Beacon PowerGen Holdings, Inc.
(A Wholly Owned Subsidiary
of Beacon Electric Asset Holdings, Inc.)

Financial Statements
As at December 31, 2020 and 2019

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Beacon PowerGen Holdings, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Beacon PowerGen Holdings, Inc. (a wholly owned subsidiary of Beacon Electric Asset Holdings, Inc.) (the Company), 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives 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.

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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 in Note 14 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Beacon PowerGen Holdings, Inc. 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.

SYCIP GORRES VELAYO & CO.

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Partner
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SEC Accreditation No. 0087-AR-5 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 102-092-270
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December 3, 2020, valid until December 2, 2023
PTR No. 8534334, January 4, 2021, Makati City

March 8, 2021

BEACON POWERGEN HOLDINGS, INC.
(A Wholly Owned Subsidiary of Beacon Electric Asset Holdings, Inc.)

STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 10 and 11)	**₱1,203**	₱723
Dividend receivables (Notes 5, 10 and 11)	**1,232**	1,400
Other receivables (Notes 10 and 11)	**5**	7
Asset held for sale (Note 5)	**21,099**	–
Total Current Assets	**23,539**	2,130
Noncurrent Asset		
Investment in a subsidiary (Note 5)	–	22,145
	₱23,539	₱24,275
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 6, 10 and 11)	**₱297**	₱179
Current portion of long-term debt (Notes 7, 10 and 11)	**8,640**	473
Total Current Liabilities	**8,937**	652
Noncurrent Liability		
Long-term debt – net of current portion (Notes 7, 10 and 11)	–	8,606
Equity (Note 8)		
Paid-up capital	**11,724**	11,724
Retained earnings	**2,878**	3,293
Total Equity	**14,602**	15,017
	₱23,539	₱24,275

See accompanying Notes to Financial Statements.

BEACON POWERGEN HOLDINGS, INC.
(A Wholly Owned Subsidiary of Beacon Electric Asset Holdings, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

	Years Ended December 31	
	2020	2019
REVENUES		
Dividend income (Note 5)	**₱1,232**	₱1,400
Interest income (Note 4)	**11**	36
	1,243	1,436
EXPENSES		
Interest expense (Note 7)	**(499)**	(536)
Amortization of debt issuance costs (Note 7)	**(41)**	(9)
Other expenses	**(1)**	(2)
	(541)	(547)
OTHER INCOME (EXPENSES)		
Remeasurement loss (Note 5)	**(1,046)**	–
Debt break-funding and prepayment costs (Note 7)	**(128)**	–
Other income (Note 5)	**59**	–
	(1,115)	–
INCOME (LOSS) BEFORE FINAL TAX	**(413)**	889
PROVISION FOR FINAL TAX	**2**	7
NET INCOME (LOSS)	**(415)**	882
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱415)**	₱882

See accompanying Notes to Financial Statements.

BEACON POWERGEN HOLDINGS, INC.
(A Wholly Owned Subsidiary of Beacon Electric Asset Holdings, Inc.)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Millions)

	Paid-up Capital (Note 8)				
	Capital Stock	**Additional Paid-in Capital**	**Total**	**Retained Earnings**	**Total**
Balances as at January 1, 2020	**₱1,178**	**₱10,546**	**₱11,724**	**₱3,293**	**₱15,017**
Total comprehensive loss / Net loss	**–**	**–**	**–**	**(415)**	**(415)**
Balances as at December 31, 2020	**₱1,178**	**₱10,546**	**₱11,724**	**₱2,878**	**₱14,602**
Balances as at January 1, 2019	₱1,163	₱10,411	₱11,574	₱2,411	₱13,985
Total comprehensive income / Net income	–	–	–	882	882
Share issuance	15	136	151	–	151
Transaction cost	–	(1)	(1)	–	(1)
Balances as at December 31, 2019	₱1,178	₱10,546	₱11,724	₱3,293	₱15,017

See accompanying Notes to Financial Statements.

BEACON POWERGEN HOLDINGS, INC.
(A Wholly Owned Subsidiary of Beacon Electric Asset Holdings, Inc.)

STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before final tax	**(₱413)**	₱889
Adjustments for:		
Dividend income (Note 5)	**(1,232)**	(1,400)
Remeasurement loss (Note 5)	**1,046**	–
Interest expense (Note 7)	**499**	536
Amortization of debt issuance costs (Note 7)	**41**	9
Interest income (Note 4)	**(11)**	(36)
Operating loss before working capital changes	**(70)**	(2)
Increase in accounts payable and other current liabilities (Note 6)	**128**	–
Net cash generated from (used for) operations	**58**	(2)
Dividend received	**1,400**	1,400
Interest received (Note 4)	**13**	36
Final tax paid	**(2)**	(7)
Net cash flows from operating activities	**1,469**	1,427
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments for:		
Interest on long-term debt (Note 7)	**(509)**	(555)
Long-term debt (Note 7)	**(480)**	(960)
Proceeds from share issuance (Note 8)	**–**	150
Net cash flows used in financing activities	**(989)**	(1,365)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**480**	62
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**723**	661
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,203**	₱723

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
(In Million Pesos, Except Per Share Amounts and Number of Shares)

1. Corporate Information

Beacon PowerGen Holdings, Inc. (the Company or BPHI) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 18, 2016 as an investment holding company. As at December 31, 2020 and 2019, the Company holds 56% ownership interest in Global Business Power Corporation (GBPC). As further discussed in Note 5, the Company entered into a Share Purchase Agreement (SPA) with Meralco PowerGen Corporation ("MGen") for the sale of its interest of the issued and outstanding shares of GBPC.

The Company is 100% owned by Beacon Electric Asset Holdings, Inc. (Beacon). Beacon was originally a joint venture between Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV), with equity interests in the form of shares and share entitlements in the Company divided equally between them. However, MPIC and PCEV entered in the following transactions:

- In May 2016, MPIC acquired from PCEV common shares and preferred shares representing 25% economic rights of Beacon for the total consideration of ₱26.2 billion.
- In June 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon for a total purchase price of ₱21.8 billion.

Consideration for the abovementioned transactions are to be settled on an installment basis. The 2016 share purchase agreement was fully settled in June 2020 while the 2017 share purchase agreement is expected to be fully settled by 2021. Under these agreements, PCEV shall retain the voting rights over these shares until full payment of the total consideration.

As a result of the June 2017 acquisition, as owner of 100% of the economic rights over all the issued and outstanding shares of Beacon, MPIC started to account for its investment in Beacon as an investment in a subsidiary.

MPIC's shareholder, 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 of MPIC, 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 40.0% 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 FPC Group of Companies in Hong Kong.

PCEV is 99.9% owned by Smart Communications, Inc. (Smart) as at December 31, 2020 and 2019. Smart is wholly owned and controlled by PLDT Inc., a company incorporated in the Philippines.

The registered office address of the Company is Units 10-3 and 10-4, 10/F Net One Center, 26th corner 3rd Avenue, Bonifacio Global City, Taguig City.

The accompanying financial statements as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issuance by the Board of Directors (BOD) on March 8, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis and are presented in Philippine peso, which is the Company's functional and presentation currency and all values are rounded to the nearest million, except when otherwise indicated.

The Company, a 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 PFRSs, which are filed with the Philippine SEC and Philippine Stock Exchange and are available for public use. MPIC's consolidated financial statements may also be obtained at 10th Floor, MGO Building, Legaspi cor. Dela Rosa Streets, Legaspi Village, Makati City.

Statement of Compliance
The accompanying financial statements have been prepared in accordance with PFRS.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of revised and amended PFRSs effective January 1, 2020. Adoption of the following standards and amendments did not have any material impact on the Company's financial statements:

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

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

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

  The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company but may impact future periods should the Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9 *Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

- Amendments to PFRS 16, *Leases: COVID-1-related Rent Concessions*

  The amendments provide relief to lessees from applying PFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This amendment had no impact on the financial statements.

- *Revised Conceptual Framework for Financial Reporting*

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

  These amendments had no impact on the financial statements of the Company.

Accounting Policies and Disclosures
The principal accounting and financial reporting policies adopted in preparing the Company's financial statements are as follows:

Current Versus Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is classified as current when it is:

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

All other assets are classified as noncurrent.

A liability is classified as current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement
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.

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

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

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

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

For assets and liabilities that are recognized in the financial statements 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 (see Note 11).

Cash and Cash Equivalents

Cash comprises cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three (3) months or less from dates of acquisition and are subject to an insignificant risk of change in value.

Financial Instruments

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

Financial 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 fair value through profit or loss (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, *Revenue from Contracts with Customers*.

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

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

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

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

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

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, dividends receivable, and other receivables. 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 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 statement of financial position) when:

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

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

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

Financial Liabilities

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

The Company's financial liabilities include accounts payable and other current liabilities and long-term debt as at December 31, 2020 and 2019.

Subsequent Measurement. After initial recognition, accounts payable and other current liabilities and long-term debt 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.

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

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

Investment in a Subsidiary
Investment in a subsidiary is accounted for at cost. The investment is carried in the statement of financial position at cost less any impairment in value.

Any gain or loss arising on disposal of investment (calculated as the difference between the proceeds and the cost of investment) is included in profit or loss in the year the investment is disposed.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that an investment 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 statement of comprehensive income 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Noncurrent Asset as Held for Sale
The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Capital Stock and Additional Paid-in Capital
Common stocks are measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value are recognized as additional paid-in capital.

Cost of registering and issuing securities is recognized as a reduction from the proceeds of the securities issued, thus, recognized as reduction from additional paid-in capital.

Retained Earnings
Retained earnings include profit attributable to the Company's equity holders. Retained earnings also represent the Company's accumulated earnings, net of dividends declared.

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.

The Company evaluates the timing and amount of income with specific recognition criteria as follows:

Dividend Income. Dividends are recognized in profit or loss when the Company's right to receive dividends is established.

Interest Income. Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the statement of comprehensive income.

Other Income. Other income are recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and can be measured reliably.

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

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

Deferred Tax. Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period 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 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 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 end of reporting period 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 asset to be utilized. Unrecognized deferred tax assets are measured at each end of reporting period 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 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 tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

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

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

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables that are stated with the amount of sales tax included.

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

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. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Company expects some or all of a provision to be reimbursed, 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 statement of comprehensive income, net of any reimbursement.

Contingencies
Contingent liabilities are not recognized in the financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

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

3. Significant Accounting Estimates and Assumptions

The accompanying financial statements prepared under the PFRSs require management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the estimates and assumptions used in arriving at the estimates to change. 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investment in GBPC as Asset Held for Sale. On December 23, 2020, BPHI entered into an SPA with MGen, a wholly-owned subsidiary of MERALCO, for the sale by BPHI of 56% of the issued and outstanding shares of GBPC. The transaction is subject to customary closing conditions, including regulatory and third-party approvals and is expected to close within the first quarter of 2021, barring any unforeseen circumstances.

As a result of the SPA execution, the Company accounted for its investment in GBPC as an Asset Held for Sale under PFRS 5, *Non-current assets Held for Sale and Discontinued Operations*, as of December 31, 2020.

PFRS 5 requires a non-current asset (or disposal group) to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

GBPC shares are available for immediate sale as of December 31, 2020 with the customary conditions for the consummation of the sale. The sale is highly probable given commitment of both shareholders as evidenced by the SPA. As of December 31, 2020, the Company is in the process of securing all the required pre-approvals and expect to obtain these on the basis of the status of discussions.

As non-current asset classified as held for sale, the investment in GBPC was measured at the lower of carrying amount and fair value less costs to sell. Basis of the fair value was the purchase consideration as indicated in the SPA (see Note 5).

Impairment of Financial Assets. The Company has the following financial assets that are subject to the ECL model: (i) cash and cash equivalents; and (ii) receivables.

Carrying value of financial assets as at December 31, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents	**₱1,203**	₱723
Dividend receivables	**1,232**	1,400
Other receivables	**5**	7

While cash and cash equivalents and receivables are subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial. The Company assessed that the provision for ECL of other financial assets amounted to nil as of December 31, 2020 and 2019.

Determination of Impairment of Investment in a Subsidiary. Impairment review is performed when certain impairment indicators are present. Determining the fair value of investments requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

While it is believed that the assumptions used in the estimation of the fair value reflected in the financial statements is appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of the recoverable value and any resulting impairment loss could have a material impact on the results of operations.

The carrying value of the investment in GBPC as at December 31, 2019 amounted to ₱22,145.3 million. Management assessed that there is no impairment in 2019.
As at December 31, 2020, the investment in GBPC is classified as asset held for sale (see Note 5).

Non-recognition of Deferred Tax Assets. The Company's assessment of the non-recognition of deferred tax assets is based on the projected taxable income in the following years. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Unrecognized deferred tax assets related to unutilized NOLCO amounted to ₱499.2 million and ₱537.5 million as at December 31, 2020 and 2019, respectively, since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized (see Note 9).

4. Cash and Cash Equivalents

As at December 31, 2020 and 2019, this account consists of:

	2020	2019
	(In Million Pesos)	
Cash in bank	**₱1**	₱1
Short-term deposits	**1,202**	722
	₱1,203	₱723

Cash in bank earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three (3) months in maturity depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates (see Note 10).

Interest earned, net of final tax, from cash in bank and short-term deposits amounted to ₱9.2 million and ₱28.6 million in 2020 and 2019, respectively.

5. **Investment in a Subsidiary / Asset Held for Sale**

The investment in a subsidiary pertains to the Company's investment in GBPC. The Company owns 56% of the outstanding and issued capital stock of GBPC.

GBPC is a holding company which, through its subsidiaries, is one of the leading independent power producers in the Visayas region and Mindoro Island. GBPC's power generation facilities consist of: (i) 246 megawatts (MW) clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation; (ii) 164 MW "clean coal" and 150 MW coal-fired power plants in Iloilo City, which is operated by Panay Energy Development Corporation; (iii) 60 MW coal facility, an 82 MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Company; (iv) a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation; and (v) 7.5 MW fuel oil facility operated by GBH Power Resources Inc.

GBPC also has a 50% less one share stake in Alsons Thermal Corp. (ATEC). ATEC has ownership in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 2x118.5 MW (gross capacity) baseload coal-fired plant (with the second 118.5 MW unit in Sarangani Province declaring commercial operations on October 10, 2019) in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. (SRPI) which is developing a 120 MW gross capacity baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation.

GBPC, through its operating generation subsidiaries, entered into bilateral off-take arrangements with power off-takers such as distribution utilities, electric cooperatives, retail electricity suppliers and directly connected industrial customers which together accounted for 93% and 90% of GBPC's total electricity sales for the years ended December 31, 2020 and 2019, respectively.

As at December 31, 2019, the investment in GBPC amounted to ₱22,145.3 million.

A pledge on the Company's investment in GBPC shares secures the Company's loan facilities with a syndicate of various financial institutions (see Note 7).

<u>Investment in GBPC as Asset Held for Sale</u>
On December 23, 2020, the Company entered into a share purchase agreement with MGen, a wholly-owned subsidiary of MERALCO, for the sale by the Company of 56% of the issued and outstanding shares of GBPC. The total consideration for the sale of the shares is ₱22,443.4 million which shall be paid in installments as follows:

- 60% of the purchase price will be paid on completion;
- 20% of the purchase price will be paid 6 months after closing date ("First Installment"); and
- 20% of the purchase price will be paid 18 months after closing date (the "Second Installment"), the First Installment and Second Installment are collectively referred to as the "Installment Payments".

The unpaid Installment Payments shall earn interest at the rate of 2.0% p.a. from closing date until payment.

The purchase price shall be subject to adjustment based on dividends from GBPC that BPHI will be entitled to after the signing date.

Closing of this proposed transaction is conditional on the satisfaction and/or waiver, where applicable, of the following conditions:

- the approval on ruling or waiver of review by the Philippine Competition Commission in respect of the Proposed Disposal or an acknowledgement by the Philippine Competition Commission that the Proposed Acquisition is not subject to mandatory merger review;
- third party approvals required from (i) lenders under certain loan agreements or arrangements entered into by GBPC or its subsidiaries and (ii) certain shareholders pursuant to a shareholders' agreement of a subsidiary, having been obtained; and
- other conditions typical and customary for share purchase agreements, including regulatory and third-party approvals.

The proposed transaction is expected to close within the first half of 2021. Accordingly, as at December 31, 2020, investment in GBPC was classified as asset held for sale and is measured at the lower of carrying amount and fair value less cost to sell in accordance with PFRS 5 as follows:

		In Million Pesos
Investment cost		₱22,145
Fair value less cost to sell:		
Gross consideration	₱22,443	
Less: Price adjustment attributable to GBPC dividends declared in 2020	1,232	
Purchase price	21,211	
Less: Estimated transaction cost	112	21,099
Remeasurement loss		₱1,046

Dividend Income and Other Income

Dividends received by the Company from GBPC in 2020 and 2019 are as follows:

			Cash Dividend	Share in Dividends	
Declaration Date	**Record Date**	**Payment Date**	**per Share**	**2020**	2019
November 25, 2020	**December 31, 2020**	**2021**	**₱1.30**	**₱1,232 million**	₱–
December 10, 2019	December 31, 2019	2020	1.30	–	1,400 million

In 2020, the Company received ₱59.3 million from GBPC's former shareholder as indemnity claim pursuant to the SPA dated May 27, 2016 between the Company and GBPC's former shareholders. The indemnity was recognized as 'Other income' in the Company's statement of comprehensive income for year ended December 31, 2020.

6. Accounts Payable and Other Current Liabilities

This account consists of:

	2020	2019
	(In Million Pesos)	
Accrued expenses	**₱128**	₱–
Accrued interest payable	**169**	179
	₱297	₱179

Accrued expenses include professional fees and other services that are noninterest-bearing financial liabilities that are generally settled within one year.

7. Long-term Debt

This account consists of:

	2020	2019
	(In Million Pesos)	
Long-term debt	**₱8,640**	₱9,120
Less unamortized debt issue cost	–	41
	8,640	9,079
Less current portion (net of unamortized debt issue cost of nil in 2020 and ₱6.8 million in 2019)	**8,640**	473
Noncurrent portion	**₱–**	₱8,606

On August 23, 2016, the Company entered into a 10-year Loan Facility Agreement with Metropolitan Bank and Trust Company (MBTC) amounting to ₱12.0 billion. This Loan Facility has a fixed interest of 5.50% per annum with the principal and interest payable semi-annually starting August 26, 2017. The Loan Facility is secured by a pledge on GBPC shares owned by the Company (see Note 5). Other covenants include maintenance of reserve account and achievement of certain financial ratios such as (i) Debt Service Coverage Ratio (DSCR) at a minimum of 1.1x, to be first calculated in 2018; and (ii) DSCR before any restricted payments at 1.3x. As at December 31, 2020 and 2019, BPHI is in compliance with all the requirements stipulated in the loan agreement.

On November 25, 2019, the Company and MBTC agreed to amend certain provisions of the Original Loan Facility Agreement particularly those relating to the rate of amortization on the specific Interest Payment Dates. All other provisions from the Original Loan Facility Agreement shall continue to be in full force and effective.

Principal repayments amounted to ₱480.0 million and ₱960.0 million for 2020 and 2019, respectively. As at December 31, 2020, the repayment of this loan based on existing terms is provided on Note 10, *Financial Risk Management Objectives and Policies*.

In 2020, in connection with the planned sale of the GBPC shares (see Note 5), the Company informed MBTC of its intention to prepay the outstanding portion of the debt. Prepayment is scheduled in 2021. The pledge on the GBPC shall be terminated upon full and final discharge of the obligation under the Loan Facility Agreement.

In connection with the prepayment and refinancing, the Company recognized estimated prepayment penalties and interests of ₱127.5 million and accelerated amortization of the of the remaining balance of the debt issuance cost of ₱34.2 million in the statements of comprehensive income for the year ended December 31, 2020. The Company also classified the long-term debt as current liability as at December 31, 2020 in the Company's statement of financial position.

8. Equity

On January 18, 2019, Beacon's BOD approved the additional subscription to fifteen (15) million common shares in BPHI, at the price of ₱10.0 per common share, or the aggregate subscription price of ₱150.0 million, payable in cash. The subscription was settled in February 2019.

Transaction costs on issuance of shares amounting to ₱0.2 million were incurred in 2019, which were charged against 'Additional paid-in capital' account of the Company's statements of financial position.

9. Income Taxes

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for income tax for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
	(In Million Pesos)	
Provision for income tax at statutory tax rate	**(₱125)**	₱265
Tax effects of:		
Dividend income exempted from final tax	**(370)**	(420)
Nondeductible accrual of expense	**352**	–
Expired NOLCO	**200**	117
Nondeductible income	**(17)**	–
Unrecognized deferred tax assets on NOLCO	**(38)**	43
Interest income already subjected to final tax	**(3)**	(9)
Nondeductible portion of interest expense	**1**	4
Actual provision for income tax	**₱–**	₱–

The Company's deferred tax assets arising from NOLCO amounting to ₱499.2 million and ₱537.5 million as at December 31, 2020 and 2019, respectively, have not been recognized in the statement of financial position since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized.

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	Balance as at January 1, 2019	Application	Expiration	Balance as at December 31, 2020
2019	2022	₱534	₱–	₱–	₱534
2018	2021	592	–	–	592
2017	2020	666	–	(666)	–
		₱1,792	₱–	(₱666)	₱1,126

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	Balance as at January 1, 2019	Addition	Application	Expiration	Balance as at December 31, 2020
2020	2025	₱–	₱538	₱–	₱–	₱538

For the years ended December 31, 2020 and 2019, the Company has no taxable profit subject to RCIT and MCIT.

10. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from local financial institutions, proceeds of which were used for the acquisition of investments and for financing operations. The Company has other financial assets and liabilities such as cash in bank, short-term deposits, receivables, and accounts payable and other current liabilities, which arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The BOD reviews and approves policies of managing each of the risks as summarized below.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relate primarily to its long-term debt. The Company manages interest rate exposure by using a fixed rate debt which is subject to fair value interest rate risk. The Company's interest on long-term debts are fixed until maturity as at December 31, 2020 and 2019, thus, exposure to interest rate risk is minimal.

Liquidity Risk
Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain funding. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

As part of the liquidity strategy, the Company sets aside cash to ensure that financial obligations will be met as they fall due. The cash flow position is monitored, particularly the collection from receivables and receipts of dividends. As at December 31, 2020 and 2019, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱1,203.0 million and ₱723.0 million. These are allocated to meet the Company's short-term liquidity needs.

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

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

The table below summarizes the maturity profile of the Company's financial assets and liabilities as at December 31, 2020 and 2019 based on undiscounted contractual payments.

	2020						
	On Demand	**2021**	**2022**	**2023**	**2024**	**2025 and Beyond**	**Total**
				(In Million Pesos)			
Financial Assets							
At amortized cost:							
Cash and cash equivalents:							
Cash in bank	**₱1**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1**
Short-term deposits	–	**1,202**	–	–	–	–	**1,202**
Dividend receivable	–	**1,232**	–	–	–	–	**1,232**
Other receivables	–	**5**	–	–	–	–	**5**
	1	**2,439**	–	–	–	–	**2,440**
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities	–	**128**	–	–	–	–	**128**
Long-term debt:							
Principal	–	**8,640**	–	–	–	–	**8,640**
Interest	–	**285**	–	–	–	–	**285**
	–	**9,053**	–	–	–	–	**9,053**
	₱1	**(₱6,614)**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱6,613)**

	2019						
	On Demand	2020	2021	2022	2023	2024 and Beyond	Total
				(In Million Pesos)			
Financial Assets							
At amortized cost:							
Cash and cash equivalents:							
Cash in bank	₱1	₱–	₱–	₱–	₱–	₱–	₱1
Short-term deposits	–	722	–	–	–	–	722
Dividend receivable	–	1,400	–	–	–	–	1,400
Other receivables	–	7	–	–	–	–	7
	1	2,129	–	–	–	–	2,130
Financial Liabilities							
Other financial liabilities:							
Long-term debt:							
Principal(1)	–	480	480	540	540	7,080	9,120
Interest	–	503	475	448	417	988	2,831
	–	983	955	988	957	8,068	11,951
	₱1	₱1,146	(₱955)	(₱988)	(₱957)	(₱8,068)	(₱9,821)

(1) Gross of unamortized debt issuance costs.

As discussed in Note 5, the loan facilities are secured by the Company's investment in GBPC shares. Also as discussed in Note 7, the Company plans to prepay the loan in 2021.

Credit Risk

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

With the exception of cash and cash equivalents, the Company's maximum exposure to credit risk is equal to the carrying amount of these instruments. The Company's credit risk is concentrated with GBPC with the dividend receivable from GBPC as at December 31, 2020 and 2019 (see Note 5).

The Company classified the credit quality of its cash and cash equivalents and receivables as high grade since they are collectible on their due dates. The aggregate of cash and cash equivalents and receivables amounting to ₱2,440.0 million and ₱2,129.7 million as at December 31, 2020 and 2019, respectively, are all neither past due nor impaired.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain additional advances from stockholders, return capital to shareholders or issue new shares.

The capital being managed by the Company consist of its equity. The capital of the Company derived from the issuance of capital stock, net of transaction costs, aggregated to ₱11,723.5 million as at December 31, 2020 and 2019.

11. **Financial Assets and Financial Liabilities**

As at December 31, 2020 and 2019, the carrying values of cash and cash equivalents, receivables and accounts payable and other current liabilities approximate their fair values at the end of the reporting period due to the relatively short-term nature of the transactions. The long-term debt with carrying value of ₱8,640.0 million as at December 31, 2020 approximate its fair value given that the entire balance has been classified as current and is to be paid within 2021 (see Note 7).

The long-term debt with carrying value of ₱9,079.0 million as at December 31, 2019 has an estimated fair value of ₱9,280.8 million using Level 2 inputs. Estimated fair value is based on the discounted value of future cash flows using the prevailing credit rates ranging 3.11% to 4.28% in 2019.

12. **Supplemental Cash Flow Information**

The following table shows significant changes in long-term debt, a financing activity, including changes arising from cash flows and non-cash changes:

	2020	2019
	(In Millions)	
Balance at beginning of the year	**₱9,079**	₱10,030
Cash flow statement (see statements of cash flow)		
Payments	**(480)**	(960)
Non-cash – amortization of debt issue cost	**41**	9
Balance at end of the year (see Note 7)	**₱8,640**	₱9,079

13. **Future Changes in Accounting Policies**

Pronouncements issued but not yet effective are listed below. Unless otherwise specified, these will not have a significant impact on the Company's financial statements. The Company intends to adopt the following pronouncements when they become effective.

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*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

Effective Beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *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*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

<u>Effective Beginning on or After January 1, 2023</u>

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

- PFRS 17, *Insurance Contracts*

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

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

  - A specific adaptation for contracts with direct participation features (the variable fee approach)

  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred Effectivity

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

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

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

14. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On December 28, 2010, RR No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below are the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

The Company reported and/or paid the following types of taxes in 2020.

All values presented below are rounded to the nearest peso.

Value Added Tax (VAT)
The Company is not a VAT registered entity.

Withholding Taxes and Importation Duties
The Company has accrued and paid expanded withholding tax amounting to ₱76,269,823 for the year ended December 31, 2020. The Company has no importation in 2020.

Taxes and Licenses
The Company's taxes and licenses for the year are as follows:

Business taxes	₱786,950
Documentary stamp taxes*	75
Total	₱787,025

**Pertains to DST on leases.*

Tax Assessment and Litigation
The Company has no outstanding tax assessments and litigation as at December 31, 2020.