.

In 2019, MPW made additional investment of ₱549.4 million in advances and ₱84.2 million in capitalizable professional cost.

In 2020, MPW made additional investment of ₱288.3 million in advances.

MPWIL. MPWIL is incorporated in the British Virgin Islands as a BVI Business Company on

October 25, 2017. On May 14, 2018, MPW completed the acquisition of 45% of the outstanding capital stock of BOO Phu Ninh Water Treatment Plant Joint Stock Company (PNW). The transaction was completed through the acquisition of 9,900,000 shares from an existing shareholder of PNW for VND 272.4 billion (equivalent to ₱622.0 million), subject to price adjustment through an escrow mechanism depending on the fulfillment of certain conditions. The amounts in escrow shall be released in tranches upon the satisfaction of certain conditions until December 31, 2018. Of the VND 90.8 billion held in escrow, VND 22.7 billion (equivalent to ₱52.0 million) was released in September 2018.

On January 29, 2019, due to the non-fulfillment of several secured commitments within the deadline stipulated under the Escrow Agreement, notice was given to return the remaining amount equivalent to ₱155.0 million to MPWIL. As at December 31, 2019, total investment cost and advances to PNW presented under "Investment in and advances to subsidiaries and associates" account in the statements of financial position amounted to ₱479.0 million, including the capitalized project cost, and ₱155.0 million, respectively.

Pursuant to a 50-year Build-Own-Operate contract with the Chu Lai Open Economic Zone Authority, PNW is licensed to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province. PNW started supplying water in July 2019, with installed capacity of 25 MLD and has potential to increase its capacity to 300 MLD.

Pursuant to a conditional Share Subscription Agreement dated March 21, 2019 which was completed on September 5, 2019, MPW acquired an additional 7.549% ownership interest for ₱78.0 million which increased its shareholding from 45.0% to 52.549%.

On April 6, 2020, MPW increased its ownership interest in PNW from 52.549% to 55.41% through subscription to additional 3.5 million shares for VND35 billion (₱74.9 million). MPW paid VND5 billion (₱10.8 million) as partial payment for the subscription to the new shares. The remaining VND30 billion (₱64.1 million) was paid on July 16, 2020.

MILO. On January 8, 2016, MPW incorporated MILO as a special purpose company to implement the *170 MLD Bulk Water Supply Project*, a joint venture with MIWD. The Company's primary purpose is to acquire, hold, sell, exchange, deal or invest in the stocks, bonds, or securities of any government entity or any subdivision thereof or any public or private corporation, and in real or personal property of all kinds in the same manner and to the same extent as natural person, might could or would do, to exercise all the rights, powers and privileges of ownership, including the right to vote therein, or consent in respect thereof, for any and all purposes, without however managing securities, portfolio or funds of the managed entity or firm nor the Company shall act as stock broker or dealer in securities.

On July 4, 2016, pursuant to the Joint Venture (JV) Agreement, MILO and MIWD created and established Metro Iloilo Bulk Water Supply Corporation (MIB). MIB is a joint venture company, owned by MILO (80%) and MIWD (20%) that has the exclusive right to supply bulk water to the MIWD. Its primary purpose is to construct, operate, manage, rehabilitate, improve and expand waterworks and treatment facilities in order to provide bulk water services, and to collect fees as compensation for such services (see Note 16).

On July 5, 2016, operation was officially turned over by the MIWD to MIB.

In 2018, MILO returned advances for stock subscription to MPW amounting to ₱345.0 million.

On December 7, 2018, MILO issued additional 750,000 shares to MPW through conversion of advances amounting to ₱406.0 million.

MCOH. On July 31, 2017, MPW incorporated MCOH as a special purpose company to implement *Cagayan de Oro 100 MLD Bulk Water Project*, a joint venture with Cagayan De Oro Water District (COWD). The Company's primary purpose is to acquire, hold, sell, exchange, deal and invest in the stocks, bonds, or securities of any government or any subdivision thereof or any public or private corporation, and in real or personal property of all lands in the same manner and to the same extent as natural person, might could or would do, to exercise all the rights, powers and privileges of ownership, including the right to vote therein, or consent in respect thereof, for any and all purposes without however managing securities, portfolio or funds of any entity or firm nor the corporation shall act as stock broker or dealer in securities nor engaging in investment, solicitation and investment-taking activities from public investors.

On October 4, 2017, the JV Corporation, Cagayan De Oro Bulk Water Inc. (COBI) was incorporated. It is owned by MCOH (95%) and COWD (5%), with carrying amount of ₱143.0 million, including capitalized project cost, as at December 31, 2020 and 2019.

COBI, a joint venture company has the right to supply bulk water to COWD. Its primary purpose is to construct, operate, manage, rehabilitate, improve and expand waterworks and treatment facilities in order to provide bulk water services, and to collect fees as compensation for such services (see Note 16).

MBHI. MBHI, a wholly owned subsidiary of the Company, was incorporated in the Philippines and registered with the SEC on July 31, 2017 with an original subscription of ₱250.0 thousand. Its primary purpose is to acquire, hold, sell, exchange, deal and invest in the stocks, bonds or securities of any government or any subdivision thereof or any public or private corporation and in real or personal property of all kinds in the same manner and to the same extent as natural person, might could or would do, to exercise all the rights, powers and privileges of ownership, including the right to vote therein, or consent in respect thereof, for any and all purposes without however managing securities, portfolio or funds of an entity or firm not the corporation shall act as stock broker or dealer in securities nor engaging in investment, solicitation and investment-taking activities from public investors.

On December 7, 2018, MPW subscribed and paid for additional 300,000 common shares of MBHI for a total subscription price of ₱2.0 million. The carrying amount of the investment amounted to ₱2.3 million as at December 31, 2020 and 2019.

MCDO. MCDO is a wholly owned subsidiary of the Company incorporated on April 15, 2015 with an original subscription of ₱250.0 thousand. Its primary purpose upon incorporation is to engage in the management, supervision or control or business enterprises of all kinds, the operation and transactions of any company or undertaking and to manage and administer any kind of business and property.

On October 26, 2017, the SEC approved the amendment of MCDO's primary purpose to construct, possess, use, operate, manage, maintain, rehabilitate, remove, repair, improve and expand waterworks and treatment facilities in order to provide bulk water services; to collect such fees as compensation for such services and for such purposes, to negotiate, enter, make, execute any and all contracts as may be necessary under the circumstances obtaining.

Associates

EHI. In September 2015, the consortium of Equi-Parco Construction Co. (EPCC), TwinPeak Hydro Resources Corporation (THRC), and the Company was awarded the JV Project for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Water Supply System of the Joint Venture Area covering the municipalities of Los Baños, Bay, Calauan and Victoria of the Province of Laguna. On October 12, 2015, the Consortium incorporated EHI as a special purpose company to implement the JV Project. EHI's shareholders are EPCC (56%), MPW (30%) and THRC (10%).

On November 3, 2015, the consortium, EHI and the Laguna Water District (LWD) entered into the JV Agreement for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Water Supply System of the LWD. Pursuant to the JV Agreement, EHI and LWD created and established Laguna Water District Aquatech Resources Corp. (LARC) with the primary purpose to act as operator, contractor and/or agent of the LWD in performing the mandate of the LWD under the Provincial Water Utilities Act of 1972 (or Presidential Decree No. 198) and in relation thereto shall be responsible for the financing, rehabilitation, improvement, expansion, operation and maintenance of the water supply system of the LWD. LARC's shareholders are EHI (90%) and LWD (10%). The JV Agreement is for a term of 25 years from commencement date. On January 1, 2016, the commencement date, LARC assumed the operation and maintenance of the water supply system of the LWD.

On April 12, 2017, the BOD of EHI approved the declaration of cash dividends payable to stockholders of record as of April 12, 2017. MPW received its share on June 15, 2017 amounting to ₱3.6 million.

On September 1, 2017, MPW received a Notice of Call from EHI for an additional capital contribution amounting to ₱8.1 Million, which is in proportion of its stockholders' respective equity. The amount due was paid last September 20, 2017.

MWCI. On January 7, 2013, the Company agreed to subscribe for, and MWCI agreed to issue, an additional 128,700,000 common shares (the Subscription Shares) at a subscription price of ₱1.04 per share equivalent to a 39% ownership interest on the issued and outstanding capital stock of MWCI, for a total subscription price of ₱133.8 million subject to the terms and conditions of the subscription agreement.

MWCI was incorporated in the Philippines on October 13, 2006 primarily for the purpose of providing water supply and sewerage services to the general public.

MWCI has 70.6% effective economic interest in Cebu Manila Water Development, Inc. (CMWD). CMWD has a 20-year Water Purchase Agreement with the Metropolitan Cebu Water District for the supply of 18 million liters of water per day for the first year and 35 million liters of water per day for years two (2) up to twenty (20). CMWD made its initial delivery of water in January 2015.

As of December 31, 2019, MPW made a full impairment provision amounting to ₱133.8 million given the initiated contract termination of MWCI Joint Investment Agreement by the Cebu Provincial Government.

KDMI. On April 15, 2016, the Company subscribed and paid for 20,000 common shares at the subscription price of ₱1.00 par value representing 40% equity on the issued and outstanding capital stock of KDMI. On the same day, MPW subscribed to 20,000,000 preferred shares with an aggregate subscription price of ₱20.0 million. KDMI is an engineering consultancy firm incorporated on March 30, 2016.

On April 7, 2017, MPW subscribed and paid for additional 20,000,000 preferred shares at Php1.00 per share for a total subscription price of ₱20.0 million.

In 2019, given that there are no cashflows and no future cashflows are expected, MPW assessed the investment in KDMI as fully impaired and recognized impairment loss amounting to ₱40.0 million.

WBSI. On December 16, 2015, the Company completed the acquisition of 1,960,000 common shares representing 49% of the issued and outstanding capital stock of WBSI from seller, MacroAsia Properties Development Corporation (MAPDC). Fifty percent (50%) of the total purchase price of ₱37.1 million was settled on December 16, 2015 while the balance equivalent to 50% will be settled upon delivery of additional closing documentation by MAPDC which was done in 2017. The 50% balance was paid in full on February 27, 2018.

WBSI is a party to the Contractual JV Agreement that was entered into by the Maragondon Water District (MWD) and the Watergy Business Solutions Consortium (WBSC), a consortium formed by MAPDC and WBSI. The purpose of the Contractual JV Agreement, dated July 12, 2011, was to develop a bulk water supply project to be sourced from the Maragondon River, install and operate the water treatment plant and deliver treated water to off-takers. The said agreement shall be effective for a period of 25 years from commencement date. WBSI, in compliance with the terms of the Contractual JV Agreement designated Cavite Business Resources, Inc. (CBRI), its wholly-owned subsidiary, as the implementing and operating entity for the Maragondon Bulk Water Supply Project. As at December 31, 2019, CBRI has not yet started its commercial operations.

In 2019, given that there are no cashflows and no future cashflows are expected, MPW assessed the investment in WBSI as fully impaired, and recognized impairment loss of ₱37.1 million.

On August 17, 2020, MPW completed the sale of 1,960,000 common shares of WBSI to MAPDC for a total consideration of ₱37.1 million. Gain on reversal of impairment was recognized amounting to ₱37.1 million, recorded as part of "Other income (expense)" in the statements of comprehensive income. On the other hand, MAPDC and MPW terminated the Cooperation Agreement that governs the joint conduct of due diligence investigation of opportunities in Dumaguete. As a result, MPW reimbursed MAPDC for expenses incurred in the engagement of advisors and other business development activities amounting to ₱15.8 million, recorded as part of "Other income (expense)" in the statements of comprehensive income.

8. Property and Equipment

As at December 31, this account consists of:

	2020				
	Transportation Equipment	**Leasehold Improvements**	**Office Equipment**	**Furniture and Fixtures**	**Total**
Cost					
Beginning	**₱9,013,865**	**₱7,424,774**	**₱5,654,977**	**₱3,512,056**	**₱25,605,672**
Additions	**4,479,055**	**456,296**	**1,443,721**	**31,021**	**6,410,093**
Disposals	**(2,566,965)**	**–**	**(124,465)**	**(158,297)**	**(2,849,727)**
At December 31	**10,925,955**	**7,881,070**	**6,974,233**	**3,384,780**	**29,166,038**
Accumulated Depreciation					
Beginning	**1,682,335**	**2,000,448**	**3,817,799**	**1,560,265**	**9,060,847**
Depreciation	**1,925,709**	**1,370,446**	**1,190,286**	**621,766**	**5,108,207**
Disposals	**(1,505,745)**	**–**	**(114,536)**	**(92,671)**	**(1,712,952)**
At December 31	**2,102,299**	**3,370,894**	**4,893,549**	**2,089,360**	**12,456,102**
Net Book Value at December 31	**₱8,823,656**	**₱4,510,176**	**₱2,080,684**	**₱1,295,420**	**₱16,709,936**

	2019				
	Transportation Equipment	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Total
Cost					
Beginning	₱12,121,601	₱2,756,229	₱5,242,377	₱3,098,937	₱23,219,144
Additions	6,446,900	5,118,905	798,814	1,202,419	13,567,038
Disposals	(9,554,636)	(450,360)	(386,214)	(789,300)	(11,180,510)
At December 31	9,013,865	7,424,774	5,654,977	3,512,056	25,605,672
Accumulated Depreciation					
Beginning	7,326,390	1,543,313	3,093,563	1,089,344	13,052,610
Depreciation	1,515,547	644,785	1,042,888	780,113	3,983,333
Disposals	(7,159,602)	(187,650)	(318,652)	(309,192)	(7,975,096)
At December 31	1,682,335	2,000,448	3,817,799	1,560,265	9,060,847
Net Book Value at December 31	₱7,331,530	₱5,424,326	₱1,837,178	₱1,951,791	₱16,544,825

Gain on disposal of property and equipment amounting to ₱0.1 million in 2020 and loss of ₱0.7 million in 2019 are presented as part of "Other income (expense)" account in the statements of comprehensive income. The Company sold items of property and equipment for a total consideration of ₱1.2 million and ₱2.5 million in 2020 and 2019, respectively.

Fully depreciated property and equipment still in use as at December 31, 2020 and 2019 amounted to ₱5.5 million and ₱1.7 million, respectively.

9. Leases

Company as a lessee
The Company has lease contracts of office space and residential units used in its operations. Leases of the said units generally have lease terms between 3 and 15 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

In 2020 and 2019, the Company has exercised its right of pre-termination for the lease agreements for certain office spaces, which resulted to a gain of ₱0.6 million and a loss of ₱0.2 million, respectively.

The following are the amounts recognized in statement of income:

	2020	2019
Depreciation expense of right-of-use assets included in property and equipment and investment properties	**₱10,944,270**	₱9,476,311
Interest expense on lease liability	**2,205,288**	1,788,463
Expenses relating to leases of low-value assets (included in rental and utilities)	**1,365,450**	2,367,297
Loss (gain) on termination of lease	**(585,933)**	230,166
Total amount recognized in statement of income	**₱13,929,075**	₱13,862,237

The rollforward analysis of lease liability follows:

	2020	2019
As at January 1	**₱29,415,507**	₱12,059,251
Additions	**53,814,905**	32,990,491
Payments	**(12,793,658)**	(10,671,192)
Termination	**(23,570,437)**	(6,751,506)
Interest expense	**2,205,288**	1,788,463
As at December 31	**49,071,605**	29,415,507
Less current portion of lease liability	**(8,995,415)**	(5,371,512)
Lease liability - net of current portion	**₱40,076,190**	₱24,043,995

The rollforward analysis of ROU assets follows:

	2020	2019
Cost		
As at January 1	**₱32,990,491**	₱12,059,251
Additions	**53,814,905**	32,990,491
Termination	**(32,990,491)**	(12,059,251)
	53,814,905	32,990,491
Accumulated Depreciation		
As at January 1	**4,398,732**	–
Depreciation	**10,944,270**	9,476,311
Termination	**(10,005,987)**	(5,077,579)
	5,337,015	4,398,732
	₱48,477,890	₱28,591,759

Shown below is the maturity analysis of the undiscounted lease payments:

	2020	2019
1 year	**₱10,628,511**	₱7,137,061
more than 1 years to 2 years	**11,346,618**	7,618,945
more than 2 years to 3 years	**12,394,079**	8,361,473
more than 3 years to 4 years	**13,633,527**	9,197,635
more than 4 years	**4,713,551**	1,554,903

10. **Other Noncurrent Assets**

This account consists of:

	2020	2019
Deposits	**₱1,023,229,955**	₱1,020,849,650
Deferred project costs	**24,202,250**	24,202,250
Performance bond (Note 16)	**6,660,000**	6,660,000
Software - net of accumulated amortization	**2,231,183**	2,608,360
Deferred input VAT	**727,500**	873,730
	₱1,057,050,888	₱1,055,193,990

Deposits include ₱1,018.5 million representing amount advanced to a third party for the Company's planned acquisition of certain assets through a subsidiary.

Deferred project costs mainly pertain to the development costs for the water projects that have a high probability of being secured. These shall be reclassified to "Investments in and advances to subsidiaries and associates" account upon the commencement of the related project (see Note 3).

Performance bond refers to performance security deposit that the Company provided to MIWD and COWD amounting to ₱4.0 million and ₱2.7 million, respectively (see Note 16).

The movements in software are as follows:

	2020	2019
Cost:		
Balance at beginning of year	**₱5,616,480**	₱5,482,280
Additions	**800,585**	134,200
Balance at end of year	**6,417,065**	5,616,480
Accumulated amortization:		
Balance at beginning of year	**3,008,120**	1,869,803
Amortization	**1,177,762**	1,138,317
Balance at end of year	**4,185,882**	3,008,120
	₱2,231,183	₱2,608,360

11. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2020	2019
Accounts payable	**₱8,435,080**	₱7,863,601
Accrued expenses:		
Employee benefits (Note 14)	**57,285,717**	84,802,121
Others	**8,921,761**	6,289,982
Statutory payables	**3,071,122**	2,543,093
	₱77,713,680	₱101,498,797

Accounts payable are non-interest bearing and are normally settled within one year.

Accrual for employee benefits pertains to accrual of performance bonus, N^{th} month pay, and benefit enhancements which are normally settled within one year (see Note 14).

Other accrued expenses pertain to accrual of audit fees and provision for tax deficiency assessment exposure.

Statutory payables are liabilities to various government agencies including taxes and are normally settled within 30 days

12. Equity

The Company's authorized and issued shares as at December 31 are presented below:

	2020		2019	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized - ₱100 par value	**17,200,000**	**₱1,720,000,000**	17,200,000	₱1,720,000,000
Issued and outstanding:				
Beginning of year	**15,700,000**	**1,570,000,000**	15,200,000	1,520,000,000
Issuance of shares	**1,041,000**	**104,100,000**	500,000	50,000,000
End of year	**16,741,000**	**₱1,674,100,000**	15,700,000	₱1,570,000,000

MPIC subscribed for additional capital stock of the Company through cash payment on the following dates:

- December 7, 2018: 626,750 shares at total subscription price of ₱3.2 billion
- July 31, 2019: 500,000 shares at total subscription price of ₱0.5 billion
- January 17, 2020: 403,000 shares at total subscription price of ₱0.4 billion
- October 5, 2020: 638,000 shares at total subscription price of ₱0.6 billion

On December 13, 2019, MPIC paid ₱775.0 million to MPW under its capital call in which ₱372.0 million represents the payment of the balance of the subscription made on July 31, 2019 and ₱403.0 million represents deposit for future stock subscriptions.

On December 20, 2019, the application for the additional increase of 2.0 million shares in authorized capital stock was subsequently approved by the Philippine SEC after meeting all the statutory requirements set forth under the provision of Section 37 of the Revised Corporation Code of the Philippines, Republic Act No. 11232. The deposits of ₱403.0 million were subsequently issued with 403,000 shares on January 17, 2020.

On October 5, 2020, the Company issued 638,000 common shares to MPIC at a subscription price of ₱1,000.00 per share or a total subscription price of ₱638.0 million.

As at December 31, 2020, the authorized capital stock of the corporation is ₱1.72 billion divided into 17.2 million shares with par value of 100 pesos per share. Out of the authorized capital stock, 16.7 million shares are issued and outstanding.

13. Related Party Transactions

Related parties of the Company are enterprises and individuals that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or under common control, with the Company, including holding companies, subsidiaries and fellow subsidiaries.

Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

Category	Relationship	Year	Amount/ Volume of Transactions	Outstanding Receivable (Payable)	Terms	Conditions
MPIC	Immediate Parent					
Advances for working capital requirement		**2020** 2019	**(₱1,304,885)** –	**(₱1,304,885)** –	Non-interest bearing, settlement in cash and payable on demand	Unsecured
MCDO	Subsidiary					
Pre-operating advances, working capital requirement and capital expenditures		**2020** 2019	**59,054,470** 21,500,000	**220,344,674** 161,290,204	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MILO	Subsidiary					
Pre-operating advances and working capital requirement		**2020** 2019	**-** -	**-** –	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MIB	Subsidiary					
Management fees		**2020** 2019	**3,482,143** 3,312,500	**–** –	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
Advances for expenses		**2020** 2019	**51,888** (44,753)	**7,135** (44,753)	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MBHI	Subsidiary					
Pre-operating advances and working capital requirement		**2020** 2019	**–** -	**–** –	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
COBI	Subsidiary					
Pre-operating advances, working capital requirement and capital expenditures		**2020** 2019	**-** (91,248,500)	**27,022** 27,022	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
Management fees		**2020** 2019	**2,678,571** 2,678,571	**2,598,214** –	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MPWIL	Subsidiary					
Pre-operating advances and working capital requirement		**2020** 2019	**107,924** (124,205)	**154,917** 46,993	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MPTL	Subsidiary					
Pre-operating advances and working capital requirement		**2020** 2019	**392,068** 42,256	**487,929** 95,861	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
Short Term Loan		**2020** 2019	**50,948,900** –	**50,948,900** –	Interest rate of 3.5% plus a margin of 2.5% per annum, settlement in cash and no impairment	Unsecured, not impaired
MDHC	Subsidiary					
Pre-operating advances		**2020** 2019	**2,050,000** –	**2,050,000** –	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
MIW	Subsidiary					
Pre-operating advances		**2020** 2019	**(16,021)** (1,489,889)	**-** 16,021	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired

(Forward)

Category	Relationship	Year	Amount/ Volume of Transactions	Outstanding Receivable (Payable)	Terms	Conditions
ESTII	Subsidiary					
Pre-operating advances		**2020**	**(₱100,000)**	**₱100,000**	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
		2019	200,000	200,000		
MDW	Subsidiary					
Pre-operating advances		**2020**	**2,497,337**	**11,757,267**	Non-interest bearing, settlement in cash and no impairment	Unsecured, not impaired
		2019	9,259,929	9,259,929		
KDMI	Associate					
Pre-operating advances and working capital requirement		**2020**	–	**12,938,624**	Non-interest bearing, settlement in cash	Unsecured, impaired
		2019	–	12,938,624		
Total advances to related parties (Note 5)		**2020**		**₱301,414,682**		
		2019		183,874,654		
Total advances from a related party		**2020**		**(1,304,885)**		
		2019		(44,753)		

Compensation of key management personnel amounted to ₱34.4 million and ₱60.6 million for the year ended December 31, 2020 and 2019, respectively. The compensation of key management personnel is composed of the following:

	2020	2019
Short-term employee benefits	**₱32,679,644**	₱33,940,219
Other long-term employee benefits	–	25,000,000
Post-employment benefits	**1,745,128**	1,667,703
	₱34,424,772	₱60,607,922

14. Pension and Other Employee Benefits

Pension

The Company has a defined contribution plan for all its regular employees. Under the Plan, the Company contributes on behalf of its employees, an amount equivalent to a certain percentage of each employee's monthly salary. Although the Plan has a defined contribution format, the Company regularly monitors compliance with R.A. No. 7641. For the year ended December 31, 2020 and 2019, the Company is in compliance with the requirements of R.A. No. 7641.

PIC, Q&A No. 2013-03, PAS 19, *Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of R.A. No. 7641, The Philippine Retirement Law*, required the Company's defined contribution plan to be accounted for as a defined benefit plan due to the minimum retirement benefits mandated under R.A 7641.

Pension and other post-employment benefits (asset) liability consists of:

	2020	2019
Pension liability (asset)	**₱374**	(₱4,256,229)
Other post-employment benefits liability	**3,953,831**	3,116,186
	₱3,954,205	(₱1,140,043)

In 2020 and 2019, actuarial valuation of the Company's pension was performed at year-end. Based on the actuarial valuation, the actual present value of pension liability (asset) and average assumptions used in developing the valuation are as follows:

	2020	2019
Present value of defined benefit obligations:		
Present value of defined benefit obligations at beginning of year	**₱3,281,618**	₱6,658,865
Current service cost	**2,378,050**	4,859,637
Interest costs on defined benefit obligation	**181,802**	522,721
Remeasurements in other comprehensive loss:		
Actuarial gain due to experience adjustments	**5,766,817**	(4,560,212)
Actuarial gain due to changes in financial assumptions	**374**	–
Past service credit	**–**	–
Benefits paid	**(653,399)**	(4,199,393)
Present value of defined benefit obligations at end of the year	**10,955,262**	3,281,618
Less fair value of plan assets:		
Fair value of plan assets at beginning of year	**7,890,756**	8,574,065
Employer contributions	**2,958,591**	2,527,494
Interest income included in net interest cost	**501,002**	607,442
Gain (loss) on return on plan assets	**257,938**	381,148
Benefits paid	**(653,399)**	(4,199,393)
Fair value of plan assets at end of the year	**10,954,888**	7,890,756
Funded status – surplus	**374**	(4,609,138)
Effect of asset ceiling	**–**	352,909
Net defined benefit liability (asset)	**₱374**	(₱4,256,229)

The Company recognized remeasurement gains and losses arising on pension plan in other comprehensive income. The movements in other comprehensive income pertaining to remeasurement gains and losses are as follows:

	2020	2019
Balance at the beginning of the year	**₱8,628,406**	₱2,437,456
Remeasurement gain on defined benefit obligation:		
Actuarial gain due to:		
Change in experience adjustment	**(5,766,817)**	4,560,212
Change in financial assumption	**(374)**	–
Remeasurement gain (loss) on return on plan assets	**257,938**	381,148
Remeasurement gain (loss) on changes in the effect of asset ceiling	**372,460**	1,249,590
Balance at the end of the year	**₱3,491,613**	₱8,628,406

The components of pension cost included under "Personnel costs" account in the statements of comprehensive income for 2020 and 2019 are as follows:

	2020	2019
Current service cost	**₱2,378,050**	₱4,859,637
Net interest income	**(319,200)**	(84,721)
	₱2,058,850	₱4,774,916

The allocation of the fair value of plan assets as at December 31, 2020 and 2019 is as follows:

	2020	2019
Government securities	**₱8,384,871**	₱5,503,802
Unit investment in trust funds	**2,062,806**	2,139,184
Cash and cash equivalents	**507,211**	247,770
	₱10,954,888	₱7,890,756

As at December 31, 2020 and 2019, the trust fund consists of the following:

- Investments in government and corporate securities included fixed-rate treasury notes and retail treasury bonds and debt securities that bear interest ranging from 2.44% to 6.25% per annum and 3.38% to 7.51% per annum as at the end of 2020 and 2019, respectively. These have maturities of up to 2025 and 2026 as at end of 2020 and 2019, respectively.

- Unit trust funds include subscription with unit investment fund offered by local institutional investment banks.

- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 0.125% to 3.75% per annum as at 2020 and 3.25% to 4.00% per annum as at 2019.

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

Credit Risk. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of instruments. The risk is minimized by ensuring the exposure is limited only to the instruments as recommended by the fund managers.

Liquidity Risk. The risk relates to the risk that the fund is unable to meet its payment obligations associated with its retirement liability when they fall due. To mitigate this risk, the Company contributes to the fund from time to time, based on the recommendations of the actuary with the objective of maintaining their respective fund in sound condition.

The principal assumptions used to determine pension benefits as at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	**4.21%**	5.54%
Salary increase rate	**6.00%**	6.00%

The discount rate represents the range of single weighted average discount rate used by the Company in arriving at the present value of defined benefit obligation, service and interest cost components of the retirement cost. Assumptions regarding future mortality rate are based on the 2017 Philippine Intercompany Mortality Table developed by the Actuarial Society of the Philippines.

The weighted average duration of the expected benefit payments at the end of 2020 and 2019 is approximately 3.6 and 17.2 years, respectively.

Shown below are the maturity analysis of the undiscounted benefit payments as at December 31, 2020 and 2019:

	2020	2019
Less than one year	**₱384,954**	₱754,486
One to less than five years	**2,018,910**	5,506,868
Five to less than 10 years	**7,756,609**	1,557,655

Sensitivity analysis. The calculation of the defined benefit obligation is sensitive to the assumptions above. The following table summarizes how the present value of net defined benefit obligation as at December 31, 2020 and 2019 would have increased (decreased) as a result of change in the respective assumptions by:

		2020	2019
Discount rate	+1%	**(₱370)**	(₱–)
	-1%	**893**	–
Salary increase rate	+1%	**870**	–
	-1%	**(373)**	(–)

The Company currently expects to contribute approximately ₱2.5 million and ₱2.3 million to the retirement fund in 2021 and 2020, respectively.

<u>Other Post-employment Benefits - Accrued Leaves</u>
The Company grants annual sick leave of fifteen (15) days per year for each employee. At the end of every year, unused sick leaves are accrued up to the maximum of five (5) days per year but not exceeding sixty (60) days. Upon separation from service of the company, the cash equivalent of the employee's accumulated unused sick leaves is paid in lump sum.

The liability recognized for the accumulation of unused sick leaves comprises the present value of the defined benefit obligation and was determined using the projected unit credit method.

The total leave expense (income) presented under "Personnel costs" account in the statements of comprehensive income in 2020 and 2019 is as follows:

	2020	2019
Current service cost	**₱837,646**	₱837,646

The carrying amount of the net liability for accrued leaves as at December 31, 2020 and 2019 is presented below:

	2020	2019
Present value of benefit obligation at beginning of year	**₱3,116,186**	₱2,278,540
Total leave expense (income) for the year	**837,645**	837,646
Present value of benefit obligation at end of year	**₱3,953,831**	₱3,116,186

Long-term Incentive Plan
Certain of the company's employees are eligible for long-term employee benefits. Each LTIP performance cycle generally covers 3 years (e.g. 2019 to 2021) with payment intended to be made at the end of each cycle (without interim payments) and is contingent upon the achievement of an approved target core income of the Company by the end of the performance cycle. Each LTIP performance cycle and liability accrued at each reporting period within the performance cycle is approved by the BOD of the Company.

In 2019, the Company accrued LTIP provision amounting to ₱25.0 million, which was subsequently reversed in 2020 based on management's recent assessment of the likelihood to meet the profit targets for the performance cycle. LTIP recognized for the year ended December 31, 2020 and 2019 amounting to nil and ₱25.0 million, respectively, is included under "Personnel costs" account in the Company's statements of comprehensive income and under "Other noncurrent liability" account in the statements of financial position.

Other Benefit Enhancements
Benefit enhancements are composed of accruals for educational benefits, medical benefits, housing incentives, directors' and officers' liability insurance, and unused vacation and sick leaves. Educational benefits pertain to conferences and scholarships granted to key management employees. Directors' and officers' liability insurance pertains to insurance of directors and officers in cases of Company losses. Benefit enhancements are settled on a case to case basis depending on when the employees will avail.

As at December 31, 2020 and 2019, the Company has an accrual for other benefit enhancements of ₱57.4 million and ₱61.0 million, respectively. Benefit enhancements are included under "Personnel costs" account in the Company's statements of comprehensive income.

15. Income Taxes

Current Tax

Provision for current income tax represents MCIT amounting to ₱123,214 and ₱351,404 in 2020 and 2019, respectively.

Deferred Tax

a. The components of deferred tax asset (liability) - net shown in the statements of financial position are as follows:

	2020	2019
Deferred tax asset:		
Lease liability	**₱14,721,482**	₱8,824,652
Deferred tax liability:		
Right-of-use asset	**(14,543,367)**	(8,577,527)
	₱178,115	₱247,125

b. The details of temporary differences, NOLCO and excess MCIT over RCIT, for which no deferred tax assets were recognized since management believes that it is not probable that sufficient future taxable income will be available against which the deferred tax assets can be utilized are as follows:

	2020	2019
Provision for impairment	**₱1,218,964,541**	₱1,256,039,557
NOLCO	**623,410,287**	744,373,401
Accrued expenses	**57,380,130**	109,802,121
Pension and other employee benefits	**7,667,847**	7,710,392
Unrealized foreign exchange loss	**57,911**	83,174
Unearned income	**–**	–
	1,907,480,716	2,118,008,645
Excess MCIT over RCIT	**1,183,754**	1,062,368
	₱1,908,664,470	₱2,119,071,013

The carryforward benefits of excess MCIT over RCIT amounting to ₱1.1 million can be claimed as deduction against taxable income as follows:

Year Incurred	Amount	Expired	Balance	Expiry year
2020	₱123,214	₱–	₱123,214	2023
2019	351,404	–	351,404	2022
2018	709,136	–	709,136	2021
2017	1,828	1,828	–	
	₱1,185,582	₱1,828	₱1,183,754	

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Company has incurred NOLCO before taxable year 2020 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years, as follows:

Year Incurred	Expiry Year	Amount
2019	2022	₱216,410,098
2018	2021	260,072,502
		₱476,482,600

NOLCO incurred in 2017 and 2016 amounting to ₱267.9 million and ₱227.3 million expired in 2020 and 2019, respectively.

As of December 31, 2020, the Company has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Expiry Year	Amount
2020	2025	₱146,927,687

The reconciliation between the benefit from income tax computed at the applicable statutory income tax rate and provision for income tax shown in the statements of comprehensive income is summarized as follows:

	2020	2019
Benefit from income tax at statutory income tax rate of 30%	**(₱18,741,819)**	(₱457,145,088)
Add (deduct) income tax effects of:		
Change in unrecognized deferred tax assets	**(63,036,992)**	402,630,186
Deferred project costs	**–**	(12,932,687)
Expired NOLCO	**80,367,240**	68,197,236
Expired MCIT	**1,828**	–
Interest income subject to final tax	**(841,168)**	(6,353,867)
Nondeductible expenses	**2,740,894**	5,503,804
PFRS 16 adjustment	**–**	361,356
Shares issuance costs deducted from APIC	**(312,300)**	(150,000)
Amortization of excess of actual contributions over current pension cost	**(24,077)**	(6,661)
	₱153,606	₱104,279

16. **Significant Contracts, Commitments and Others**

- *MIWD's 170 MLD Bulk Water Supply (BWS) Project.* On November 20, 2015, the Company was awarded the BWS Project in Iloilo which covers the following:

  - Rehabilitation and upgrading of all of MIWD's existing facilities to achieve additional volume capacity and potable water quality. The total production capacity of the water treatment plant and well facilities is 55 MLD.

  - Expansion, to be done in three phases, covering the design, development and construction of a new water treatment plants with aggregate capacity of up to 115 MLD, raw water and treated water reservoirs, and transmission lines.

  To ensure compliance of the Company of its obligations under the JV Agreement, the Company provided performance security in favor of MIWD amounting to ₱4.0 million in the form of manager's check (see Note 9).

  On January 8, 2016, the Company incorporated MILO as a special purpose company to implement this JV Project. On May 5, 2016, MPW officially signed the JV Agreement with MIWD for the formation of a JV company that shall be owned by MILO (80%) and MIWD (20%).

On July 4, 2016, pursuant to the JV Agreement, MILO and MIWD created and established MIB, a joint venture company that will rehabilitate, expand, operate, and maintain MIWD's existing water production facilities.

On July 5, 2016, operation was officially turned over by the MIWD to MIB.

- *Cagayan de Oro 100 MLD Bulk Water Project (CDO Bulk Water Project).* MPW received the Notice of Award (NOA) for the CDO Bulk Water Project on March 23, 2017. The project which has a term of 30 years, renewable for another 20 years involves the supply of 100 MLD bulk water to COWD, construction of new water transmission lines and rehabilitation of the Camaman-an Reservoir. The Company has paid performance security amounting to ₱2.7 million.

  On July 31, 2017, the Company incorporated Metropac Cagayan De Oro Holdings, Inc. (MCOH) as an intermediary holding entity to implement the JV project.

  On August 14, 2017, MPW signed a joint venture agreement (JVA) with the COWD for the formation of a joint venture company to undertake the supply of bulk treated water to address the requirements Cagayan de Oro City. The joint venture project is divided into two phases:

  Transmission Phase. The design and construction of transmission facilities and rehabilitation of existing reservoir located at Camaman-an, Cagayan de Oro to enable the distribution of at least 40 MLD of potable bulk water within the eastern sector to be completed within the twelve (12) months from the effectiveness of the JVA.

  Production Phase. The supply of at least 60 MLD of bulk treated water to service the requirements of COWD's western sector, to be implemented within 24 months from the effectiveness of the JVA. At the JV Corporation's option, the CDO BWS Project may be implemented through (i) the design and construction of water production and transmission facilities with a capacity of approximately 100 MLD, (ii) the acquisition of ownership or leasehold rights to such production and transmission facilities and water rights, or (iii) the purchase of bulk treated water for supply to the western sector.

  On October 4, 2017, the JV Corporation, Cagayan De Oro Bulk Water Inc. (COBI) was incorporated. It is owned by MCOH (95%) and COWD (5%).

  COBI commenced operations on December 31, 2017.

- *Pampanga Bulk Water Supply Project.* On August 31, 2017, MPW officially received the Certificate of Acceptance, and the conferment of the Original Proponent Status for the Pampanga Bulk Water Supply Project from the Office of the Governor of Pampanga. MPW is currently in detailed negotiations with the Province for the Project. Upon successful completion of negotiations, the project will be subjected to competitive challenge consistent with the Code. As at April 23, 2021, the negotiations are ongoing.

- *MIWD Concession Joint Venture Project.* On November 13, 2018, MPW, entered into a JVA with Metro Iloilo Water District (MIWD) for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and construction of wastewater facilities (the "Project"). On January 17, 2019, Metro Pacific Iloilo Water Inc. (MIW), the joint venture corporation 80%-owned by MILCOH and 20%-owned by MIWD, was incorporated pursuant to the provisions of the JVA. The joint venture corporation shall implement the Project and will have the right to bill and collect for the supply of water and wastewater services to customers in the service area of MIWD.

The project cost for the duration of the 25-year concession is estimated at ₱12.4 billion, with an initial equity investment of ₱745.0 million.

MIWD's service area includes Iloilo City and seven municipalities specifically Pavia, Oton, Maasin, Cabatuan, Sta. Barbara, Leganes, and San Miguel.

The Company provided bid security to MIWD amounting to ₱11.9 million in the form of manager's check. The check was returned by MIWD in February 2019 after MPW has provided performance security amounting to ₱60.0 million in the form of a standby letter of credit (see Note 5).

MIW was incorporated on January 17, 2019 and commenced commercial operations on July 1, 2019.

- *Dumaguete City Water District (DCWD) Water Concession Joint Venture Project.* On May 16, 2018, MPW officially received from DCWD the Notice of Award for the rehabilitation, operation, maintenance, and expansion of DCWD's existing water distribution system and development of wastewater facilities.

  On June 21, 2018, the Company incorporated MetroPac Dumaguete Holdings Corporation (MDHC) as an intermediary holding entity to implement the JV project.

  On September 3, 2019, MPW entered into a JVA with DCWD for the rehabilitation, operation, maintenance, and expansion of DCWD's existing water distribution system and construction of wastewater facilities (the "Project").

  On October 22, 2019, MDW, the joint venture corporation 80%-owned by MDHC and 20%-owned by DCWD, was incorporated pursuant to the provisions of the JVA. The joint venture corporation shall implement the Project and will have the right to bill and collect for the supply of water and wastewater services to customers in the service area of DCWD.

  The project cost for the duration of the 25-year concession is estimated at ₱1.6 billion, with an initial equity investment of ₱700.0 million.

  DCWD serves Dumaguete City and portion of the Municipalities of Valencia, Sibulan, and Bacong. The Company provided bid security to DCWD amounting to ₱12.0 million in the form of manager's check. The check was returned by DCWD in October 2019 after the signing of JVA (see Note 5).

  On February 1, 2021, MDW commenced operations.

- *Special Event - Efficient 2019.* On January 13 to 16, 2019, the Company together with Maynilad Water Services hosted Efficient 2019 - The 10th International Water Association (IWA) Specialist Conference on Efficient Urban Water Management. The event was attended by various urban water and wastewater professionals in the country. The main purpose of the event was to address and promote solutions for efficient urban water management and feature innovative technologies.

  The Company earned revenues amounting to ₱11.9 million from the event through sponsorships, exhibitors' fees, registration fees, and delegates fees presented under "Special events fee" account in the statements of comprehensive income.

- *Settlement claims.* On January 31, 2019, the Company received payment from Globe Telecom, Inc. for the settlement of the Company's claims in connection to the lease contract termination of office space lease in Quezon City. The Company's claims are related to costs of leasehold improvements incurred for the retrofitting of the leased office space.

  The Company earned income amounting to ₱6.4 million from the settlement which is presented under "Settlement claims" account in the statements of comprehensive income.

17. Financial Risk Management Objectives and Policies

The Company's financial assets and financial liabilities comprise of cash and cash equivalents, receivables, accounts payable and other current liabilities (excluding statutory payables), lease liability and advances from related party. The main purpose of these financial assets and financial liabilities is to raise funds for the Company's operations.

The main risks arising from the Company's financial assets and financial liabilities are 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.

Credit Risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. With respect to credit risk arising from the financial assets of the Company, consisting of cash and cash equivalents and receivables, 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.

The table below shows the maximum exposure to credit risk of the Company's cash and cash equivalents, receivables and performance bond before and after considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

		2020	
	Gross Maximum Exposure (a)	**Fair Value of Credit Enhancement** (b)	**Net Exposure** (c) = (a) - (b)
Cash and cash equivalents (Note 4)*	**₱365,586,424**	**₱1,551,359**	**₱364,035,065**
Receivables (Note 5)	**344,316,659**	**–**	**344,316,659**
Performance bond (Note 10)	**6,660,000**	**–**	**6,660,000**
	₱716,563,083	**₱1,551,359**	**₱715,011,724**

**Excludes cash on hand amounting to ₱40,219.*

	2019		
	Gross Maximum Exposure (a)	Fair Value of Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
Cash and cash equivalents (Note 4)*	₱323,916,072	₱1,898,285	₱322,017,787
Receivables (Note 5)	217,096,001	–	217,096,001
Performance bond (Note 10)	6,660,000	–	6,660,000
	₱547,672,073	₱1,898,285	₱545,773,788

**Excludes cash on hand amounting to ₱18,229.*

The fair value of credit enhancement relating to cash and cash equivalents pertain to insured deposits in banks as prescribed by Philippine Deposit Insurance Corporation. The receivables and performance bond net maximum exposures are equal to the gross maximum exposure since there are no requirements for collateral.

The Company recognized a provision for ECL amounting to nil and ₱10.0 million in 2020 and 2019, respectively (see Note 5). With the exception of the impaired portion, all of the financial assets as at December 31, 2020 and 2019 are not credit-impaired and are considered as high grade. High grade relates to those financial assets which are consistently collected on or before the maturity date.

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet or settle its obligations as they become due.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties and loans. The Company's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months.

The Company's financial liabilities which will mature within one year amounted to ₱86.6 million and ₱106.1 million as at December 31, 2020 and 2019, respectively. The Company has sufficient fund to settle its liabilities.

	2020			
	On Demand	**Within 1 Year**	**More than 1 year**	**Total**
Cash and cash equivalents	**₱365,626,643**	**₱–**	**₱–**	**₱365,626,643**
Receivables:				
Advances to related parties	**301,414,682**	–	–	**301,414,682**
Others	**52,881,977**	–	–	**52,881,977**
Other noncurrent assets:				
Performance bond	**6,660,000**	–	–	**6,660,000**
	726,583,302	–	–	**726,583,302**
Accounts payable and other current liabilities*				
Accrued expenses	–	**66,207,478**	–	**66,207,478**
Accounts payable	–	**8,435,080**	–	**8,435,080**
Advances from Related Parties	–	**1,304,885**	–	**1,304,885**
Lease liability**	–	**10,628,511**	**42,087,775**	**52,716,286**
	–	**86,575,954**	**42,087,775**	**128,663,729**
Net Financial Assets (Liabilities)	**₱726,583,302**	**(₱86,575,954)**	**(42,087,775)**	**₱597,919,573**

**Excluding statutory payables of ₱3.1 million as at December 31, 2020.*
***Gross of unamortized discount and including future interest payments.*

	2019			
	On Demand	Within 1 Year	More than 1 year	Total
Cash and cash equivalents	₱323,934,301	₱–	₱–	₱323,934,301
Receivables:				
Advances to related parties	183,874,654	–	–	183,874,654
Others	43,201,347	–	–	43,201,347
Other noncurrent assets:				
Performance bond	6,660,000	–	–	6,660,000
	557,670,302	–	–	557,670,302
Accounts payable and other current liabilities*				
Accrued expenses	–	91,092,103	–	91,092,103
Accounts payable	–	7,863,601	–	7,863,601
Advances from Related Parties	–	44,753	–	44,753
Lease liability**	–	7,137,061	26,732,956	33,870,017
	–	106,137,518	26,732,956	132,870,474
Net Financial Assets (Liabilities)	₱557,670,302	(₱106,137,518)	(₱26,732,956)	₱424,799,828

**Excluding statutory payables of ₱2.5 million as at December 31, 2019.*
***Gross of unamortized discount and including future interest payments.*

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains strong credit rating in order to support its business and maximize shareholder value.

The capital being managed by the Company consists of its equity. The Company manages its capital and makes adjustments to it, in the light of changes in economic conditions.

As at December 31, 2020 and 2019, the following are the Company's capital:

	2020	2019
Capital stock	**₱1,674,100,000**	₱1,570,000,000
APIC	**8,371,095,625**	7,435,236,625
Other comprehensive income	**3,491,613**	8,628,406
Deficit	**(2,352,055,772)**	(2,289,429,436)
	₱7,696,631,466	₱6,724,435,595

18. Fair Value of Financial Assets and Financial Liabilities

Cash and cash equivalents, Receivables, Accounts payable and other current liabilities (excluding statutory payables and unearned income) and Advances from related party
Carrying amounts approximate the fair values at the reporting date due to the short-term nature of the transactions.

Performance bond (included under "Other noncurrent assets" account)
Estimated fair value is the present value of expected future cash flows discounted using the prevailing BVAL reference rates that are specific to the expected tenor of the instruments' cash flows at the end of each reporting period. Discount rates used range from 3.95% to 3.96% as at December 31, 2020 and 5.18% to 5.22% as at December 31, 2019.

Lease liability
Estimated fair value is the present value of expected future cash flows discounted using the prevailing BVAL reference rates that are specific to the expected tenor of the instruments' cash flows at the end of each reporting period. Discount rates used range from 1.58% to 2.08% as at December 31, 2020 and 3.11% to 3.98% as at December 31, 2019.

The following table summarizes the carrying amounts and fair value of the Company's performance bond and lease liability as at December 31:

	2020		2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Asset				
Performance bond	**₱6,660,000**	**₱2,707,198**	₱6,660,000	₱1,964,981
Liability				
Lease liability	**₱49,071,605**	**₱50,541,213**	₱29,415,507	₱31,249,412

For the years ended December 31, 2020 and 2019, there were no transfers into and out of Level 3 fair value measurements.

19. Supplemental Cash Flow Information

Non–cash investing activities
The non-cash investing activity pertain to the conversion of deferred project costs (included under "Other noncurrent assets" account) into "Investments in and advances to subsidiaries and associates" account amounting to nil and ₱123.7 million as at December 31, 2020 and 2019, respectively (see Note 10).

Non-cash financing activities
The non-cash financing activity pertain to adoption of PFRS 16, additions of lease contract and interest accretion from lease liability. Recognition of lease liability from adoption of PFRS 16 on January 1, 2019 amounted to ₱12.1 million. On May 5, 2019, additional lease liability was recognized from lease contract amounting to ₱33.0 million. On July 1, 2020, additional lease liability and ROU assets were recognized from lease contract amounting to ₱53.8 million. As at December 31, 2020 and 2019, interest accretion incurred from lease liability amounted to ₱2.2 million and ₱1.8 million, respectively.

20. Subsequent event

Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic corporations.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 5 dated 2011 issued by the BIR, the prorated MCIT rate of the Company for CY2020 is 1.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 amounting to ₱0.09 million, or a reduction of ₱0.03 million. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

- This will result in lower deferred tax assets as of December 31, 2020 and provision for deferred tax for the year then ended by ₱0.01 million. These reductions will be recognized in the 2021 financial statements.