Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

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
Metro Pacific Investments Corporation

Report on the Audit of the Parent Company Financial Statements

Opinion

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

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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 Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-5 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-055-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534334, January 4, 2021, Makati City

March 19, 2021

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Notes 5, 19 and 20)	**₱22,292,500**	₱38,154,974
Restricted cash (Notes 5, 19 and 20)	**228,862**	555,594
Receivables (Notes 19 and 20)	**48,107**	4,154,368
Due from related parties (Notes 10, 19 and 20)	**3,930**	98,972
Input taxes	**356,189**	317,785
Other current assets (Note 13)	**46,384**	41,984
Total Current Assets	**22,975,972**	43,323,677
Noncurrent Assets		
Investments and advances (Note 6)	**205,237,845**	202,176,066
Other noncurrent assets (Notes 6, 7, 13, 19 and 20)	**629,868**	511,090
Total Noncurrent Assets	**205,867,713**	202,687,156
	₱228,843,685	₱246,010,833
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 8, 19 and 20)	**₱2,219,239**	₱3,844,179
Due to related parties (Notes 10, 19 and 20)	**2,398,605**	5,561,050
Current portion of:		
Long-term debt (Notes 9, 19 and 20)	**2,122,919**	6,666,499
Provisions (Note 6)	**255,914**	185,079
Total Current Liabilities	**6,996,677**	16,256,807
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 9, 19 and 20)	**76,992,366**	78,531,219
Provisions (Note 6)	**2,406,564**	2,383,037
Due to related parties (Notes 10, 19 and 20)	**–**	2,240,081
Deferred tax liabilities (Note 15)	**6,853,880**	6,856,482
Other noncurrent liabilities (Notes 13, 19 and 20)	**835,448**	693,976
Total Noncurrent Liabilities	**87,088,258**	90,704,795
Total Liabilities	**94,084,935**	106,961,602
Equity (Note 11)		
Capital stock	**31,660,620**	31,660,620
Additional paid-in capital	**68,638,491**	68,638,256
Treasury shares	**(3,419,760)**	(4,055)
Equity reserves	**68,083**	4,290
Other comprehensive income reserve	**4,990**	15,060
Retained earnings	**37,806,326**	38,735,060
Total Equity	**134,758,750**	139,049,231
	₱228,843,685	₱246,010,833

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands Except Earnings Per Share Figures)

	Years Ended December 31	
	2020	2019
REVENUES		
Dividend income (Notes 6 and 10)	**₱9,947,552**	₱12,416,179
Interest income (Note 14)	**687,856**	533,003
	10,635,408	12,949,182
OPERATING EXPENSES (Note 12)	**(1,559,326)**	(1,838,980)
INTEREST EXPENSE (Notes 9, 10 and 14)	**(5,679,631)**	(5,391,625)
OTHER INCOME (EXPENSES) - Net (Note 14)	**(712,590)**	13,032,575
INCOME BEFORE INCOME TAX	**2,683,861**	18,751,152
PROVISION FOR FINAL AND CURRENT TAX (Note 15)	**125,437**	95,691
NET INCOME	**2,558,424**	18,655,461
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain (loss) on defined benefit plans (Note 13)	**(8,672)**	3,094
Income tax effect (Notes 13 and 15)	**2,602**	(928)
Change in fair value of equity securities at fair value through other comprehensive income (FVOCI) (Notes 20 and 23)	**(4,000)**	3,000
	(10,070)	5,166
TOTAL COMPREHENSIVE INCOME	**₱2,548,354**	₱18,660,627
EARNINGS PER SHARE (Note 17)		
Basic Earnings Per Common Share	**₱0.082**	₱0.591
Diluted Earnings Per Common Share	**₱0.082**	₱0.591

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Amounts in Thousands)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Treasury Shares (Note 11)	Equity Reserves (Note 11)	Other Comprehensive Income Reserve	Retained Earnings (Note 11)	Total
At January 1, 2020	**₱31,660,620**	**₱68,638,256**	**(₱4,055)**	**₱4,290**	**₱15,060**	**₱38,735,060**	**₱139,049,231**
Total comprehensive income for the year:							
Net income	–	–	–	–	–	**2,558,424**	**2,558,424**
Other comprehensive loss	–	–	–	–	**(10,070)**	–	**(10,070)**
Restricted Stock Unit Plan (RSUP) (Note 16)	–	**235**	**4,055**	**63,793**	–	–	**68,083**
Treasury shares	–	–	**(3,419,760)**	–	–	–	**(3,419,760)**
Cash dividends declared (Note 11)	–	–	–	–	–	**(3,487,158)**	**(3,487,158)**
At December 31, 2020	**₱31,660,620**	**₱68,638,491**	**(₱3,419,760)**	**₱68,083**	**₱4,990**	**₱37,806,326**	**₱134,758,750**
At January 1, 2019	₱31,632,830	₱68,494,364	(₱177,603)	₱279,117	₱9,894	₱23,517,883	₱123,756,485
Total comprehensive income for the year:							
Net income	–	–	–	–	–	18,655,461	18,655,461
Other comprehensive income	–	–	–	–	5,166	–	5,166
Executive Stock Option Plan (ESOP) (Note 16)	27,790	133,948	–	(78,917)	–	45,013	127,834
RSUP (Note 16)	–	10,221	176,394	(195,910)	–	9,295	–
Transaction costs on issuance of shares	–	(277)	–	–	–	–	(277)
Treasury shares	–	–	(2,846)	–	–	–	(2,846)
Cash dividends declared (Note 11)	–	–	–	–	–	(3,492,592)	(3,492,592)
At December 31, 2019	₱31,660,620	₱68,638,256	(₱4,055)	₱4,290	₱15,060	₱38,735,060	₱139,049,231

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,683,861**	₱18,751,152
Adjustments for:		
Dividend income (Note 6)	**(9,947,552)**	(12,416,179)
Interest expense (Note 14)	**5,679,631**	5,391,625
Provision for impairment of assets (Notes 6 and 14)	**1,491,099**	3,130,880
Gain on dilution of interest (Notes 6 and 14)	**(729,297)**	(16,553,256)
Interest income (Note 14)	**(687,856)**	(533,003)
Long Term Incentive Plan (LTIP) expense (Notes 12 and 13)	**336,172**	536,336
Depreciation and amortization (Notes 7 and 12)	**40,459**	42,233
Retirement costs (Note 13)	**23,034**	20,698
Loan prepayment and refinancing costs (Notes 8, 9 and 14)	**–**	460,546
Others	**(390)**	(17,992)
Operating loss before working capital changes	**(1,110,839)**	(1,186,960)
Decrease (increase) in:		
Restricted cash	**326,732**	(77,102)
Receivables	**161,680**	8,037
Due from related parties	**95,042**	(93,024)
Other current assets	**(542,806)**	417,888
Increase (decrease) in:		
Due to related parties	**57**	–
Accrued expenses and other current liabilities	**(1,364,639)**	466,787
Net cash used in operations	**(2,434,773)**	(464,374)
Dividends received (Note 6)	**9,947,552**	13,821,869
Interest paid	**(5,986,525)**	(4,009,969)
Interest received	**626,187**	475,271
Income tax paid	**(125,339)**	(95,694)
Retirement contributions paid (Note 13)	**(23,277)**	(22,038)
Net cash from operating activities	**2,003,825**	9,705,065

(Forward)

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 6)	**(₱6,046,657)**	(₱14,667,172)
Property and equipment (Note 7)	**(20,605)**	(20,769)
Software costs (Note 7)	**(44)**	(10,004)
Other noncurrent assets (Note 5)	**(5,703,000)**	(3,323)
Payments to related parties (Notes 10 and 21)	**(5,645,977)**	(4,451,341)
Collections/proceeds from sale of:		
Investments and advances (Note 6)	**2,969,253**	23,715,417
Property and equipment and others (Note 7)	**4,927**	3,746
Receivable from Buhay	**4,006,251**	–
Net cash from (used in) investing activities	**(10,435,852)**	4,566,554
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Loan availment (Notes 9 and 21)	**14,500,000**	20,000,000
Subscription arising from exercise of stock option (Notes 11 and 16)	–	127,834
Payments of/for:		
Long-term debt (Notes 9 and 21)	**(20,597,400)**	(1,587,900)
Treasury shares (Note 11)	**(3,419,760)**	(2,845)
Debt issue costs (Notes 9 and 21)	**(109,434)**	(197,085)
Lease liability (Note 8)	**(15,590)**	(15,185)
Transaction costs related to issuance of shares (Note 11)	–	(278)
Dividends paid (Note 11)	**(3,487,158)**	(3,492,592)
Net cash from financing activities	**(13,129,342)**	14,831,949
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(4,105)**	53
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(21,565,474)**	29,103,621
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**38,150,974**	9,047,353
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱16,585,500**	₱38,150,974

See accompanying Notes to Parent Company Financial Statements.

1. **Corporate Information**

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

Metro Pacific Holdings, Inc. (MPHI) owns 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, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

The accompanying parent company 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 19, 2021.

Company's Operating Segments
The Company's operating segments are as follows:

- *Power*, which primarily relates to the operations of Manila Electric Company (MERALCO) in relation to the distribution, supply and generation of electricity and Global Business Power Corporation (GBPC; see Note 6) in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric Asset Holdings, Inc. (Beacon Electric) while the investment in GBPC is held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI).

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries, NLEX Corporation (NLEX Corp), Cavitex Infrastructure Corporation (CIC), MPCALA Holdings, Inc. (MPCALA), Cebu Corodova Link Expressway (CCLEC), and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R), Don Muang Tollway Public Ltd (DMT) and PT Nusantara Infrastructure Tbk (PT Nusantara).

- *Water,* which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiary, Maynilad Water Services, Inc. (Maynilad); and other water-related services by MetroPac Water Investments Corporation (MPW) and its foreign investees, B.O.O. Phu Ninh Water Treatment Plant Joint Stock Company (PNW) and Tuan Loc Water Resources Investment Joint Stock Company (TLW).

- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit Line 1 (LRT-1) and construction of the LRT-1 south extension.

- *Logistics*, which primarily relates to the Company's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiaries.

- *Others*, which represent holding companies and operations of subsidiaries and other investees involved in real estate, provision of services and waste-to-energy projects.

  After its deconsolidation starting December 2019, the Healthcare segment no longer qualified as an operating segment starting January 2020. After deconsolidation, Metro Pacific Hospital Holdings, Inc. (MPHHI) has been accounted for as an investment in an associate (see Note 6) and results of operations included in the 'others business' column.

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

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

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

Statement of Compliance

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

3. Management's Use of Judgments and Estimates

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

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

Judgments

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

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

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

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

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

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

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

In 2019, the series of transactions entered into by MPIC together with MPHHI for the investment and entry of KKR and Co. (“KKR”), alongside Arran Investments Private Limited (“Arran”), in and to MPHHI, were assessed to be linked agreements and thus, were accounted for as a single transaction that resulted to the deconsolidation of MPHHI considering MPIC’s loss of control over MPHHI with the remaining interest accounted for as investment in associate. Management’s judgments in concluding the loss of control over MPHHI and accounting for the remaining investment are discussed in Note 6.

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

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

Contingent events leading to exercise of Put and Call Options. The put and call options under the shareholders’ agreement between MPIC and Sumitomo Corporation (see Note 6) are contingent options whose values are linked or interdependent based on which of the contingent events giving rise to the options will likely to occur first or is probable of occurring. This is because the exercise of one of the options will render the remaining option no longer exercisable.

For these contingent put and call options, included as a factor in the valuation is the assessment of whether the probability of the contingent event happening is remote or nil. If the contingent event happening is assessed to be remote or nil, then the value of the options will also be nil or minimal. Based on management’s judgment, the probability of the event (or events) happening (leading to MPIC’s right to exercise its call option) and the probability that of the event (or events) happening (leading to Sumitomo’s right to exercise its put option) are both very low as the Company would rationally not take any actions that would negatively affect its investment in LRMC. Hence, the value of the derivative arising from the call and put options are zero or minimal (see Note 6).

Estimates

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

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

Fair values of financial instruments are presented in Note 20.

Incorporation of Forward-looking Information. To capture the effect of changes to the economic environment in the future, the computation of Probability of Default (PD), Loss Given Default (LGD) and Expected Credit Loss (ECL), incorporates forward-looking information; assumptions on the path of economic variables that are likely to have an effect on the repayment ability of the Company's counterparties. The starting point for the projections of economic variables is based on management's view, which underlies the plan to deliver the Company's strategy and ensures it has sufficient capital over the medium term. Management's view covers a core set of economic variables required to set the strategic plan, namely inflation, unemployment rate, gross domestic product and peso-dollar exchange rate.

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

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

	2020	2019
	(In Thousands)	
Cash and cash equivalents (see Note 5)	**₱16,585,500**	₱38,150,974
Short-term deposits (see Note 5)	**5,707,000**	4,000
Restricted cash (see Note 5)	**228,862**	555,594
Receivables	**48,107**	4,154,368
Due from related parties (see Note 10)	**3,930**	98,972

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

The Company assessed that the provision for ECL of receivables and due from related parties amounted to nil for the years ended December 31, 2020 and 2019.

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

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

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

The carrying value of the investments and advances amounted to ₱205,237.8 million and ₱202,176.1 million as at December 31, 2020 and 2019, respectively (see Note 6). Accumulated impairment amounted to ₱6,422.4 million and ₱5,291.1 million as at December 31, 2020 and 2019, respectively. Impairment losses on investments and advances recognized for the years ended December 31, 2020 and 2019 amounted to ₱1,491.1 million and ₱3,130.9 million, respectively (see Notes 6 and 14).

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

Deferred income tax assets have not been recognized as at December 31, 2020 and 2019 because management believes that the Company may not have sufficient future taxable profits available to allow all or part of the deferred income tax assets to be utilized in the near future.

The Company has deductible temporary differences, unused tax credits from minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), aggregating to ₱22,242.0 million and ₱21,814.3 million as at December 31, 2020 and 2019, respectively, for which no deferred tax assets have been recognized (see Note 15).

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

Retirement cost for the years ended December 31, 2020 and 2019 amounted to ₱23.0 million and ₱20.7 million, respectively (see Note 13).

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

Total equity-based compensation expense recognized in 2020 and 2019 under "Equity reserve" amounted to ₱34.1 million and nil, respectively (see Notes 12 and 16).

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

LTIP expense for the years ended December 31, 2020 and 2019 amounted to ₱336.2 million and ₱536.3 million, respectively. LTIP payable included under "Other noncurrent liabilities" as at December 31, 2020 and 2019 amounted to ₱706.8 million and ₱536.3 million, respectively (see Notes 12 and 13).

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

4. Operating Segment Information

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

For management purposes, the Company is organized into the following segments based on services and products namely: power, toll operations, water, healthcare, rail, logistics and others (see Note 1). However, given that the logistics business does not yet meet the quantitative thresholds to qualify as an operating segment, the results of the logistics operations are included in the 'other businesses' column, together with healthcare operations after its deconsolidation in December 2019 (see Note 6).

Impact of COVID-19 to MPIC's Businesses and Operations. On March 16, 2020, the Philippine Government declared the entire Luzon area in the Philippines under an "enhanced community quarantine" (ECQ). In other parts of the country, Iloilo province and Iloilo City imposed an ECQ in their jurisdictions starting March 21, 2020. Cebu province was placed under an ECQ on March 25, 2020, while Cebu City, imposed its own ECQ measure starting March 28, 2020. ECQ is effectively a total lockdown, restricting the movement of the population in response to the growing pandemic of coronavirus disease 2019 (COVID-19) in the country. Lockdown restrictions temporarily disrupted capacity to read water and electric meters and limited ability to collect payments from customers.

The National Capital Region (NCR) was then placed under general community quarantine (GCQ) starting June 1, 2020. Likewise, Davao City, Region II, Region III, Region IVA, Pangasinan, and Albay were placed under GCQ. The rest of the country was placed under modified general community quarantine (MGCQ). GCQ is the implementation of temporary measures limiting movement and transportation, and regulation of operating industries. MGCQ, on the other hand, refers to the transition between GCQ and the New Normal, when the temporary measures are relaxed and become less necessary.

However, on August 4, 2020, NCR, Bulacan, Cavite, Laguna and Rizal were placed back to a stricter “modified enhanced community quarantine” (MECQ) after an appeal made by medical societies led by the Philippine College of Physicians to place NCR under ECQ due to rising COVID-19 cases. On August 19, 2020, the said cities and municipalities were transitioned back to GCQ after the recommendation of the local authorities.

As at March 19, 2021, Metro Manila remains under GCQ.

For operations outside of the Philippines, governments of Indonesia, Vietnam and Thailand have declared states of national emergency (SONE).

- The governor of Indonesia’s capital Jakarta declared a two-week state of emergency in the city on March 20, 2020, weeks ahead before the declaration of SONE of the president of Indonesia starting March 31, 2020 with toll roads, public transportation and airports remaining open. The country started to lift the restrictions on May 29, 2020.

- Vietnam introduced social isolation measures on April 1, 2020 with factories and establishments providing essential goods remaining operational and was lifted on April 22, 2020 but continued to take precautions by limiting the gathering of people and mandating the wearing of face masks. By end of July 2020, with new coronavirus outbreak, social distancing measures were applied again for affected provinces in the central and north of Vietnam until end of August 2020. With the second COVID-19 outbreak brought under control, the affected provinces eased social distancing restrictions and all passenger transportation and business enterprises have resumed operations. On January 28, 2021, the third COVID-19 outbreak began. Entire Hai Duong province applied social isolation for 15 days while Hanoi and Ho Chi Minh City stopped all entertainment activities starting February 15, 2021.

- Thailand was put into a state of emergency starting March 26, 2020, with land borders with adjacent countries ordered closed. The country started to gradually lift the restrictions on May 3, 2020 and eased it further starting June 1, 2020. However, the Thai government extended its state of emergency until November 30, 2020 despite the lockdown easing. By the end of December 2020, a new wave of COVID-19 outbreak emerged, which resulted the government to impose new restrictions such as widespread shutdown, including schools, bars and other entertainment venues, massage and beauty parlors and department stores and checkpoints at entry and exit points to some provinces seeking to prevent further spread of the virus. On February 1, 2021, the country started to lift the restrictions in most provinces.

The impact of the community quarantine (and various regional lockdowns) on MPIC’s businesses is as follows:

- *Power - MERALCO*. In Luzon, reduction in the demand from the commercial and industrial sectors partially offset by increased demand from residential customers as a direct consequence of the NCR-wide ECQ.

Extension of payment due dates for billings during the ECQ period provided to customers in accordance with the advisories issued by the Department of Energy (DOE) and Energy Regulatory Commission (ERC).

- *Power - GBPC*. In the Visayas, energy demand decreased after the start of the ECQ imposed in Iloilo and Cebu. GBPC's operating plants located in Cebu, Iloilo, Aklan and Mindoro initiated a plant lockdown to ensure continued operations. For Cebu operations, the lockdown was from March 23 to May 29, 2020, while for Panay operations, the lockdown was from March 20 to June 12, 2020.

  In its Advisory dated April 15, 2020, the ERC stated that "Retail Electricity Suppliers (RES) are directed to provide a grace period to all customers through the deferment of their electricity bill falling due within the period of the ECQ or from March 16 to April 30, 2020, without interest, penalties, fees and other charges. The cumulative amount of electricity bills that was supposed to have fallen due within the ECQ shall be amortized in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ. This shall be reflected as a separate item in the electricity bill due on those succeeding months, provided that the first billing due date following the ECQ shall be no earlier than May 15, 2020." In the same Advisory, the ERC stated that "Generators shall extend the same payment scheme as provided in the preceding paragraph, to the RES, Distribution Utilities (DU) and other customers."

  Following Republic Act No. 11494 entitled "Bayanihan to Recover as One Act" ("Bayanihan"), the DOE issued an Advisory directing Generation Companies, among others, to implement a minimum of a thirty (30)-day grace period and staggered payment without interests, penalties and other charges to all payments due within the period of Community Quarantine.

- *Toll Operations*. North Luzon Expressway (NLEX), Subic-Clark-Tarlac Expressway (SCTEX), Manila – Cavite Expressway (CAVITEX) and the Cavite Laguna Expressway (CALAX) have remained open to facilitate unhampered movement of essential goods and transit of medical workers amid the Luzon-wide ECQ. Average daily vehicle entries since implementation of ECQ and declaration of SONE resulted in a decline in domestic and foreign traffic, respectively.

- *Water - Maynilad*. ECQ resulted in higher residential demand but at a lower average tariff rate because of the closure of non-essential businesses which affected the non-domestic customer segment.

  In the absence of meter readings for the domestic customers during the ECQ, Maynilad estimated the billing affected by the ECQ period using average historical consumption pursuant to the policy of the MWSS Regulatory Office. For non-domestic customers, Maynilad used a combination of electromagnetic flow meter readings, actual readings by the technical team, and customer photographs of meter readings. Maynilad resumed the conduct of actual meter reading and onsite billing activities beginning June 1, 2020 and corrections for over/under registration of consumption from when water bills were averaged were reflected in the customer's June 2020 Statement of Account (SOA).

  Maynilad also extended assistance to its customers in the form of payment due date extensions and a moratorium on disconnections during the ECQ. In its letter dated September 29, 2020, the MWSS Regulatory Office ordered a grace period of thirty (30) days for the payment of water bills falling due within the period of ECQ or MECQ for all types of customers pursuant to the provisions of Republic Act No. 11494. After the grace period, a three-month installment scheme shall be provided to the following customers: domestic, micro, small and medium enterprises

(MSMEs) and cooperatives until December 16, 2020. Because of the short lead time and the operational issues involved, Maynilad opted to defer disconnection until December 17, 2020.

On November 3, 2020, Maynilad also announced that it shall forego the rate increase it is qualified to implement in 2021, specifically the already approved rebasing adjustment for 2021, as well as the mandated Consumer Price Index (CPI) inflation increase of the year.

- *Rail.* With the ECQ implementation, operations were suspended starting March 17, 2020. Operations resumed on June 1, 2020 but at a limited capacity of 13% per directive of the Department of Transportation (DOTr).

  With the implementation of MECQ in NCR, LRT-1 operations were again suspended from August 4, 2020 to August 18, 2020. On August 19, 2020, LRT-1 resumed operations after placing NCR back to GCQ. In October 2020, following the DOTr's directive to gradually increase maximum passenger capacities, LRMC adjusted passenger loading capacity to 30%.

  In addition, starting March 2020 upon ECQ implementation, LRMC provides rental assistance to its retail customers in the form of reduced lease payments.

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

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

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

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

There are no revenue transactions with a single customer that accounted for 10% or more of the Group's consolidated revenues and no material inter-segment revenue transactions for the years ended December 31, 2020 and 2019. The Group's revenue substantially comprises of services which revenue recognition is over time.

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

The segment revenues, core income, assets, liabilities, and other segment information of MPIC Group's reportable operating segments as at and for the years ended December 31, 2020 and 2019 are detailed in the following tables. The following table presents consolidated information on core income and certain assets and liabilities regarding business segments:

	Year Ended December 31, 2020 *(In Millions)*								
	Power	Toll Operations	Water	Rail	Other Businesses	Adjustments/ Eliminations	Consolidated	GBPC	Continuing Operations
Total revenue from external sales	₱21,400	₱13,564	₱24,561	₱1,263	₱1,136	₱–	₱61,924	₱21,069	₱40,855
Cost of sales and services	(13,834)	(5,583)	(8,787)	(1,361)	(1,032)	–	(30,597)	(13,574)	(17,023)
Gross Margin	7,566	7,981	15,774	(98)	104	–	31,327	7,495	23,832
General and administrative expenses	(3,502)	(1,882)	(4,385)	(658)	(1,645)	–	(12,072)	(3,420)	(8,652)
Other income (charges) – net	1,086	493	(530)	(115)	7	–	941	1,086	(145)
Profit before Financing Charges	5,150	6,592	10,859	(871)	(1,534)	–	20,196	5,161	15,035
Interest expense – net	(2,043)	(2,604)	(2,092)	(26)	(3,523)	–	(10,288)	(1,610)	(8,678)
Profit before NCI and Income Tax	3,107	3,988	8,767	(897)	(5,057)	–	9,908	3,551	6,357
Non-controlling interest	(1,892)	(1,139)	(3,006)	402	1	–	(5,634)	(1,896)	(3,738)
Provision for income tax	(1,014)	(788)	(2,584)	155	(537)	–	(4,768)	(1,000)	(3,768)
Contribution from Subsidiaries	201	2,061	3,177	(340)	(5,593)	–	(494)	655	(1,149)
Share in net earnings (losses) of equity method investees	10,393	293	(48)	–	94	–	10,732	930	9,802
Contribution from Operations - Core Income (Loss)	10,594	2,354	3,129	(340)	(5,499)	–	10,238	1,585	8,653
Non-recurring charges	(2,650)	(393)	(200)	(13)	(2,234)	–	(5,490)	(28)	(5,462)
Segment Income (Loss) Attributable to owners of the Parent Company	₱7,944	₱1,961	₱2,929	(₱353)	(₱7,733)	₱–	₱4,748	₱1,557	₱3,191
Core EBITDA	₱8,852	₱8,247	₱15,522	(₱752)	(₱1,227)	₱–	₱30,642	₱8,859	₱21,783
Core EBITDA Margin	41%	61%	63%	–%	–%	–%	49%	42%	53%
Non-recurring Charges	(₱2,685)	(₱432)	(₱294)	(₱38)	(₱2,228)	₱–	(₱5,677)	(₱64)	(₱5,613)
Provision for (benefit from) income tax	12	(4)	40	4	(1)	–	51	12	39
Non-controlling interest	23	43	54	21	(5)	–	136	24	112
Net Non-recurring Charges	(₱2,650)	(₱393)	(₱200)	(₱13)	(₱2,234)	₱–	(₱5,490)	(₱28)	(₱5,462)
Assets and Liabilities									
Segment assets	₱74,627	₱158,503	₱138,136	₱35,599	₱30,875	₱15,538	₱453,278	₱70,925	₱382,353
Investments and advances	129,867	14,748	2,036	–	17,867	–	164,518	5,044	159,474
Consolidated Total Assets	₱204,494	₱173,251	₱140,172	₱35,599	₱48,742	₱15,538	₱617,796	₱75,969	₱541,827
Segment Liabilities	₱53,972	₱119,261	₱74,141	₱24,671	₱90,243	₱11,161	₱373,449	₱40,519	₱332,930
Other Segment Information									
Capital expenditures -									
Service concession assets and property, plant and equipment	₱399	₱28,016	₱9,354	₱5,829	₱459	₱–	₱44,057	₱399	₱43,658
Depreciation and amortization	3,702	1,655	4,663	119	307	–	10,446	3,698	6,748

	Year Ended December 31, 2019 *(In Millions)*									
	Power	Toll Operations	Water	Healthcare	Rail	Other Businesses	Adjustments/ Eliminations	Consolidated	Operations under PFRS 5	Continuing Operations
Total revenue from external sales	₱24,648	₱18,503	₱25,469	₱14,658	₱3,287	₱1,592	₱–	₱88,157	₱38,881	₱49,276
Cost of sales and services	(16,018)	(6,524)	(8,544)	(8,895)	(2,042)	(1,698)	–	(43,721)	(24,634)	(19,087)
Gross Margin	8,630	11,979	16,925	5,763	1,245	(106)	–	44,436	14,247	30,189
General and administrative expenses	(2,354)	(2,046)	(4,153)	(3,663)	(767)	(1,796)	–	(14,779)	(5,929)	(8,850)
Other income (charges) – net	380	691	(932)	327	87	102	–	655	707	(52)
Profit before Financing Charges	6,656	10,624	11,840	2,427	565	(1,800)	–	30,312	9,025	21,287
Interest expense – net	(2,204)	(2,027)	(1,639)	(147)	112	(3,753)	–	(9,658)	(1,704)	(7,954)
Profit before NCI and Income Tax	4,452	8,597	10,201	2,280	677	(5,553)	–	20,654	7,321	13,333
Non-controlling interest	(2,436)	(1,857)	(3,470)	(906)	(261)	–	–	(8,930)	(3,331)	(5,599)
Provision for income tax	(1,171)	(2,256)	(3,048)	(745)	(97)	(461)	–	(7,778)	(1,862)	(5,916)
Contribution from Subsidiaries	845	4,484	3,683	629	319	(6,014)	–	3,946	2,128	1,818
Share in net earnings (losses) of equity method investees	10,824	605	(64)	238	–	53	–	11,656	649	11,007
Contribution from Operations - Core Income (Loss)	11,669	5,089	3,619	867	319	(5,961)	–	15,602	2,777	12,825
Non-recurring charges	(304)	(331)	(12,752)	25,837	(18)	(4,178)	–	8,254	25,859	(17,605)
Segment Income (Loss) Attributable to owners of the Parent Company	₱11,365	₱4,758	(₱9,133)	₱26,704	₱301	(₱10,139)	₱–	₱23,856	₱28,636	(₱4,780)
Core EBITDA	₱10,020	₱12,643	₱16,344	₱3,780	₱678	(₱1,205)	₱–	₱42,260	₱13,738	₱28,522
Core EBITDA Margin	41%	68%	64%	26%	21%	–%	–%	48%	35%	58%
Non-recurring Charges	(₱219)	(₱184)	(₱20,106)	₱31,915	(₱36)	(₱4,250)	₱–	₱7,120	₱32,007	(₱24,887)
Provision for (benefit from) income tax	(58)	(172)	2,504	(6,123)	3	12	–	(3,834)	(6,166)	2,332
Non-controlling interest	(27)	25	4,850	45	15	60	–	4,968	19	4,949
Net Non-recurring Charges	(₱304)	(₱331)	(₱12,752)	₱25,837	(₱18)	(₱4,178)	₱–	₱8,254	₱25,860	(₱17,606)
Assets and Liabilities										
Segment assets	₱78,137	₱136,080	₱130,466	₱–	₱30,870	₱50,530	₱16,603	₱442,686	₱–	₱442,686
Investments and advances	132,156	16,031	2,131	16,695	–	2,079	–	169,092	16,695	152,397
Consolidated Total Assets	₱210,293	₱152,111	₱132,597	₱16,695	₱30,870	₱52,609	₱16,603	₱611,778	₱16,695	₱595,083
Segment Liabilities	₱55,448	₱102,398	₱73,162	₱–	₱17,291	₱103,264	₱14,170	₱365,733	₱–	₱365,733
Other Segment Information										
Capital expenditures -										
Service concession assets and property, plant and equipment	₱939	₱23,796	₱16,432	₱1,806	₱7,593	₱103	₱–	₱50,669	₱1,806	₱48,863
Depreciation and amortization	3,364	2,019	4,504	1,353	113	595	–	11,948	4,713	7,235

The following table shows the reconciliation of MPIC Group's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2020 and 2019.

	2020	2019
	(In Millions)	
Consolidated Core EBITDA	**₱30,642**	₱42,260
Depreciation and amortization	**(10,446)**	(11,948)
Consolidated operating profit for the year	**20,196**	30,312
Adjustments to reconcile with consolidated net income:		
Interest income	**1,362**	2,291
Share in net earnings of equity method investees	**10,732**	11,656
Interest expense	**(11,650)**	(11,949)
Nonrecurring gains (losses) – net*	**(5,625)**	3,286
Provision for income tax	**(4,768)**	(7,778)
Consolidated net income for the year	**₱10,247**	₱27,818

**Includes net foreign exchange gains (losses)*

The following table shows the reconciliation of MPIC Group's consolidated core income to consolidated net income for the years ended December 31, 2020 and 2019.

	2020	2019
	(In Millions)	
Consolidated core income for the year	**₱10,238**	₱15,602
Non-recurring income (expenses) – net	**(5,490)**	8,254
Net income for the year attributable to owners of the Parent Company	**4,748**	23,856
Net income for the year attributable to non-controlling interest	**5,499**	3,962
Consolidated net income for the year	**₱10,247**	₱27,818

The following table shows the analysis and allocation of the consolidated results of operations of MPIC Group to core and NRI, the manner by which MPIC Group reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2020 and 2019 and is provided to reconcile the preceding consolidated segment information, amounts and balances with MPIC Group's consolidated statements of income:

	2020				2019			
	Core	**NRI**	**Reclassification**	**Consolidated**	Core	NRI	Reclassification	Consolidated
				(In Millions)				
CONTINUING OPERATIONS OPERATING REVENUES								
Water and sewerage services revenue	**₱24,561**	**₱–**	**(₱258)**	**₱24,303**	₱25,469	₱–	(₱418)	₱25,051
Toll fees	**13,564**	**–**	**–**	**13,564**	18,503	–	–	18,503
Rail revenue	**1,263**	**–**	**–**	**1,263**	3,287	–	–	3,287
Logistics revenue	**1,136**	**–**	**–**	**1,136**	1,592	–	–	1,592
Other revenues	**331**	**–**	**258**	**589**	425	–	418	843
	40,855	**–**	**–**	**40,855**	49,276	–	–	49,276
COST OF SALES AND SERVICES	**(17,023)**	**(246)**	**–**	**(17,269)**	(19,087)	1	–	(19,086)
GROSS PROFIT (LOSS)	**23,832**	**(246)**	**–**	**23,586**	30,189	1	–	30,190
General and administrative expenses	**(8,652)**	**(937)**	**–**	**(9,589)**	(8,850)	(1,333)	–	(10,183)
Interest expense	**(9,900)**	**(110)**	**–**	**(10,010)**	(9,734)	(45)	–	(9,779)
Share in net earnings (losses) of equity method investees	**9,802**	**(2,465)**	**–**	**7,337**	11,007	(253)	–	10,754
Interest income	**1,222**	**7**	**–**	**1,229**	1,780	13	–	1,793
Construction revenue	**33,988**	**–**	**–**	**33,988**	42,795	-	–	42,795
Construction costs	**(33,988)**	**–**	**–**	**(33,988)**	(42,795)	-	–	(42,795)
Others	**(146)**	**(1,862)**	**–**	**(2,008)**	(52)	(23,270)	–	(23,322)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX	**16,158**	**(5,613)**	**–**	**10,545**	24,340	(24,887)	–	(547)
PROVISION FOR (BENEFIT FROM) INCOME TAX	**(3,767)**	**39**	**–**	**(3,728)**	(5,916)	(2,332)	–	(3,584)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**12,391**	**(5,574)**	**–**	**6,817**	18,424	(22,555)	–	(4,131)
NET INCOME (LOSS) FROM OPERATIONS OF ENTITIES UNDER PFRS 5	**3,481**	**(51)**	**–**	**3,430**	6,108	25,841	–	31,949
NET INCOME (LOSS)	**₱15,872**	**(₱5,625)**	**₱–**	**₱10,247**	₱24,532	₱3,286	₱–	₱27,818
Net Income Attributable to:								
Owners of the Parent Company	**₱10,238**	**(₱5,490)**	**₱–**	**₱4,748**	₱15,602	₱8,254	₱–	₱23,856
NCI	**5,634**	**(135)**	–	**5,499**	8,930	(4,968)	–	3,962
	₱15,872	**(₱5,625)**	**₱–**	**₱10,247**	₱24,532	₱3,286	₱–	₱27,818

By Geographical Market

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

	2020	2019
	(In Millions)	
Revenue		
From Continuing Operations:		
Philippines	**₱39,186**	₱47,118
Indonesia	**1,658**	2,153
Vietnam	**11**	5
	40,855	49,276
From Operations of Entities under PFRS 5		
Philippines	**21,069**	38,881
	₱61,924	₱88,157
Share in net earnings (losses) of equity method investees:		
From Continuing Operations:		
Philippines	**₱7,104**	₱10,234
Indonesia	**104**	217
Thailand	**265**	445
Vietnam	**(136)**	(142)
	7,337	10,754
From Operations of Entities under PFRS 5		
Philippines	**930**	648
	₱8,267	₱11,402
Noncurrent assets [(a)]:		
Philippines	**₱432,536**	₱466,177
Indonesia	**26,943**	25,728
Thailand	**7,061**	8,079
Vietnam	**6,050**	3,482
	₱472,590	₱503,466

[(a)] *Excluding financial instruments and deferred tax assets.*

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2020 and 2019.

	2020		
	Consolidated	**Subsidiaries, Associates and Joint Ventures**	**Parent Company**
		(In Millions)	
Operating revenues:			
From continuing operations	**₱40,855**	**₱40,855**	**₱–**
From operations of entities under PFRS 5	**21,069**	**21,069**	**–**
Net income for the year attributable to owners of the parent company:			
From continuing operations	**3,191**	**633**	**2,558**
From operations of entities under PFRS 5	**1,557**	**1,557**	**–**
Total assets	**617,796**	**388,952**	**228,844**
Total liabilities	**373,449**	**279,364**	**94,085**
Capital expenditures	**44,057**	**44,023**	**34**

	2019		
	Consolidated	Subsidiaries, Associates and Joint Ventures	Parent Company
		(In Millions)	
Operating revenues:			
From continuing operations	₱49,276	₱49,276	₱–
From operations of entities under PFRS 5	38,881	38,881	–
Net income (loss) for the year attributable to owners of the parent company:			
From continuing operations	(4,782)	(6,884)	2,102
From operations of entities under PFRS 5	28,638	12,085	16,553
Total assets	611,778	365,767	246,011
Total liabilities	365,733	258,771	106,962
Capital expenditures	50,669	50,648	21

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

As at December 31, this account consists of:

	2020	2019
	(In Thousands)	
Cash and cash equivalents	**₱16,585,500**	₱38,150,974
Short-term deposits	**5,707,000**	4,000
	₱22,292,500	₱38,154,974

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

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

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

	2020	2019
	(In Thousands)	
Cash on hand and in banks	**₱25,580**	₱1,072,445
Short-term deposits that qualify as cash equivalents	**16,559,920**	37,078,529
	₱16,585,500	₱38,150,974

Restricted Cash. Restricted cash classified under current assets pertains to sinking fund or debt service account (DSA) representing amounts set aside for semi-annual principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements (see Note 9). Restricted cash as of December 31, 2020 and 2019, amounted to ₱228.9 million and ₱555.6 million, respectively.

Interest earned from cash and cash equivalents, short-term deposits and restricted cash amounted to ₱554.1 million and ₱527.2 million for the years ended December 31, 2020 and 2019, respectively (see Note 14).

6. Investments and Advances

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

Investee	Principal Activity	Direct MPIC Ownership Interest **2020**	2019
Subsidiaries:			
Beacon Electric	Investment holding	**100.0**	100.0
MPTC	Investment holding	**99.9**	99.9
MWHC	Investment holding	**51.3**	51.3
Maynilad	Utilities	**5.2**	5.2
MPW	Investment holding	**100.0**	100.0
MPLRC	Investment holding	**65.1**	100.0
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	**100.0**	100.0
Fragrant Cedar Holdings, Inc. (FCHI)	Property lessor	**100.0**	100.0
MPLC	Investment holding	**100.0**	100.0
Metro Pacific Resource Recovery Corp. (MPRRC)	Investment holding	**100.0**	100.0
MetPower Venture Partners Holdings, Inc. (MVPHI)	Investment holding	**100.0**	100.0
Metro Vantage Properties, Inc. (Metro Vantage)	Investment holding/real estate	**100.0**	100.0
Metro Pacific Health Tech Corporation (MPHTC)	Mobile healthcare services	**100.0**	–
KM Infrastructure Holdings, Inc. (KM Infra) [a]	Investment holding	**100.0**	–
Razor Crest Storage Infrastructure Holdings Corporation (Razor Crest) [a]	Investment holding	**100.0**	–
Hyperion Storage Holdings Corporation (Hyperion) [a]	Investment holding	**100.0**	–

Investee	Principal Activity	Direct MPIC Ownership Interest 2020	2019
Subsidiaries (cont.)			
Neo Oracle Holdings, Inc. (NOHI)	Under liquidation	**96.6**	96.6
Metro Global Green Waste, Inc. (MGGW)	Under liquidation	**70.0**	70.0
Porrovia Corporation (Porrovia)	Under liquidation	**50.0**	50.0
Joint venture:			
Landco Pacific Corporation (Landco)	Real estate	**38.1**	38.1
Associates:			
MERALCO	Power distribution	**10.5**	10.5
Indra Philippines, Inc. (Indra Phils.)	Management and IT consultancy	**25.0**	25.0
MPHHI [(b)]	Healthcare	**20.0**	20.0
MetroPac Apollo Holdings, Inc. (Apollo) [(c)]	Investment holding	**65.0**	65.0
AF Payments, Inc. (AFPI)	Operator of contactless payment system	**20.0**	20.0
First Gen Northern Electric Corp. (FGNEC)	Under liquidation	**33.3**	33.3

(a) Incorporated in 2020 (see Note 22)
(b) Ownership interest reflects economic interest on a fully diluted basis (see discussion below).
(c) Ownership interest reflects interest prior to call option exercise (see discussion below).

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

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

	2020	2019
	(In Thousands)	
Investments in subsidiaries:		
Beacon Electric	**₱94,268,143**	₱94,268,143
MPTC	**46,378,754**	42,721,751
MWHC	**12,276,767**	12,276,767
MPW	**10,055,050**	9,014,050
MPLC*	**6,446,089**	6,146,089
MPLRC	**4,448,583**	6,005,710
Maynilad	**2,071,042**	2,071,042
MVPHI	**1,053,813**	293,813
Metro Vantage	**545,000**	125,000
MPHTC	**505,500**	–
FCHI	**437,437**	207,437
NOHI	**230,132**	230,132
MPRRC	**217,500**	217,500
Porrovia	**10,000**	10,000
KM Infra	**100**	–
Razor Crest	**100**	–
Hyperion	**100**	–
MPIC-JGS	–	953
MGGW	–	–
	178,944,110	173,588,387

(Forward)

	2020	2019
	(In Thousands)	
Investments in associates:		
MERALCO	**₱27,427,458**	₱27,427,458
MPHHI	**1,426,396**	1,426,396
Indra Phils.	**326,525**	326,525
Apollo	**55,335**	55,335
FGNEC*	**250**	250
AFPI*	**880,000**	820,000
	30,115,964	30,055,964
Advances to investees*	**2,600,123**	3,822,772
Less: Accumulated impairment (see Note 14)	**(6,422,352)**	(5,291,057)
	₱205,237,845	₱202,176,066

** With corresponding allowance for impairment (see Accumulated impairment).*

Movements of investments and advances are as follows:

	December 31, 2020			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
		(In Thousands)		
Investments:				
Balance at beginning of year	**₱170,646,408**	**₱29,235,964**	**₱–**	**₱199,882,372**
Additions:				
Equity funding into existing or newly incorporated entities	**5,986,657**	**60,000**	**–**	**6,046,657**
Application of advances	**1,222,649**	**–**	**–**	**1,222,649**
Subscription payable	**387,325**	**–**	**–**	**387,325**
Less:				
Impairment (see Note 14)	**–**	**(60,250)**	**–**	**(60,250)**
Sale of MPLRC shares	**(2,239,955)**	**–**	**–**	**(2,239,955)**
Other adjustment	**(953)**	**–**	**–**	**(953)**
	176,002,131	**29,235,714**	**–**	**205,237,845**
Advances:				
Balance at beginning of year	**1,250,327**	**–**	**1,043,367**	**2,293,694**
Additional advances during the year	**–**	**–**	**–**	**–**
Less:				
Application of advances	**(1,222,649)**	**–**	**–**	**(1,222,649)**
Impairment (see Note 14)	**(27,678)**	**–**	**(1,043,367)**	**(1,071,045)**
	–	**–**	**–**	**–**
	₱176,002,131	**₱29,235,714**	**₱–**	**₱205,237,845**

	December 31, 2019			
	Subsidiaries	Associates	Joint Venture	Total
		(In Thousands)		
Investments:				
Balance at beginning of year	₱162,185,882	₱27,849,968	₱–	₱190,035,850
Additions:				
Equity funding into existing or newly incorporated entities	9,261,450	125,335	–	9,386,785
Application of advances	6,143,951	–	–	6,143,951
Subscription payable (see Note 8)	63,538	–	–	63,538
Less:				
Impairment (see Note 14)	(3,000,880)	(130,000)	–	(3,130,880)
Dilution of investment in MPHHI	(2,581,137)	–	–	(2,581,137)
Other adjustment	–	(35,735)	–	(35,735)
Reclassification	(1,426,396)	1,426,396	–	–
	170,646,408	29,235,964	–	199,882,372
Advances:				
Balance at beginning of year	2,665,891	–	491,367	3,157,258
Additional advances during the year	4,728,387	–	552,000	5,280,387
Less: Application of advances	(6,143,951)	–	–	(6,143,951)
	1,250,327	–	1,043,367	2,293,694
	₱171,896,735	₱29,235,964	₱1,043,367	₱202,176,066

Dividends

Dividend income are as follows:

	2020	2019
	(In Thousands)	
Subsidiaries:		
Beacon Electric	**₱6,364,270**	₱5,470,251
MPTC	**1,796,920**	2,345,517
MWHC	**–**	2,377,619
Maynilad	**–**	259,715
Associates:		
MERALCO	**1,786,362**	1,900,702
Indra Phils.	**–**	62,375
	₱9,947,552	₱12,416,179

MERALCO and Beacon Electric

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

In 2019, the Company increased its investment in Beacon Electric by ₱6.2 billion. The capital infusion was used by Beacon Electric to prepay all its outstanding loan facilities. All these loan facilities are secured by MERALCO shares. In 2019, the pledge of MERALCO shares was terminated upon full and final discharge of the obligation under the Note Facility Agreements.

MERALCO. MERALCO is the Philippines' largest electric power distribution company. MERALCO holds a congressional franchise under Republic Act (RA) No. 9209 effective June 28, 2003. RA No. 9209 grants MERALCO a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the ERC, granted MERALCO a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of MERALCO's congressional franchise. MERALCO's participation in RES is through its local RES unit, Mpower. In 2017, the ERC granted MERALCO's wholly owned subsidiary, Vantage Energy Solutions and Management, Inc. (VESM), Solvre, Inc., a wholly owned subsidiary of Meralco PowerGen Corporation, and MeridianX Inc., a wholly owned subsidiary of Comstech Integration Alliance, Inc., distinct RES licenses to operate as retail electricity suppliers in Luzon and Visayas.

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

MPIC's effective interest in MERALCO held indirectly through Beacon Electric is at 34.96% as at December 31, 2020 and 2019. MPIC also has direct interest in MERALCO at 10.5% as at December 31, 2020 and 2019. Thus, the Company's combined effective interest in MERALCO is at 45.5%. The fair value of the Company's effective investment in MERALCO at 45.5% as at December 31, 2020 and 2019 based on quoted prices of ₱291.90 and ₱315.30 per share amounted to ₱149.6 billion and ₱161.6 billion, respectively.

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

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

GBPC also has a 50% less one share stake in Alsons Thermal Energy Corporation (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); (ii) 100% in San Ramon Power, Inc. (SRPI) which is developing a 105 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation.

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

As at December 31, 2020 and 2019, BPHI is in compliance with the required financial ratios and other loan covenants.

Share Purchase Agreement (SPA) between BPHI and Meralco PowerGen Corporation (MGen). On December 23, 2020, BPHI entered into a 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 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 (PCC) in respect of the Proposed Disposal or an acknowledgement by the PCC 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 PCC confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the PCC. The proposed transaction is expected to close within the first half of 2021 and will result to BPHI's loss of control over GBPC.

MPTC

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

NLEX Corp holds the concession rights for the North Luzon Expressway (NLEX) up to 2037; the Subic-Clark-Tarlac Expressway (SCTEX) up to 2043; and NLEX-South Luzon Expressway (SLEX) Connector Road Project (Connector Road) which shall end on its thirty-seventh (37th) anniversary from commencement date.

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

MPCALA holds the concession for the Cavite Laguna Expressway (CALAX) with a 35-year concession period. The CALAX is a closed-system tolled expressway connecting the CAVITEX and the SLEX. Sub-sections 6 to 8, a segment of CALAX, commenced operations in October 2019 and CALAX Laguna segment interchanges which are part of the sub-section 6 to 8 opened on August 18, 2020. These interchanges are the Laguna Boulevard Interchange and the Laguna Technopark Interchange. Certain portions of the CALAX is still under construction as of March 19, 2021. The project is expected to be completed and fully operational by 2023.

CCLEC holds the concession agreement for the Cebu Cordova Link Expressway (CCLEX) with a 35-year concession period. The CCLEC construction contract award was made in November 2017 and completion is targeted by 2022.

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

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

DMT, a major toll road operator in Bangkok, Thailand holds a toll concession that runs until 2034 for the operation of a 21.9-km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok.
On February 19, 2021, FPM Tollway (Thailand) Limited ("FPM Tollway") (a 100% indirect subsidiary of MPTC), completed the sale of 100% of its shareholdings in AIF Toll Roads Holdings (Thailand) Co., Ltd. ("AIF Toll Roads"). AIF Toll Roads owns approximately 29.45% of the outstanding shares of DMT.

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

MWHC and Maynilad
MWHC owns 92.9% in Maynilad as at December 31, 2020 and 2019.

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

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

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

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

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

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

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

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

As of March 19, 2021, the review of the Concession Agreement is still ongoing and Maynilad has not been advised of any amendments to the provisions of the Concession Agreement.

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

MPW’s subsidiaries include: (i) Metro Iloilo Bulk Water Supply Corporation (MIBWSC) which holds the concession for the 170 Million Liters per Day (MLD) Bulk Water Supply Project with the Metro Iloilo Water District (MIWD); (ii) Eco-System Technologies International, Inc. (ESTII), engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities; (iii) Cagayan De Oro Bulk Water, Inc. (COBI), the legal vehicle to carry out the 100 MLD Bulk Water Supply Project with Cagayan De Oro Water District; (iv) Metro Pacific Iloilo Water Inc. (MILO), which holds the concession for the rehabilitation, operation, maintenance, and expansion of MIWD’s existing water distribution system and provision of sanitation services; and (v) MetroPac Dumaguete Holdings Corporation, an intermediary holding entity to implement the rehabilitation, operation, maintenance, and expansion of Dumaguete City Water District’s existing water distribution system and development of wastewater facilities.

MPW also has subsidiaries domiciled outside of the Philippines, namely Metro Pacific Water International Limited (MPWIL) and Metro Pacific TL Water International Limited. These foreign subsidiaries hold the investments in water companies outside of the Philippines:

- PNW holds the license to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province pursuant to a 50-year Build-Own-Operate contract with the Chu Lai Open Economic Zone Authority. MPW’s interest in PNW at 52.549% as at December 31, 2019 and increased to 56.069% as at December 31, 2020.

- TLW is one of the largest water companies in Vietnam, with 310 MLD of installed capacity and a billed volume of approximately 102 MLD. MPW's interest in TLW as at December 31, 2020 and 2019 is at 49%.

As at December 31, 2020, MPW also has interests in the following associates: (i) 39.0% in Manila Water Consortium Inc. which has 70.6% economic interest in Cebu Manila Water Development, Inc., concessionaire for the 20-year Water Purchase Agreement with the Metropolitan Cebu Water District; and (ii) 30% in EquiPacific HoldCo Inc., which has 90% stake in Laguna Water District Aquatech Resources Corp., the joint venture company responsible for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Laguna Water District's water supply system.

MPLRC

MPIC holds 65.1% and 100% interest in MPLRC as at December 31, 2020 and 2019, respectively.

On May 28, 2020, MPIC entered into the Share Purchase Agreement (SPA) with Sumitomo Corporation (Sumitomo). Pursuant to the SPA, MPIC agreed to sell, and Sumitomo agreed to purchase, the MPLRC common shares representing MPIC's approximate 34.9% shareholding in MPLRC, for an aggregate consideration of approximately ₱3.04 billion, payable by Sumitomo in full in cash at Closing. Closing took place simultaneously with the entering into of the SPA on May 28, 2020, as all of the conditions precedent under the SPA had been fulfilled or waived (as the case may be). The Company recognized gain on disposal of MPLRC shares amounting to ₱729.3 million in the Parent Company's statement of comprehensive income for the year ended December 31, 2020 (see Note 14).

MPLRC has an aggregate 55% economic interest in LRMC. Accordingly, upon Closing, Sumitomo will become beneficially interested in 19.2% of the issued and outstanding capital stock of LRMC. MPIC's effective interest in LRMC decreased from 55% to approximately 35.8% as a result of the sale of the MPLRC shares.

Sumitomo Corporation is a corporation duly organized and existing under the laws of Japan and having its shares listed on the Tokyo Stock Exchange.

The agreement with Sumitomo also provides for Sumitomo's right to issue a put notice for all the MPLRC shares it owns in the event of a deadlock (following unsuccessful mediation procedures) and in the event of MPIC's default on its obligations under the shareholders' agreement. The exercise price for the put option is determined as a percentage of the fair value of the MPLRC shares (ranging from 87% to 100%) with the fair value determination in accordance with the shareholders' agreement. The contingent put option is accounted and valued as a derivative liability in MPIC's parent company financial statements. Value of the derivative liability at zero as at December 31, 2020 with the contingent events assessed to have nil probability of happening.

LRMC signed together with the Department of Transportation and Communications (DOTC now DOTr) and the Light Rail Transit Authority (LRTA) the 32-year Concession Agreement for the Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (LRT-1 Project). On September 12, 2015, LRMC took over the operations and maintenance of LRT-1 from DOTC and LRTA.

In 2016, LRMC signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions (collectively, as "Lenders") amounting to ₱24.0 billion, ₱15.3 billion of which is allocated for the Cavite Extension and ₱8.7 billion for the rehabilitation of the existing LRT-1 system. Cumulative drawn amount from this facility as at December 31, 2020 and 2019 amounted to

₱16,086.0 million and ₱11,983.1 million, respectively. The loan has a sponsors' funding commitment wherein for each drawdown until end of the construction period, the sponsors/shareholders shall infuse additional equity or extend debt to LRMC in an amount necessary to meet the debt-to-equity ratio. According to the funding commitment, additional equity investment of the sponsors shall not exceed ₱15,346.0 million, of which ₱8,440.0 million is effectively allocated to MPLRC. As at December 31, 2020, total equity from the sponsors is ₱12,150.0 million of which ₱6,682.5 million is from MPLRC.

As at March 19, 2021, the LRT-1 existing system is undergoing rehabilitation while construction is on-going for the right-of-way (ROW) 1 portion of the Cavite Extension.

<u>MPHHI</u>
MPHHI is MPIC's holding company for its investment in the healthcare segment. As at December 31, 2020, MPHHI and its subsidiaries, operates the following full-service hospitals:

- In Metro Manila: Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital, De Los Santos Medical Center, Marikina Valley Medical Center and Dr. Jesus C. Delgado Memorial Hospital; and

- In other parts of the Philippines: Riverside Medical Center in Bacolod, Central Luzon Doctors Hospital in Tarlac, West Metro Medical Center in Zamboanga, Sacred Heart Hospital of Malolos Inc. in Bulacan, Saint Elizabeth Hospital Inc. in General Santos City, Davao Doctors Hospital in Davao, Manuel J. Santos Hospital in Butuan City, Los Baños Doctors Hospital and Calamba Medical Center in Laguna, and Ramiro Community Hospital in Bohol.

MPHHI also has equity stake in Makati Medical Center and Manila Doctors Hospital.

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

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

KKR's investment in MPHHI. On December 9, 2019, MPIC, together with MPHHI, completed a series of transactions for the investment and entry of global investment firm KKR, alongside Arran, in and to, MPHHI. Included in the series of transactions are the following:

- Buhay Ventures Holdings (PH) Inc. (Buhay), a subsidiary of KKR, subscribed to, a mandatorily exchangeable bond, at the principal issue value of ₱30.1 billion (the "Buhay Exchangeable Bond"). The Buhay Exchangeable Bond can be exchanged to 239,932,962 common shares of MPHHI owned and held by MPIC ("Buhay EB Underlying Shares"). The Buhay EB Underlying Shares represent approximately 15.88% of the issued and outstanding capital stock of MPHHI, entitled to vote, on a fully-diluted basis. The Buhay Exchangeable Bond's subscription price shall be settled: (i) ₱26,091 million on completion date; (ii) ₱1,602 million one hundred eighty

(180) days after the completion date; and (iii) ₱2,404 million on the first anniversary of the completion date. As at December 31, 2019, receivable from Buhay for portion of the subscription price amounted to ₱3,873 million and was included under the "Receivables" account in the parent company statement of financial position. The remaining receivable was fully collected in 2020.

- Arran reinvested alongside Buhay. This transaction involved the acquisition by KKR of Arran's Exchangeable Bond and Arran's directly owned shares in MPHHI. On July 2, 2014, Arran paid ₱6.5 billion as consideration for an Exchangeable Bond issued by MPIC which can be exchanged, in the future, into 158,137,590 shares common shares of MPHHI (the "Arran Exchangeable Bonds"). The terms of the Arran Exchangeable Bond have been amended to align with the terms of the Buhay Exchangeable Bond.

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

- As part of KKR's investment in MPHHI, MPIC granted in favor of KKR the following options ("Call Options"): (i) an irrevocable option, exercisable after the completion of this transaction, to require MPIC to sell to the Investor (and/or one or more of its designees) all or a portion of MPIC's shares in MetroPac Apollo Holdings, Inc. ("Apollo"); and (ii) an irrevocable option, exercisable after Signing date, to require MPIC to sell to one or more newly established Philippine domestic companies or investment vehicles, each of which is wholly and beneficially owned by Filipino citizens who have relevant expertise and experience beneficial to the business of MPHHI. Apollo, a Philippine registered company (in which MPIC has 65% ownership as at December 31, 2020 and 2019) owns and holds all the outstanding voting preferred shares issued by MPHHI.

  The fair value of the call options was estimated at the Call Option Agreement date using a binomial pricing model, taking into account the terms and conditions on which the options were granted. The exercise price is calculated based on the formula set forth in the Call Option Agreement. The Call Options can be exercised anytime up to ten years. As at December 31, 2020 and 2019, fair value of the Call Options is estimated at ₱6.5 million and ₱46.0 million, respectively.

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

Gain on dilution of interest in MPHHI recognized in 2019 (see Note 14), computed as follows:

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

The provisions included estimated tax warranties and indemnities. As at December 31, 2020 and 2019, provisions for this specific transaction amounted to ₱2,662.5 million and ₱2,568.1 million, respectively.

While the gain on dilution of interest in MPHHI was recognized for accounting purposes for the year ended December 31, 2019, the taxable gain shall be recognized upon actual conversion of the Exchangeable Bond, hence the recognition of the deferred tax expense (see Note 15).

MPLC

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

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

In 2019, management approved MPLC's business restructuring plan which involved among others, (i) a strategy focusing on offering modern refrigerated and dry warehouse facilities and services with warehouses strategically located in major transport arteries; (ii) scaling down of the trucking business by offering trucking services to clients through subcontractors; and (iii) divestment of the freight forwarding business. As a result of the changes in MPLC's strategy and business focus, MPLC recognized certain impairment of assets and provision for certain onerous contracts. Such recognition of asset write-down and provision triggered an impairment testing as well of the Company's investment in MPLC. The recoverable amount of the investment in MPLC was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the post-tax discount rate of 10.25%. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers five years and the cash flows beyond the five-year period were extrapolated using a growth rate of 3%. Based on the assessment, allowance for decline in value covering the investment in MPLC amounting to ₱3,000.9 million was recognized in 2019 (see Note 14). In 2020, no additional provision for impairment was recognized for the Company's investment in MPLC.

MVPHI

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

The Project involves establishing integrated waste-to-energy (WTE) facilities to primarily address the waste disposal concerns of DPI and to use the derived biogas from the processing of the fruit waste to supply a portion of the diesel and power requirements of the canneries of DPI in Surallah and Polomok, both located in South Cotabato. The integrated WTE facility, consisting of a biogas plant and an embedded power generation facility shall be established, owned and operated by a special purpose company within the facilities of the end-user. As at March 19, 2021, the WTE facilities are under construction.

MPRRC

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

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

As at March 19, 2021, the Company is waiting for the issuance of the Notice of Award from the Quezon City Government.

FCHI

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

Metro Vantage

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

On February 19, 2020, MPIC announced the signing of a ₱1.6 billion investment agreement with Dusit International of Thailand ("Dusit") to develop and manage jointly hospitality and residential properties in the Philippines. As at March 19, 2021, given the full impact of COVID-19, there are no plans to continue with this agreement.

MPHTC

On June 4, 2020, the Company incorporated MPHTC (which is doing business under the name of "mWell PH") with the primary purpose of developing, designing and managing a mobile health application for personal management of health and well-being.

Investment in MPHTC amounted to ₱505.5 million of which ₱379.1 million is recorded as subscription payable as at December 31, 2020 (see Note 8).

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

Additional allowance in decline in value with respect to various interests in Landco of ₱1,403.2 million was recognized in 2020 (see Note 14). The impairment loss comprises of write-down of the following assets to zero: (i) advances to Landco amounting to ₱1,043.4 million; and (ii) receivables from AB Holdings Corporation (ABHC; a shareholder in Landco) amounting to ₱359.8 million included under the "Other noncurrent assets" account. With the impact of COVID-19 on the real estate industry and with the decision to no longer push through with the investment agreement with Dusit (which projects would have made use of certain Landco assets), management performed an impairment testing for its advances in Landco and receivable from ABHC. The recoverable amount of the advances to Landco together with the receivable from ABHC was measured using the estimate of the value in use of the investment in joint venture. The valuation analysis involved discounting estimates of free cash flows by the appropriate discount rate that reflects the risk and return profile of Landco as of testing date. The estimates of cash flows comprise revenue projections, related costs and expenses, net working capital requirements and capital expenditures expected to be incurred from Landco's projects. These cash flows were discounted using pre-tax weighted average cost of capital of 14.8% as the discount rate as of testing date.

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

In 2020 and 2019, due to the lower than expected penetration rate into the micropayments business, the Company recognized additional allowance for decline in value of investment amounting to ₱60.0 million and ₱130.0 million, respectively. The recoverable amount of the investment in AFPI was measured using the estimate of the value in use of the investment. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The decline in value were recognized as "Other expense" in the statements of comprehensive income for the years ended December 31, 2020 and 2019 (see Note 14).

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

Entities under liquidation

- *NOHI.* NOHI became a subsidiary of the Company in 2006 as a result of shares swap between MPHI, Metro Pacific Resources, Inc. (MPRI), Intalink B.V. and FPIL. NOHI was engaged in the business of real estate investments and property development, investment holding and management services. On July 18, 2012, the BOD of NOHI approved the shortening of the corporate life of NOHI to until December 31, 2013. After expiration of NOHI's corporate life on December 31, 2013, NOHI proceeded immediately to the liquidation phase, which shall take place over the succeeding three years or until the liquidation process is complete and all the Company's remaining assets have been disposed of and the proceeds divided accordingly among all those with remaining interest in the company, under the management and supervision of an appointed liquidator. NOHI holds investments in properties that have high market values based on latest appraisal and valuation report. As at March 19, 2021, clearance from the local government unit already obtained while clearance from BIR still being processed.

- *FGNEC.* FGNEC participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant but was only declared as the second ranking bidder. On July 22, 2015, the BOD of FGNEC approved the shortening of the corporate life of FGNEC to until December 31, 2016. As at March 19, 2021, FGNEC is awaiting tax clearance for closure of business.

- *Porrovia.* Porrovia's shareholders are MPIC (50%) and MPLRC (50%). On February 1, 2018, Porrovia's BODs resolved to amend and approve article four of the Articles of Incorporation (AOI) by providing that the term for which Porrovia is to exist is from the date of issuance of certificate of incorporation until March 31, 2019. The amended AOI reflecting the shortening of the Company's corporate life to until March 31, 2019 was approved by SEC on March 23, 2018. As at March 19, 2021, clearance from the local government unit already obtained while clearance from BIR still being processed.

- *MGGW.* On July 29, 2016, the Company's Board of Directors (BOD) resolved to amend article four of the Articles of Incorporation (AOI) by providing that the term for which MGGW is to exist is from the date of issuance of certificate of incorporation until December 31, 2017. During the Special Meeting of the Stockholders held on September 19, 2016, the stockholders approved the amendment. The amended AOI reflecting the shortening of the Company's corporate life to until December 31, 2017 was approved by the SEC on December 29, 2016. As at March 19, 2021, clearance from the local government unit already obtained while clearance from BIR still being processed.

- *MPIC-JGS.* BOD of MPIC-JGS approved the shortening of the company's corporate life to until February 15, 2016. As at December 31, 2020, LGU and BIR tax clearances already obtained.

7. Property and Equipment and Software Costs

Property and Equipment. The account consists of:

	January 1, 2020	Additions/ Depreciation	Write off	Disposals	Reclass	December 31, 2020
			(In Thousands)			
Cost:						
Transportation equipment	₱80,998	₱14,553	(₱2,548)	(₱9,203)	₱–	₱83,800
Leasehold improvements	53,393	246	(36,608)	–	216	17,247
Office equipment	12,824	61	(2,331)	(115)	(3,584)	6,855
Computer equipment	34,572	5,670	(1,624)	(926)	2,053	39,745
Furniture and fixtures	9,448	75	(3,417)	–	(217)	5,889
Right-of-use assets (ROU assets)	50,089	12,950	–	–	–	63,039
	241,324	33,555	(46,528)	(10,244)	(1,532)	216,575
Less accumulated depreciation:						
Transportation equipment	40,944	13,952	(2,548)	(4,325)		48,023
Leasehold improvements	45,241	2,672	(36,608)	–	216	11,521
Office equipment	7,498	406	(2,331)	(112)	617	6,078
Computer equipment	27,292	4,631	(1,624)	(880)	(2,148)	27,271
Furniture and fixtures	8,163	574	(3,417)	–	(217)	5,103
Right-of-use asset	14,606	14,180	–	–	–	28,786
	143,744	36,415	(46,528)	(5,317)	(1,532)	126,782
	₱97,580	(₱2,860)	₱–	(₱4,927)	–	₱89,793

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

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

In 2019, the Company adopted PFRS 16, *Leases*, and recognized lease liabilities. These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The Company used a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average incremental borrowing rates applied to the lease liabilities on January 1, 2019 was 6.62%. ROU assets, which include lease of office space were initially measured at the amount of the lease liability. Outstanding balance of lease liabilities as at December 31, 2020 and 2019 amounted to ₱36.7 million and ₱37.1 million, respectively (see Notes 8 and 21). For the years ended December 31, 2020 and 2019, depreciation charge relating to ROU assets recognized under 'operating expenses' amounted to

₱14.2 million and ₱14.6 million, respectively (see Note 12). Interest accretion on lease liability amounted to ₱2.2 million in 2020 and 2019 (see Note 14). Rental expenses relating to short-term and low value assets amounted to ₱7.4 million and ₱7.7 million recognized under 'operating expenses' for the years ended December 31, 2020 and 2019, respectively (see Note 12).

The cost of fully depreciated property and equipment still in use as at December 31, 2020 and 2019 amounted to ₱36.8 million and ₱79.5 million, respectively.

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

	January 1, 2019	Additions/ Amortization	**December 31, 2019**	**Additions/ Amortization**	**Write off**	**Reclass**	**December 31, 2020**
				(in Thousands)			
Cost	₱101,106	₱10,004	**₱111,110**	**₱44**	**(₱1,193)**	**₱1,532**	**₱111,493**
Less accumulated amortization	94,632	3,775	**98,407**	**4,044**	**(1,193)**	**1,532**	**102,790**
	₱6,474	₱6,229	**₱12,703**	**(₱4,000)**	–	–	**₱8,703**

The cost of fully amortized software still in use as at December 31, 2020 and 2019 amounted to ₱92.7 million and ₱90.6 million, respectively.

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

8. Accrued Expenses and Other Current Liabilities

This account consists of:

	2020	2019
	(In Thousands)	
Accrued expenses		
Personnel costs	**₱368,412**	₱465,081
Professional fees	**208,000**	374,355
Fringe benefit tax	**112,589**	75,144
Loan prepayment and refinancing costs payable (see Notes 9 and 14)	**–**	460,546
Others	**144,892**	205,601
Interest payable (see Note 9)	**771,685**	1,540,564
Subscription payable (see Note 6)	**430,863**	63,538
Accounts payable	**86,063**	101,410
Statutory payables	**69,543**	468,644
Lease liabilities (see Notes 7 and 10)	**19,933**	10,273
Option liability (see Note 6)	**6,455**	45,992
Others	**804**	33,031
	₱2,219,239	₱3,844,179

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

9. Long-term Debt

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

	2020	2019
	(In Thousands)	
Peso-denominated bank loans	**₱79,674,199**	₱85,771,600
Less unamortized debt issue costs	**558,914**	573,882
	79,115,285	85,197,718
Less current portion of long-term debt (net of unamortized debt issue costs of ₱66.0 million and ₱63.4 million as at December 31, 2020 and 2019, respectively)	**2,122,919**	6,666,499
Noncurrent portion of long-term debt	**₱76,992,366**	₱78,531,219

The unamortized debt issue costs incurred in connection with the availment of long-term debt were deducted against the long-term debt. The movement in debt issue costs in 2020 and 2019 is as follows:

	2020	2019
	(In Thousands)	
Balance at beginning of year	**₱573,882**	₱358,035
Debt issue costs incurred during the year	**109,435**	262,085
Amortization during the year (see Note 14)	**(124,403)**	(46,238)
Balance at end of year	**₱558,914**	₱573,882

In 2020 and 2019, the Company made additional loan drawdowns amounting to ₱14.5 billion and ₱20.0 billion, respectively. Total interest expenses, excluding amortization of debt issue costs, recognized in 2020 and 2019 amounted to ₱5.2 billion and ₱4.9 billion, respectively (see Note 14).

In December 2019, as part of the Company's plans to reduce its existing debts, MPIC sought consent from all of its lenders to prepay the outstanding portion of the debt under the ₱6.48 billion, 10-Year Notes Facility Agreement with BDO Unibank, Inc. It also sought consent to refinance a portion of its long-term debt under the ₱10.0 billion, 10-Year Term Loan Facility Agreement with Philippine National Bank and the ₱5.0 billion, 10-Year Term Loan Facility Agreement with Union Bank of the Philippines. In connection with the prepayment and refinancing, the Company recognized estimated prepayment penalties and interests of ₱460.5 million for the year ended December 31, 2019 (see Note 14). MPIC effected and implemented this debt reduction exercise in 2020.

The Company's borrowings were effectively at fixed rates ranging from 4.5% to 9.2% as at December 31, 2020 and 4.9% to 9.2% as at December 31, 2019. Certain of the Company's loans that bear a fixed rate for the first five years are subject to an interest rate repricing on the fifth year (see Note 19, Interest Rate Risk).

The Company has not made any pledges as collateral with respect to the long-term debt as of December 31, 2020 and 2019. The repayments of loans based on existing terms are provided in Note 19.

Further, MPIC does not guarantee the borrowings of its investee companies but there are standard cross-default and cross-acceleration provisions in its loan agreements.

Covenants. These loans contain, among others, covenants regarding maintenance of reserve account and achieving certain financial ratios such as (1) debt-to-equity ratio not to exceed 70:30; and (2) debt-service coverage ratio (DSCR). These loans contain a negative pledge on all existing and future assets of MPIC. Certain loan facilities were identified to have embedded derivatives such as prepayment options and interest rate floors. These embedded derivatives, however, are not required to be bifurcated from the host loan since: (1) the exercise price of the prepayment option approximates the carrying amount of the loan at each exercise date; and (2) interest rate floor is out of the money, hence, identified embedded derivatives are clearly and closely related to the host loan.

As at December 31, 2020 and 2019, MPIC has complied with all of its debt covenants.

10. Related Party Transactions

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

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

	Relationship		Service Fees (see Note 14)	Dividend Income (see Note 6)	Rent and Utilities Expense (see Note 12)	Donations and Contributions (see Note 12)	Total
					(In Thousands)		
MWHC	Subsidiary	**2020**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2019	–	2,377,619	–	–	2,377,619
Maynilad	Subsidiary	**2020**	**–**	**–**	**–**	**–**	**–**
		2019	–	259,715	–	–	259,715
MPTC	Subsidiary	**2020**	**–**	**1,796,920**	**–**	**–**	**1,796,920**
		2019	–	2,345,517	–	–	2,345,517
Beacon Electric	Subsidiary	**2020**	**–**	**6,364,270**	**–**	**–**	**6,364,270**
		2019	–	5,470,251	–	–	5,470,251
MERALCO	Associate	**2020**	**–**	**1,786,362**	**–**	**–**	**1,786,362**
		2019	–	1,900,702	–	–	1,900,702
Indra Phils.	Associate	**2020**	**–**	**–**	**–**	**–**	**–**
		2019	–	62,375	–	–	62,375
MMI	Subsidiary	**2020**	**460**	**–**	**–**	**–**	**460**
		2019	480	–	–	–	480
FCHI	Subsidiary	**2020**	**–**	**–**	**1,200**	**–**	**1,200**
		2019	–	–	1,719	–	1,719
MPHHI	Associate/	**2020**	**4,410**	**–**	**–**	**–**	**4,410**
	Subsidiary	2019	4,323	–	–	–	4,323
SBVC	Subsidiary	**2020**	**315**	**–**	**–**	**–**	**315**
		2019	–	–	–	–	–
MPLRC	Subsidiary	**2020**	**210**	–	–	–	**210**
		2019	–	–	–	–	–
PLDT	Associate of FPC	**2020**	**–**	**–**	**3,589**	–	**3,589**
		2019	–	–	7,745	–	7,745
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate*	**2020**	**–**	**–**	**–**	**14,776**	**14,776**
		2019	–	–	–	7,671	7,671
		2020	**₱5,395**	**₱9,947,552**	**₱4,789**	**₱14,776**	**₱9,972,512**
		2019	₱4,803	₱12,416,179	₱9,464	₱7,671	₱12,438,117

** Affiliates are companies under common control or management.*

The Company provides back office functions to its subsidiaries covered by a management agreement. Management fees are non-interest bearing, unsecured, requires cash settlement, and are not impaired. The Company, in the normal course of business, has advances with related parties. Advances are due and demandable, non-interest bearing, unsecured and requires cash settlement. Due from related parties as at December 31, 2020 and 2019 are fully collectible. No impairment loss was recognized in 2020 and 2019.

Outstanding balances as at December 31 are carried in the parent company statements of financial position under the accounts listed below.

		Due from related parties		Due to related parties	
	Nature of Transaction	**2020**	2019	**2020**	2019
			(In Thousands)		
Subsidiaries					
MPHHI	Service fees and advances	**₱767**	₱96,972	**₱–**	₱14
MMI	Service fees	**382**	90	**–**	–
Porrovia	Advances	**–**	–	**10,126**	10,126
MPW	Advances	**1,317**	50	**–**	–
SBVC	Advances	**306**	–	**–**	–
MPLRC	Advances	**204**	–	**–**	–
Metro Vantage	Advances	**49**	–	**–**	–
MPHTC	Advances	**11**	–	**–**	–
MVPHI	Advances	**10**	–	**–**	–
Maynilad	Advances	–	1,000	**–**	–
Associates					
MERALCO	Advances	–	10	**–**	–
*Other related parties**					
PLDT Communications and Energy Ventures, Inc. (PCEV)	Payable	**–**	–	**2,388,408**	7,790,991
FPC	Advances	**872**	836	**–**	–
Others	Advances	**12**	14	**71**	–
		3,930	98,972	**2,398,605**	7,801,131
Less current portion		**3,930**	98,972	**2,398,605**	5,561,050
		₱–	₱–	**₱–**	₱2,240,081

**Other related parties are affiliates through FPC.*

PCEV

Due to PCEV as at December 31, 2020 and 2019 represents the present value of the outstanding amount for the purchase price of Beacon Electric shares acquired in May 2016 and June 2017.

- On May 30, 2016, MPIC acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares of Beacon Electric for the total consideration of ₱26.2 billion. Of the total consideration of ₱26.2 billion, ₱17.0 billion was settled immediately while the remaining payable to PCEV shall be paid as follows: (a) ₱2.0 billion in June 2017, (b) ₱2.0 billion in June 2018, (c) ₱2.0 billion in June 2019, and (d) ₱3.2 billion in June 2020. The outstanding balance as at December 31, 2019 amounting to ₱3.2 billion (at nominal amount) was fully settled in June 2020.

- On June 13, 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon Electric for a total purchase price of ₱21.8 billion, ₱12.0 billion was settled immediately while the remaining payable to PCEV shall be settled equally over the next four years beginning June 30, 2018. The outstanding balance as at December 31, 2020 and 2019 amounted to ₱2.4 billion and ₱4.9 billion (at nominal amount), respectively. PCEV shall retain the voting rights over these shares until full payment of the total consideration.

The scheduled payment of the amounts due to PCEV as of December 31, 2020 based on existing terms are provided in Note 19.

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

In October 2018, MPIF obtained its certificate of registration from the Department of Social Welfare and Development. On September 27, 2019, BIR issued certificate of tax exemption to MPIF under Section 30(e) of the National Internal Revenue Code of 1997, as amended. On December 9, 2020, the Foundation was duly accredited by the Board of Trustees of Philippine Council for Non-Governmental Organization Certification (PCNC). The PCNC certification is valid for one year to December 8, 2021.

MPIC made contributions to MPIF amounting to ₱14.8 million and ₱7.7 million in 2020 and 2019, respectively.

PLDT
PLDT is one of the largest and most diversified telecommunications company in the Philippines which delivers data and multi-media services nationwide. Services rendered by PLDT substantially pertains to rent, utilities (such as telecommunications and internet services) and other services. Arrangement with PLDT for lease of office space was scoped in under PFRS 16 with recognition of ROU asset and Lease Liability. The rent payments made in 2020 and 2019 amounting to ₱15.6 million and ₱15.2 million, respectively, were accounted for as reduction in lease liability.

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

Compensation of Key Management Personnel
The compensation and benefits of the Company's key management personnel for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
	(In Thousands)	
Short-term employee benefits	**₱387,829**	₱340,166
Post-employment benefits - Retirement cost (see Notes 12 and 13)	**18,274**	17,276
LTIP expense (see Notes 12 and 13)	**336,172**	536,336
Other employee benefits*	**103,174**	–
	₱845,449	₱893,778

**Other employee benefits included severance pay of retired key management personnel.*

Directors' Remuneration
Annual remuneration of the directors amounted to ₱7.9 million and ₱8.6 million for the years ended December 31, 2020 and 2019, respectively (see Note 12). Directors were also allocated common shares under the Company's ESOP and RSUP.

Non-executive directors are entitled to a per diem allowance of ₱100,000 for each attendance in the Company's Board meetings and ₱50,000 for each attendance in the Company's Committee meetings.

The Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Company shall be allocated and distributed among the directors of the Company who are not officers of the Company or its subsidiaries and affiliates, in such manner as the BOD may deem proper. No accrual was made with respect to this scheme for the years ended December 31, 2020 and 2019 in the absence of resolution from the BOD. There are no other special arrangements pursuant to which any director will be compensated.

11. Equity

Details of authorized and issued capital stock follow:

	2020		2019	
	No. of Shares	**Amount**	No. of Shares	Amount
	(In Thousands except for number of shares and stockholders)			
Authorized common shares - ₱1.00 par value	**38,500,000,000**	**₱38,500,000**	38,500,000,000	₱38,500,000
Authorized preferred shares:				
Class A - ₱0.01 par value	**20,000,000,000**	**200,000**	20,000,000,000	200,000
Class B - ₱1.00 par value	**1,350,000,000**	**1,350,000**	1,350,000,000	1,350,000
Balance at December 31	**59,850,000,000**	**₱40,050,000**	59,850,000,000	₱40,050,000
Issued and Outstanding - common shares:				
Balance at beginning of year	**31,569,338,752**	**₱31,569,339**	31,541,548,752	₱31,541,549
Exercise of stock option plan	–	–	27,790,000	27,790
Issued - common shares	**31,569,338,752**	**31,569,339**	31,569,338,752	31,569,339
Less: Treasury Shares	**(900,540,000)**	**(900,540)**	(600,000)	(600)
Balance at end of year	**30,668,798,752**	**₱30,668,799**	31,568,738,752	₱31,568,739
Treasury shares - common shares:				
Balance at beginning of year	**600,000**	**₱4,055**	26,100,000	₱177,603
Share buy-back	**900,540,000**	**3,419,760***	600,000	2,846
Issuance of share grant	**(600,000)**	**(4,055)**	(26,100,000)	(176,394)
Balance at end of year	**900,540,000**	**₱3,419,760**	600,000	₱4,055
Issued - preferred shares - Class A:				
Balance at beginning and end of year	**9,128,105,319**	**₱91,281**	9,128,105,319	₱91,281
Total number of stockholders	**1,291**	–	1,307	–

**Including transaction costs.*

Common Shares

The increase in common shares in 2020 and 2019 resulted from the following transactions:

- In 2019, a total of 27.8 million common shares, were issued in connection with MPIC stock option plan (see Note 16). In 2020, MPIC issued 600,000 common shares from treasury shares in connection with MPIC's stock option plan.
- In June 2019, MPIC's eligible past and present directors and senior officers were granted MPIC shares totaling 26,100,000 common shares pursuant to MPIC's LTIP (see Note 16).

Class A Preferred Shares

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

There are no undeclared dividends as at December 31, 2020 and 2019.

Class B Preferred Shares

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

There were no Class B Preferred Shares issued in 2020 and 2019.

Treasury Shares

From 2016 to 2019, the Company acquired MPIC common shares from the open market pursuant to the share buy-back plan that covers 26.7 million shares (originally 27.4 million shares) to be granted to the directors and key officers of the Company under the Company's LTIP program, which includes the RSUP (see Note 16). The RSUP and the implementation thereof which included the share buy-back, was approved by MPIC's Compensation Committee on July 14, 2016, pursuant to the authority granted to it by the MPIC's BOD on March 1, 2016. The cash portion of the LTIP was paid out in March 2019 while the shares in relation to the RSUP were issued to the grantees in June 2019.

On February 26, 2020, the MPIC BOD approved the implementation of a Share Buyback Program. Said program to run for a period of three (3) months from the date of the approval by the BOD or until May 26, 2020, with the amount of up to ₱5.0 billion being allocated to effect share buybacks under the program. The purpose for the Share Buyback Program was to improve shareholder value. A total of 213,483,000 shares were acquired for purposes of the Share Buyback Program for an accumulated cost of ₱705.8 million (including transaction cost).

On October 1, 2020, the MPIC's Board of Directors approved the implementation of a Share Buyback Program of up to ₱5.0 billion commencing on October 2, 2020 until the utilization of the aforementioned amount, or as may otherwise be determined by the Board of Directors. The purpose for the Share Buyback Program is to enhance and improve shareholder value and to manifest confidence in the Company's value and prospects through the repurchase of its common shares. Consequently, the Company's buyback transactions will be triggered in the cases where: (i) the Company's stock is deemed to be substantially undervalued, (ii) when there is high volatility in share prices, or (iii) in any other instance where a buyback would serve to enhance or improve shareholder value, in each as may be reasonably determined by a special committee of the Board established for this purpose. From October 2, 2020 to October 30, 2020, a total of 687,057,000 shares were acquired for purposes of the Share Buyback Program for an accumulated cost of ₱2,713.9 million (including transaction costs).

Record of Registration of Securities with the Philippine SEC

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

Issue	Offer price	Date of SEC approval	Number of registered shares securities	Number of holders of securities as at December 31, 2020	2019
Tender offer to shareholders of Metro Pacific Corporation (MPC) covering subscription warrants relating to common shares of MPIC with par value of ₱1.0 per share	Four (4) MPC shares for one (1) MPIC share plus three (3) warrants	October 25, 2006	Common shares of 56,878,766*	**1,291**	1,307
			Subscription warrants of 170,636,298	–	–

**Covered the 2006 registered shares only*

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

Dividends

Dividends declared and paid are as follows:

	2020	2019
	(In Thousands)	
Declared and paid:		
Final dividend:		
Common shareholders (₱0.076 per share as final dividends for the calendar years in 2019 and 2018)	**₱2,396,253**	₱2,395,129
Class A preferred shareholders	**4,564**	4,564
Interim dividend declared and paid during the year:		
Common shareholders (₱0.0345 per share in 2020 and 2019)	**1,081,777**	1,088,335
Class A preferred shareholders	**4,564**	4,564
	₱3,487,158	₱3,492,592

On March 3, 2021, the BOD approved the declaration of the cash dividends of ₱0.076 per common share in favor of the Company's shareholders of record as of the record date at March 18, 2021 with payment date of March 31, 2021. On the same date, the BOD also approved the declaration of cash dividends amounting to a total of ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

Amendment of Articles of Incorporation

On February 8, 2019, MPIC's BOD approved to amend the Company's Articles of Incorporation. The amendment was made to update the primary purpose of the Company consistent with its current business operations. On May 27, 2019 and July 2, 2019, such modification was approved by the stockholders and SEC, respectively.

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

Equity Reserves
This account is used to recognize the value of equity-settled share-based payments consisting of ESOP and RSUP that are provided to certain employees, including key management personnel and directors, as part of their remuneration. As at December 31, 2020 and 2019, equity reserve from ESOP amounted to nil. The equity reserve from RSUP amounted to ₱68.1 million and ₱4.3 million as at December 31, 2020 and 2019, respectively (see Note 16).

12. Operating Expenses

This account consists of:

	2020	2019
	(In Thousands)	
Personnel costs	**₱844,328**	₱957,140
Professional fees	**364,426**	253,368
Donations and contributions (see Note 10)	**80,056**	251,953
Public relation	**47,032**	59,526
Outside services	**46,333**	87,465
Depreciation and amortization (see Note 7)	**40,459**	42,233
Supplies	**15,873**	20,445
Insurance	**9,979**	17,156
Directors' fee (see Note 10)	**7,911**	8,622
Rent (see Notes 7 and 10)	**7,403**	7,653
Communication, light and water (see Note 10)	**5,644**	5,324
Transportation and travel	**4,207**	28,281
Seminars and conferences	**5,854**	8,082
Repairs and maintenance	**1,964**	1,453
Membership dues	**1,641**	2,699
Taxes and licenses	**159**	776
Others	**76,057**	86,804
	₱1,559,326	₱1,838,980

Personnel costs for the years ended December 31, 2020 and 2019 consist of:

	2020	2019
	(In Thousands)	
LTIP expense (see Note 13)	**₱336,172**	₱536,336
Salaries and wages	**289,211**	337,869
Fringe benefit tax	**46,259**	20,105
RSUP expense (see Note 16)	**34,088**	–
Employee leaves	**23,106**	9,473
Retirement cost (see Note 13)	**23,034**	20,698
Other employee benefits*	**92,458**	32,659
	₱844,328	₱957,140

**Other employee benefits include benefits of retired and resigned employees.*

13. **Employee Benefits**

LTIP

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

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

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

The total cost of the LTIP for 2020 and 2019 amounted to ₱336.2 million and ₱536.3 million, respectively, included in "Personnel costs" under "Operating expenses" in the parent company statements of comprehensive income (see Note 12). LTIP payable is presented under "Other noncurrent liabilities" as at December 31, 2020 and 2019. The details of LTIP payable as at December 31 are as follows:

	2020	2019
	(In Thousands)	
Beginning balance	**₱536,336**	₱570,669
Current provision	**336,172**	536,336
Payout	**–**	(509,578)
Recalibration	**(165,757)**	(61,091)
LTIP payable	**₱706,751**	₱536,336

To fund the LTIP programs for each cycle, MPIC enters into Investment Management Agreement (IMA) with a Trustee Bank. The LTIP fund will continue to accumulate until the LTIP target payout. The investment portfolio of IMA is limited to the following: securities issued, directly or indirectly, or guaranteed by the government; and time deposit and money market placements issued by any of the top ten banks in the Philippines.

Pension

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

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

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

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

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

	2020	2019
	(In Thousands)	
Current service cost	**₱22,666**	₱21,895
Net interest expense (income)	**368**	(1,197)
Total retirement cost (see Note 12)	**₱23,034**	₱20,698

Remeasurement effects recognized in OCI are as follows:

	2020	2019
	(In Thousands)	
Actuarial gain	**₱633**	₱5,067
Loss on return on plan assets excluding amount included in net interest cost	**(15,289)**	(434)
Effect of the asset ceiling	**5,984**	(1,539)
	(8,672)	3,094
Deferred tax (see Note 15)	**2,602**	(928)
Actuarial gain (loss), net of deferred tax	**(₱6,070)**	₱2,166

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

	2020	2019
	(In Thousands)	
Present value of obligation	**(₱110,834)**	(₱129,447)
Fair value of plan assets	**108,035**	140,747
Effect of the asset ceiling	**–**	(5,671)
Pension assets (liability)	**(₱2,799)**	₱5,629

Movements in the present value of obligation are as follows:

	2020	2019
	(In Thousands)	
Present value of obligation at the beginning of year	**₱129,447**	₱105,881
Current service cost	**22,666**	21,895
Interest cost	**7,171**	8,089
Benefits paid	**(47,817)**	(1,351)
Actuarial gain (loss) due to:		
Experience adjustments	**(138)**	(5,076)
Changes in demographic assumptions	**(2,337)**	–
Changes in financial assumptions	**1,842**	9
Present value of obligation at the end of year	**₱110,834**	₱129,447

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

	2020	2019
	(In Thousands)	
Fair value of plan assets at beginning of year	**₱140,747**	₱111,208
Interest income included in net interest cost	**7,117**	9,286
Loss return excluding amount included in net interest cost	**(15,289)**	(434)
Actual contributions	**23,277**	22,038
Benefits paid	**(47,817)**	(1,351)
Fair value of plan assets at end of year	**₱108,035**	₱140,747
Actual gain (loss) on plan assets	**(₱8,172)**	₱8,852

The allocations of the fair value of the trust fund as at December 31, 2020 and 2019 are as follows:

	2020	2019
	(In %)	
Investments in:		
Corporate equities, Government securities and Bonds	**65**	66
Unit trust funds	**34**	32
Cash and cash equivalents	**1**	2
	100	100

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 3.42% to 8.01% (2020) and 4.63% to 7.51% (2019) per annum and have maturities of up to 2024 as at 2020 and 2019.
- 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 of nil per annum as at 2020 and 4.00% per annum as at 2019, respectively.

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

- *Credit Risks.* Exposure to credit risk arises from financial assets comprising of cash and cash equivalents and investments. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments. The risk is minimized by ensuring that the exposure is limited only to the instruments as recommended by the fund managers.

- *Share Price Risk.* Exposure arises from holdings of shares of stock being traded at the PSE. The price risk emanates from the volatility of the stock market. Policy is to limit investment in shares of stock to blue chip issues or issues with good fair values.

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

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

	2020	2019
Discount rate	**3.99%**	5.54%
Salary increase rate	**8.00%**	8.00%

The discount rate represents the range of single weighted average discount rate used by the Company in arriving at the present value of defined benefit obligation, service and interest cost components of the retirement cost. Assumptions regarding future mortality rate are based on the 2017 Philippine Intercompany Mortality Table, which provide separate rates for males and females.

The weighted average duration of the expected benefit payments is approximately 9.9 years and 11.6 years in 2020 and 2019, respectively.

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

	2020	2019
	(In Thousands)	
Less than one year	**₱14,432**	₱59,191
More than one year to five years	**51,227**	47,207
More than five years to 10 years	**61,411**	88,308
More than 10 years to 15 years	**63,053**	120,346
More than 15 years	**74,984**	321,601

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

	Movements	**2020**	2019
Discount rate	+1%	**(₱1,252)**	(₱7)
	-1%	**1,520**	122
Salary increase rate	+1%	**1,431**	112
	-1%	**(1,207)**	(7)

As at December 31, 2020 and 2019, the defined contribution accumulation is higher than the legal minimum benefit. As the Company has no deficiency to meet legal obligation, the defined benefit obligation is not sensitive to reasonably possible changes (+/-100 basis points) in the significant assumptions.

The Company currently expects to make approximately ₱13.6 million of cash contributions to its retirement fund in 2021.

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

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

	2020	2019
	(In Thousands)	
Interest income:		
Cash and cash equivalents, short-term deposits and restricted cash (see Note 5)	**₱554,107**	₱527,239
Accretion on receivable (see note 6)	**133,749**	–
LTIP deposit	–	5,764
	₱687,856	₱533,003
Interest expense:		
Long-term debt (see Note 9)	**₱5,199,923**	₱4,866,484
Accretion on financial liabilities (see Notes 6, 8 and10)	**353,061**	476,706
Amortization of debt issue cost (see Note 9)	**124,403**	46,238
Accretion on lease liabilities (see Notes 7 and 23)	**2,244**	2,197
	₱5,679,631	₱5,391,625

(Forward)

	2020	2019
	(In Thousands)	
Other income (expenses) - net:		
Provision for impairment of assets (see Note 6)	**(₱1,491,099)**	(₱3,130,880)
Gain on dilution of interest (see Note 6)	**729,297**	16,553,256
Change in fair value of derivative	**39,537**	(2,943)
Backoffice services fees (see Note 10)	**5,395**	4,857
Loan prepayment and refinancing costs (see Note 9)	**–**	(460,546)
Others	**4,280**	68,831
	(₱712,590)	₱13,032,575

15. **Income Taxes**

Current Tax and Final Tax

The provision for current income tax which represents MCIT amounted to ₱0.2 million and ₱1.0 million as at December 31, 2020 and 2019, respectively. MCIT is imposed where the regular corporate income tax (RCIT) at 30% is less than 2% MCIT on gross income. Final tax as at December 31, 2020 and 2019 amounted to ₱125.2 million and ₱94.7 million, respectively, which is solely from interest income earned from banks.

Deferred Tax

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

	2020	2019
	(In Thousands)	
Deferred tax liabilities:		
Gain on dilution of interest in MPHHI (see Note 6)	**₱6,847,784**	₱6,847,784
Pension assets (see Note 13)	**6,096**	8,698
	₱6,853,880	₱6,856,482

	2020	2019
	(In Thousands)	
Net movement recognized in:		
Profit or loss	**₱–**	₱–
Equity (OCI and Equity reserve)	**(2,602)**	928
	(₱2,602)	₱928

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

b. The details of the carryforward benefits of excess NOLCO, MCIT and other deductible temporary difference for which deferred tax assets were not recognized as at December 31, 2020 and 2019 since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized as follows:

	2020	2019
	(In Thousands)	
Items recognized in profit and loss:		
NOLCO	**₱20,240,864**	₱16,597,867
Nondeductible expenses	**1,999,759**	5,214,908
MCIT	**1,411**	1,518
	₱22,242,034	₱21,814,293

The carryforward benefits of excess MCIT amounting to ₱1.4 million and ₱1.5 million as at December 31, 2020 and 2019, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2019	Additions	Expired	Balance as at December 31, 2020	Expiry Year
		(In Thousands)			
2020	₱–	₱227	₱–	₱227	2023
2019	1,042	–	–	1,042	2022
2018	142	–	–	142	2021
2017	334	–	(334)	–	2020
	₱1,518	₱227	(₱334)	₱1,411	

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 and 2019, 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	Balance as at December 31, 2019	Additions	Expired	Balance as at December 31, 2020	Expiry Year
		(In Thousands)			
2019	₱8,749,240	₱–	₱–	₱8,749,240	2022
2018	4,575,320	–	–	4,575,320	2021
2017	3,273,307	–	(3,273,307)	–	2020
	₱16,597,867	₱–	(₱3,273,307)	₱13,324,560	

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	Balance as at December 31, 2019	Additions	Expired	Balance as at December 31, 2020	Expiry Year
		(In Thousands)			
2020	₱–	₱6,916,304	₱–	₱6,916,304	2025

The Company has no taxable income subject to RCIT for the years ended December 31, 2020 and 2019. The reconciliation between the Company's statutory income tax and the effective income tax on net income (current income tax) for the years ended December 31, 2020 and 2019 follows:

	2020	2019
	(In Thousands)	
Income before income tax at 30% RCIT	**₱805,158**	₱5,625,346
Adjustments for:		
Gain on dilution of interest	**(241,202)**	(5,691,595)
Dividend income exempted from final tax	**(2,984,266)**	(3,724,854)
Additional NOLCO	**2,074,891**	2,624,772
Nondeductible expenses	**599,928**	1,564,472
Income already subjected to final tax	**(206,357)**	(159,901)
Nontaxable income	**(49,256)**	(238,169)
Unrealized foreign exchange (gain) loss	**1,104**	(71)
Additional MCIT	**227**	1,042
Current income tax	**₱227**	₱1,042

16. **Share-based Payment**

ESOP

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

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

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

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

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

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

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

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

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

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

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

RSUP

LTIP cycle 2016 to 2018. On July 14, 2016, the Compensation Committee of MPIC approved the RSUP as part of MPIC's LTIP. The RSUP, which has a validity period of ten years, replaced the Company's ESOP, which expired in 2019.

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

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

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

The shares in relation to the 2016-2018 RSUP were issued to the grantees in June 2019 (see Note 12).

LTIP cycle 2019 to 2021. On January 31, 2020, the Compensation Committee approved MPIC's LTIP covering cycle 2019 to 2021. MPIC's LTIP comprises of cash incentives and share award.

A total of 31.8 million shares were granted in relation to the RSUP. Fair value of the Share Award was determined using the market closing price of ₱3.21 per share on date of grant. One third (or 33.33%) of the share award vests every 31st of December beginning 2019 until fully vested by December 31, 2021.

Total Share Award expense under this RSUP for the years ended December 31, 2020 and 2019 amounted to ₱34.1 million and nil, respectively, and included in "Personnel costs" under "Operating expenses" account in the parent company statements of comprehensive income.

17. Earnings Per Share

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

		2020	2019
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱2,558,424**	₱18,655,461
Effect of dividends on preference equity holders of the Company		**(9,128)**	(9,128)
	(a)	**2,549,296**	18,646,333
Outstanding common shares at the beginning of the year		**31,568,739**	31,515,449
Effect of issuance of common shares/share grant during the year		**150**	23,831
Effect of share buy-back (see Note 11)		**(316,846)**	(585)
Weighted average number of common shares for basic earnings per share	(b)	**31,252,043**	31,538,695
Effects of potential dilution from ESOP and share award (see Note 11)		**–**	1,634
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**31,252,043**	31,540,329
Basic earnings per share	(a/b)	**₱0.082**	₱0.591
Diluted earnings per share	(a/c)	**₱0.082**	₱0.591

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

In 2020 and 2019, the RSUP is considered in the computation of the diluted earnings and certain grants are considered dilutive.

18. **Other Matters**

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

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

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

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

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

19. **Financial Risk Management Objectives and Policies**

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

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company's exposure to foreign currency risk on its financial instruments is not significant. At December 31, 2020 and 2019, the Company's borrowings were effectively at fixed rates (see Note 9), hence, no significant interest rate risk.

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

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

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. Save for certain loans that are subject to interest rate repricing on the fifth year (see Note 9), the Company's interest on long-term debts are fixed until maturity as at December 31, 2020 and 2019. Should the interest rate on the repricing date for this loan be significantly higher than the current fixed rate, the Company has an option to prepay or refinance the loan starting on or after the second year at every interest payment date.

No sensitivity analyses were made for 2020 and 2019 as the interest rates of the Company's outstanding long-term debt as at December 31, 2020 and 2019 were effectively at fixed rates.

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

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow position particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents and short-term deposits amounting to ₱22,292.5 million and ₱38,155.0 million as at December 31, 2020 and 2019, respectively, which are allocated to meet the Company's short-term liquidity needs.

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

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

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

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

	Not exceeding 1 year	More than 1 year but not exceeding 2 years	More than 2 years but not exceeding 5 years	More than 5 years	Total
			(In Thousands)		
December 31, 2020					
Accrued expenses and other current liabilities [(a)]	**₱1,358,078**	**₱–**	**₱–**	**₱–**	**₱1,358,078**
Due to related parties:					
Due to PCEV	**2,450,000**	**–**	**–**	**–**	**2,450,000**
Due to related parties - others	**10,197**	**–**	**–**	**–**	**10,197**
Provisions	**207,089**	**250,876**	**1,014,894**	**1,559,938**	**3,032,797**
Long-term debts (Principal and interest)	**6,874,246**	**8,303,878**	**30,721,430**	**66,215,326**	**112,114,880**
Other noncurrent liabilities	**58,847**	**32,290**	**80,726**	**–**	**171,863**
	₱10,958,457	**₱8,587,044**	**₱31,817,050**	**₱67,775,264**	**₱119,137,815**
December 31, 2019					
Accrued expenses and other current liabilities [(a)]	₱1,824,698	₱–	₱–	₱–	₱1,824,698
Due to related parties:					
Due to PCEV	5,645,977	2,450,000	–	–	8,095,977
Due to related parties - others	10,141	–	–	–	10,141
Provisions	165,967	207,089	903,763	1,921,945	3,198,764
Long-term debts (Principal and interest)	12,900,437	8,024,163	32,325,744	70,371,905	123,622,249
Other noncurrent liabilities	–	34,260	108,155	–	142,415
	₱20,547,220	₱10,715,512	₱33,337,662	₱72,293,850	₱136,894,244

[(a)] *Excludes statutory payable.*

<u>Credit Risk</u>

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

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

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

The maximum exposure to credit risk on cash and cash equivalents without considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques is the carrying value of this financial asset. After considering the credit enhancement pertaining to insured deposits in banks as prescribed by Philippine Deposit Insurance Corporation, net maximum exposure as at December 31, 2020 and 2019 amounted to ₱22,290 million and ₱38,152 million, respectively.

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

The Company applies the PFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of relevant counterparties over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors [where applicable, gross domestic product (GDP) rate, inflation rate and unemployment rate] affecting the ability of the counterparties to settle the receivables. Generally, receivables are written-off if past due for more than one year and are not subject to enforcement activity.

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

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

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

		Days past due					
	Current	<30	31-60	61-90	91-180	>180	Total
		Not Credit-impaired				Credit-impaired	
		(In Thousands except for the Expected Loss Rates)					
December 31, 2020:							
Expected loss rate	**–%**	**–%**	**–%**	**–%**	**–%**	**99%**	**58%**
Gross carrying amount:							
Receivables:							
Receivables - others	**₱47,709**	**₱–**	**₱–**	**₱–**	**₱145**	**₱71,693**	**₱119,547**
Due from related parties	**2,651**	**45**	**148**	**47**	**275**	**764**	**3,930**
	50,360	**45**	**148**	**47**	**420**	**72,457**	**123,477**
Loss allowance: Receivables	**–**	**–**	**–**	**–**	**–**	**71,440**	**71,440**
	₱50,360	**₱45**	**₱148**	**₱47**	**₱420**	**₱1,017**	**₱52,037**
December 31, 2019:							
Expected loss rate	–%	–%	–%	–%	–%	74%	2%
Gross carrying amount:							
Receivables:							
Dividends receivable	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Receivables - others	4,129,515	–	–	–	–	96,293	4,225,808
Due from related parties	91,247	101	6,718	–	906	–	98,972
	4,220,762	101	6,718	–	906	96,293	4,324,780
Loss allowance:							
Receivables	–	–	–	–	–	71,440	71,440
	₱4,220,762	₱101	₱6,718	₱–	₱906	₱24,853	₱4,253,340

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

	Receivables	Due from related parties	Total
		(In Thousands)	
Opening loss allowance as at January 1, 2019	₱71,440	₱2,772	₱74,212
Written off/reversal	–	(2,772)	(2,772)
Balance as at December 31, 2019	**71,440**	**–**	**71,440**
Written off/reversal	**–**	**–**	**–**
Balance as at December 31, 2020	**₱71,440**	**₱–**	**₱71,440**

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

MPIC's loan agreements require achievement of certain financial ratios (see Note 9). Moreover, under the loan agreements, MPIC needs to achieve a DSCR to be able to declare dividends. As at December 31, 2020 and 2019, MPIC is in compliance with the required financial ratios and other loan covenants.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or new debt or redeem existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2020 and 2019.

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

In 2020, the Company's strategy, which was unchanged from previous years, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2020 and 2019 are as follows:

	2020	2019
	(In Thousands except for the debt-to-equity ratio)	
Long-term debt	**₱79,115,285**	₱85,197,718
Equity	**134,758,750**	139,049,231
Debt-to-equity ratio	**1:1.7**	1:1.6

20. **Financial Assets and Financial Liabilities**

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

	December 31, 2020						
	Financial Assets				Financial Liabilities		
	Amortized Cost	FVPL	Debt instruments at FVOCI	Equity Instruments at FVOCI	Amortized Cost	FVPL	Total
				(In Thousands)			
ASSETS							
Investment in Unit Investment Trust Fund [(a)]	₱–	₱5,707,000	₱–	₱–	₱–	₱–	₱5,707,000
Receivables [(b)]	48,107	–	–	–	–	–	48,107
Due from related parties	3,930	–	–	–	–	–	3,930
Other noncurrent assets:							
Quoted club shares	–	–	–	19,000	–	–	19,000
Deposit for LTIP	500,000	–	–	–	–	–	500,000
	₱552,037	₱5,707,000	₱–	₱19,000	₱–	₱–	₱6,278,037
LIABILITIES							
Accrued expenses and other current liabilities [(c)]	₱–	₱–	₱–	₱–	₱2,123,308	₱6,455	₱2,129,763
Due to related parties	–	–	–	–	2,398,605	–	2,398,605
Long-term debt	–	–	–	–	79,115,285	–	79,115,285
Provisions (Note 6)	–	–	–	–	–	2,662,478	2,662,478
Other noncurrent liabilities	–	–	–	–	109,125	–	109,125
	₱–	₱–	₱–	₱–	₱83,746,323	₱2,668,933	₱86,415,256

[(a)] *Included under 'Cash and cash equivalents and short-term deposits'.*
[(b)] *Net of allowance for ECL in receivables amounted to ₱71.4 million.*
[(c)] *Excludes statutory payables.*

	December 31, 2019						
	Financial Assets				Financial Liabilities		
	Amortized Cost	FVPL	Debt instruments at FVOCI	Equity Instruments at FVOCI	Amortized Cost	FVPL	Total
				(In Thousands)			
ASSETS							
Investment in Unit Investment Trust Fund [(a)]	₱–	₱4,000	₱–	₱–	₱–	₱–	₱4,000
Receivables [(b)]	4,154,368	–	–	–	–	–	4,154,368
Due from related parties	98,972	–	–	–	–	–	98,972
Other noncurrent assets:							
Quoted club shares	–	–	–	23,000	–	–	23,000
Other receivables	359,804	–	–	–	–	–	359,804
	₱4,613,144	₱4,000	₱–	₱23,000	₱–	₱–	₱4,640,144
LIABILITIES							
Accrued expenses and other current liabilities [(c)]	₱–	₱–	₱–	₱–	₱3,319,270	₱45,992	₱3,365,262
Due to related parties	–	–	–	–	7,801,131	–	7,801,131
Long-term debt	–	–	–	–	85,197,718	–	85,197,718
Provisions (Note 6)	–	–	–	–	–	2,568,116	2,568,116
Other noncurrent liabilities	–	–	–	–	130,812	–	130,812
	₱–	₱–	₱–	₱–	₱96,448,931	₱2,614,108	₱99,063,039

[(a)] *Included under 'Cash and cash equivalents and short-term deposits'.*
[(b)] *Net of allowance for ECL in receivables amounted to ₱71.4 million.*
[(c)] *Excludes statutory payables.*

Fair Values

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

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

	December 31, 2020				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Thousands)		
Assets measured at fair value					
Financial Assets at FVPL					
Unit Investment Trust Fund	**₱5,707,000**	**₱–**	**₱5,707,000**	**₱–**	**₱5,707,000**
Equity Instruments at FVOCI					
Golf club shares	**19,000**	**–**	**19,000**	**–**	**19,000**
	₱5,726,000	**₱–**	**₱5,726,000**	**₱–**	**₱5,726,000**
Liabilities measured at fair value					
Financial Liabilities at FVPL					
Option Liability	**₱6,455**	**₱–**	**₱–**	**₱6,455**	**₱6,455**
Provisions	**2,662,478**	**–**	**–**	**2,662,478**	**2,662,478**
	₱2,668,933	**₱–**	**₱–**	**₱2,668,933**	**₱2,668,933**
Liabilities for which fair values are disclosed					
Financial Liabilities at amortized cost					
Long-term debt (current and noncurrent)	**₱79,115,285**	**₱–**	**₱–**	**₱89,904,109**	**₱89,904,109**
Due to related parties	**2,398,605**	**–**	**–**	**2,414,853**	**2,414,853**
	₱81,513,890	**₱–**	**₱–**	**₱92,318,962**	**₱92,318,962**

	December 31, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Thousands)		
Assets measured at fair value					
Financial Assets at FVPL					
Unit Investment Trust Fund	₱4,000	₱–	₱4,000	₱–	₱4,000
Equity Instruments at FVOCI					
Golf club shares	23,000	–	23,000	–	23,000
	₱27,000	₱–	₱27,000	₱–	₱27,000
Liabilities measured at fair value					
Financial Liabilities at FVPL					
Option Liability	₱45,992	₱–	₱–	₱45,992	₱45,992
Provisions	2,568,116	–	–	2,568,116	2,568,116
	₱2,614,108	₱–	₱–	₱2,614,108	₱2,614,108
Liabilities for which fair values are disclosed					
Financial Liabilities at amortized cost					
Long-term debt (current and noncurrent)	₱85,197,718	₱–	₱–	₱91,616,130	₱91,616,130
Due to related parties	7,801,131	–	–	7,796,626	7,796,626
	₱92,998,849	₱–	₱–	₱99,412,756	₱99,412,756

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

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

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

Derivative Liability. The fair value of the call options (recorded under "accrued expenses and other current liabilities") was estimated using a binomial pricing model (see Note 6).

Investments in Golf Club Shares. Fair value (recorded under "other noncurrent assets") is based on quoted market price.

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

Long-term Debt. Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 2.16% to 5.04% and 4.12% to 6.22% in 2020 and 2019, respectively.

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

21. Supplemental Cash Flow Information

<u>Non–cash investing activities</u>
In 2020 and 2019, the Company had a non-cash investing activity pertaining subscription payable for additional investments amounting to ₱387.3 million and ₱63.5 million (see Notes 6 and 8).

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

	Long-term debt (see Note 9)	**Due to related parties** (see Note 10)	**Lease liabilities** (see Note 7 and 8)
		(In Thousands)	
Balance as at January 1, 2020	**₱85,197,718**	**₱7,801,131**	**₱37,102**
Cash flow (see statements of cash flows)			
Proceeds	**14,500,000**	**–**	**–**
Payments	**(20,597,400)**	**(5,645,977)**	**(15,590)**
Transaction cost	**(109,435)**	**–**	**–**
	78,990,883	**2,155,154**	**21,512**
Non-cash:			
Adoption of PFRS 16	**₱–**	**₱–**	**₱–**
Leases entered during the year	**–**	**–**	**12,950**
Amortization of debt issue costs	**124,402**	**–**	**–**
Interest accretion	**–**	**243,395**	**2,244**
Others	**–**	**56**	**–**
	124,402	**243,451**	**15,194**
Balance as at December 31, 2020	**₱79,115,285**	**₱2,398,605**	**₱36,706**

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

22. Events after the Reporting Period

Aside from MPIC's dividend declaration on March 3, 2021 (see Note 11), events occurring after the reporting period include:

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

Company	Declaration Date	Record Date	Payment Date	MPIC's Expected Share in Dividends
				(In Thousands)
MERALCO	March 1, 2021	March 30, 2021	April 26, 2021	₱4,009,206
MPTC	February 11, 2021	March 1, 2021	March 26, 2021	677,699
Beacon Electric	March 3, 2021	March 31, 2021	April 28, 2021	498,063

Acquisition of Philippine Coastal Storage and Pipeline Corporation. On December 9, 2020, MPIC and Keppel Infrastructure Fund Management Pte. Ltd. (in its capacity as trustee-manager of Keppel Infrastructure Trust) ("KIT") entered into a sale and purchase agreement with Macquarie Infrastructure Holdings (Philippines) Pte. Limited, Government Service Insurance System and Langoer Investments Holding B.V. for the acquisition of 100% of the total issued capital stock of Philippine Tank Storage International Holdings, Inc. ("PTSI").

On January 29, 2021, MPIC and Keppel Infrastructure Fund Management Pte. Ltd. (in its capacity as trustee-manager of KIT) completed the acquisition of 100% of the total issued capital stock of PTSI (the "Transaction Completion"). The shares of PTSI were indirectly acquired by MPIC and KIT through a Philippine holding company, KM Infrastructure Holdings, Inc. ("KM Infrastructure"), which, at the time of the Transaction Completion, was 80% owned by Bay Philippines Holdings Corporation ("Bay PH") (a 100% indirect subsidiary of KIT) and 20% owned by MPIC.

On the same day after the Transaction Completion, Bay PH and MPIC entered into a Deed of Sale whereby KIT agreed to sell to MPIC approximately 30% of the outstanding shares of KM Infrastructure ("KM Sale Transaction"). As a result of the KM Sale Transaction, MPIC's total shareholding in KM Infrastructure increased to approximately 50% of its total outstanding capital stock.

In addition to the payment of the purchase price for the additional 30% stake, MPIC also agreed to reimburse KIT for transaction costs and expenses relating to the 30% interest that it agreed to sell to MPIC.

MPIC and KIT also entered into a shareholders' agreement to govern their relationship in managing KM Infrastructure and its subsidiaries, containing, among others, customary governance provisions, transfer provisions and deadlock resolution mechanisms. The Company shall account for its investment in PTSI under the equity method of accounting as a jointly-controlled entity. Total acquisition cost for the 50% effective ownership in PTSI amounted to ₱7.1 billion (including transaction costs).

PTSI wholly owns Philippine Coastal Storage & Pipeline Corporation ("PCSPC"). Strategically located in the Subic Bay Freeport Zone, PCSPC is the largest petroleum product import terminal in the Philippines with a storage capacity of approximately 6.0 million barrels. The 150-hectare facility comprises of 86 storage tanks, two piers and a pipeline infrastructure connecting the entire facility. Due to its location, PCSPC provides clients with a well-connected distribution hub to the largest economic catchment area – Metro Manila and North Luzon.

As at December 31, 2020, prior to the Transaction Completion, KM Infrastructure, Razor Crest Storage Infrastructure Holdings Corporation (Razor), and Hyperion Storage Holdings Corporation (Hyperion) were all directly wholly owned entities by MPIC (see Note 6). These entities were all incorporated for the purpose of investing into PTSI and PSPC. After the restructuring and by date of

KM Sale Transaction, MPIC's stake in KM Infrastructure at 50%. KM Infrastructure owns 100% of Razor, while Razor owns 100% of Hyperion. Hyperion in turn owns 100% of PTSI.

MPIC's new loan drawdown. In January 2021, MPIC entered into an agreement to secure a loan facility amounting to US$130 million 5-year term loan from Mizuho Bank, Ltd., proceeds of which were used by MPIC to finance its investment in various projects and other general corporate purposes. The facility has been fully drawn.

23. Significant Accounting Policies

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

a. Changes in Accounting Policies and Disclosures

The Company applied the following new PFRSs and amendments and improvements to existing standards effective January 1, 2020.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the parent company 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 parent company financial statements of, nor is there expected to be any future impact to the Parent 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 parent company financial statements.

- 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 parent company financial statements as it does not have any interest rate hedge relationships.

- Amendments to PFRS 16, *Leases: COVID-19-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 material impact on the parent company 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 parent company financial statements.

b. *Principal Accounting and Financial Reporting Policies*

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

<u>Current Versus Noncurrent Classification</u>
The Company presents assets and liabilities in the parent company statements of financial position based on current/noncurrent classification.

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

All other assets are classified as noncurrent.

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

The Company classifies all other liabilities as noncurrent.

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

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

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

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

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

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

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

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

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

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

- Level 2 − Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

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

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

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

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

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

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

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

<u>Restricted Cash</u>
Restricted cash represents cash in banks earmarked for long-term debt principal and interest repayment maintained in compliance with loan agreements.

<u>Financial Instruments</u>
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.

<u>Financial Instruments: Financial Assets</u>
Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL.

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

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

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

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

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

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

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

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

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

The Company's financial assets at amortized cost includes cash and cash equivalents, short-term deposits, restricted cash, receivables and due from related parties (see Notes 5, 10 and 20).

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

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

The Company elected to classify irrevocably its investments in quoted and unquoted equity securities under this category (see Note 20).

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments: Financial Liabilities

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

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

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

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

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

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

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

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

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

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

Financial Instruments: Offsetting

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

Investments in Subsidiaries, Associates and a Joint Venture

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

Property and Equipment

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

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

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

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

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

Software Cost

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

Impairment of Nonfinancial Assets

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

An assessment is made at each end of reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

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

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

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

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

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

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

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

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

Provisions

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

Revenue Recognition

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

Dividend

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

Interest Income

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

Rental Income
Revenue from rent is recognized on a straight-line basis over the terms of the lease (included as part of "Other income (expense) – net" account in the parent company statement of comprehensive income).

Backoffice services fees
Fees are recognized when services are rendered (included as part of "Other income (expense) - net" account in the parent company statement of comprehensive income).

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

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

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

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

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

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

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

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

Retirement Benefits

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

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

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution plan obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in 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 net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. These remeasurements are not reclassified to profit or loss in subsequent periods.

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

ESOP

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

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

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

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

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

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

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

RSUP

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

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

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

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

Long-term Employee Benefits

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

Foreign Currency-Denominated Transactions and Translations

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

Income Taxes

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and (b) in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint a venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables (under "Other current assets") or payables (under "Accrued expenses and other current liabilities") in the parent company statement of financial position.

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

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

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

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

24. **Future Changes in Accounting Policies**

Pronouncements issued but not yet effective are listed below. Unless otherwise specified, these will not have 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*

  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.

Effective beginning on or after January 1, 2023

- 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.